BUSINESS

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Finding the right financial adviser

Here are steps for hiring an expert who can help manage your money.

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Of The Morning Call

Just a few years ago investors could throw a dart at the Nasdaq stock tables in the newspaper to pick a technology company that provided a 30 percent annual return.

No more.

Too many people now know that what they thought was stock-picking genius was just riding the wave of an unprecedented bull market. When the bull turned bear, their investments capsized and people suddenly weren't feeling so smart.

Financial futures that seemed secure were draped in doubt.

So today, many do-it-yourselfers are turning for help from financial advisers. One study late last year by the Financial Planning Association showed nearly three in 10 consumers are more likely to seek professional help than a year earlier.

Financial pros not only help with investments but with planning for life events such as paying for a child's college costs, retirement, even dying.

Problem is, choosing an adviser can prove as difficult — and risky — as picking stocks. Well-publicized scandals have shown that stock analysts got rich steering investors into bad stocks. So, too, do many financial advisers have an incentive to steer clients into investments that return big commissions for themselves.

Because hiring the right adviser can be a dicey task, The Morning Call gathered the best advice for choosing a professional to help manage your money.

Range of services

Financial planners offer a variety of services ranging from hourly consultations

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WHAT TO EXPECT

Minimum services a financial planner should provide

- A clearly written, individualized financial plan, including balance sheet and projected cash flow for at least one year. The plan should define your financial objectives and the steps you will take to achieve them.
- A discussion of the amount of risk you are willing to assume to achieve your goals.
- Specific suggestions for improving your cash management.
- An explanation of the assumptions underlying the plan, including projected rates of interest and inflation.
- A range of investment choices.
- A schedule for monitoring your financial plan.

WHAT TO ASK

Key questions to ask before hiring a financial adviser

- **What is your professional background?** Make sure your planner stays current through continuing education and training programs.
- **How long have you been a financial planner?** A good rule of thumb is five or more years as a broker, insurance agent, accountant or lawyer.
- **How long have you been in the community?** Deal with individuals you know or can check out through friends, business colleagues or professionals.
- **Will you provide references from three or more clients whom you have counseled for at least two years?** Avoid planners who pressure you to rely on the word of one or two new clients.
- **May I see examples of plans and monitoring reports you have drawn up for investors?** Pay attention to the frequency and quality of the reports.
- **How will you make money on my plan?** Be blunt. Ask the planner how he would profit from his relationship with you. If there's a heavy reliance on commission income, keep that in mind when the planner recommends that you buy a specific investment.
- **Have any enforcement actions been taken against you?** The Pennsylvania Securities Commission (1-800-600-0007) will provide details of any enforcement files related to the adviser.

WHAT TO GUARD AGAINST

Five warning signs of a fraudulent financial planner

1. Promises of unrealistic rates of return, such as 20 percent annually.
2. An indication that the investment is guaranteed and can't result in a loss for the investor.
3. Suggestions that the investment is too complex to be understood and that total faith in the adviser is a must.
4. An unclear or unstated investment purpose, such as a blind pool for investing in the stock market at the planner's discretion.
5. An exotic sales pitch, such as the involvement of an offshore bank, top-secret technology or inside information from Wall Street.

Source: Pa. Securities Commission

Financial advisers work like coaches

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about specific money issues to comprehensive financial plans.

The best advisers take time to teach their clients about finances and plainly explain their strategies for planning. Then the adviser and client together make money decisions.

"I'm kind of like the coach. I develop the plays," said Christopher M. Jones, a fee-only planner and owner of Keystone Financial Planning in Palmer Township.

There are two things most reputable planners hate to hear from clients:

"I'm hiring you to make me lots of money."

"I don't know anything about finance, so I'm just turning everything over to you."

Securities regulators warn against advisers who say they can provide sky-high returns or that you should give them your money and trust them. Those could be signs that you're about to get fleeced.

Gene Dickison, a financial adviser with Valley National Financial Advisors near Bethlehem, said blind trust in an adviser is "horrendously inappropriate."

Instead, the adviser should work as a partner, like a doctor who lays out the treatment choices for a patient.

"Twenty-five years ago, your doctor said, 'Take this pill,' and you said, 'OK.' You didn't ask why, you didn't ask for how long, you didn't ask what for. You just did what you were told.

"The reality is, that's not what a good physician is today."

And that's not what a good adviser is, either, said Dickison, host of local radio and cable television financial shows.

"If people walk through the door and they're ignorant, that's not a healthy scenario for me. The first thing I tell them is, 'You're going to learn.'

"The more they know, the more capable they are of working as a full-fledged member of their financial team — and not as a victim."

Also be aware that financial planners generally don't help people drowning in credit card debt, nor do they counsel them on how to curb irresponsible spending. That's more the role of credit counseling agencies.

Who needs 'em

How much you need a financial adviser is directly proportional to how overwhelmed you feel by your financial life, experts said.

Maybe you're overwhelmed because you don't have the time to research what a Roth Individual Retirement Account is, let alone which investments you should hold in the account.

Maybe you received an inheritance or have a tricky tax situation.

Maybe you don't know if you have enough life insurance or need a long-term care insurance policy.

Or maybe you understand your finances pretty well, but would be comforted by a second opinion.

Those all could be reasons to hire a financial adviser.

"If they haven't had an adviser before, most people think about it when a level of complexity enters the picture that they're not used to," said Robert H. Brown, a financial planner with VeraVest Investment Advisors in Bethlehem.

Good advisers can help with those decisions, said Paula Fantaski, an investment representative with Edward Jones in Whitehall Township.

"We have a body of knowledge the average person doesn't have," Fantaski said. "There are at least seven good ways of saving for college. Each of them has advantages and disadvantages. All that information is available on the Internet, but people don't have the time to wade through that, and they don't know the quality of the information."

New clients of financial planners tend to be over age 30, when their lives have stabilized and they are more likely to have enough money to cause consternation. They also tend to be younger than 65, so they have enough years left in their life to require planning, Jones said.

A matter of trust

At its root, choosing an adviser is about trust — trust that the advice you're getting is sound and the adviser has your best interest at heart. And it's about a comfort level you have in talking with the adviser.

Like hiring a contractor to remodel your kitchen, you should consider several advisers and interview them personally, experts said.

"It's virtually impossible to establish a close relationship over the phone, so a face-to-face meeting is critical," Fantaski said.

Unfortunately, many people don't shop around for advisers, Jones said. "It's kind of like marrying the first person you date."

Though you might not be an expert on financial matters, trust your instincts, experts say. If an adviser strikes you as shifty and tries to pressure you into a decision, go find another. There are plenty.

Pay attention to questions the adviser asks in the initial meeting, Fantaski said. "Are they more interested in you and your goals and helping you solve your financial issues, or are they more interested in the latest thing they have to sell?" she said.

Asking friends about who they use as an adviser might provide leads, but be certain your friend has solid reasons why the adviser is good. Also, if you have trusted accountants or lawyers, ask them for a referral to get things started.

You can also check online with the Financial Planning Association at www.fpa.net or the National Association of Personal Financial Advisors at www.napfa.org.

Know this: Anyone can call himself a financial adviser. Do some investigation, as you narrow your choices.

First, make sure the planner is not in trouble with state or federal regulators. Check the Pennsylvania Securities Commission online at www.psc.state.pa.us or by phone at 800-600-0007; the Securities and Exchange Commission online at www.adviserinfo.sec.gov; and securities regulators NASD at www.nasdr.com.

You can also ask advisers for their disclosure document, Form ADV, which discloses how the adviser is paid and any disciplinary actions taken against the adviser.

Next, look for professional designations.

Certified Financial Planner, CFP, is one of the most common professional designations for advisers. It means the adviser had to pass a rigorous test and continued his or her education to retain the certification.

Others designations are Chartered Financial Consultant, ChFC, an insurance-oriented designation for advisers. There are also Chartered Life Underwriters, CLU, for life insurance, and Certified Public Accountant, CPA, for taxes.

The designations don't guarantee a good choice, but add it to the list of things to consider.

Similarly, the experience of the adviser counts for something. That's not to say new or young advisers won't do a good job, especially if they're eager to please.

Advisers suggest you have a good idea of what you want. Do you need a customized and comprehensive financial life plan? Do you want someone to actively manage your money month in and month out? Or maybe you just need answers to basic questions.

"People who get the most value from a financial planner are already well organized and concerned about their financ-

for investors

es," Jones said.

Telling an adviser you want to get higher returns on your investments isn't helpful — everybody wants that.

"If that's your criterion, you're going to end up with something that's not going to make you happy," said Kent Hickey, a fee-only planner and owner of Journey Financial Advisors in Upper Macungie Township.

Even knowing that you want to retire at age 60, for example, isn't specific enough. Some people might want to retire and mostly work in their garden and play cards at the senior center. Others want to retire and travel Europe.

Planning for those situations will be different, Hickey said.

Follow the money

Maybe the most important and confusing part of choosing an adviser is understanding how they charge you for services. It's important, frankly, because you could get ripped off if you don't understand the adviser's motives.

For example, an adviser who puts your money in a variable annuity might do it because it's a good investment for you — or he might do it because it provides him the fattest commission.

Also, know what you're getting. Some advisers will spend many hours developing a comprehensive financial plan customized to your life. It's likely to be expensive; maybe thousands of dollars. Others plug in a few numbers to a computer program and spit out a general plan. It might cost a couple hundred dollars or maybe even significantly less. In general, you get what you pay for.

There are three basic kinds of fee systems. "There are pros and cons to each," said Jack Payne, an adviser with fee-only firm Michael Joyce & Associates in Bethlehem. "It really comes down to what the individual is looking for."

■ Fee-only. If you're concerned about an adviser's conflicts of interest, consider a fee-only planner. He or she is paid only by you, not by mutual fund companies or insurance companies or anyone else. That means he has no incentive to steer you into a particular brand of mutual fund, for example.

The disadvantage is fee-only planners tend to be more expensive and deal mostly with rich clients — although Hickey's niche locally is working with middle-class clients.

Some fee-only planners who manage a client's money on an ongoing basis charge a percentage of the "assets under management." For example, there would be an annual charge of 1 or 2 percent of all money the adviser is responsible for.

Find fee-only planners through the National Association of Personal Financial Advisors at 800-366-2732 or online at www.napfa.org.

■ Commission-based advisers have in recent years come under fire for their inherent conflicts that have led some — really salespeople — to steer investors into whatever investment the firm wants to sell.

So judging the character of a commission-based adviser becomes critical. It's also important to understand what fees are involved and whether they're reasonable.

However, commission-based advisers might be the least expensive choice for people who only want to invest in stocks, bonds and mutual funds and don't want to emphasize a comprehensive financial plan.

■ Fee-based is not the same thing as fee-only. It's a hybrid, meaning the adviser takes fees and commissions. So, for example, the planning service might be a straight fee, and might be cheaper than from a fee-only planner.

But when it comes to investing your money, a fee-based adviser will likely invest your money with a firm he has a commission relationship with, which limits your overall choices.

Finally, a good financial planner shouldn't shy away from talking about the least glamorous, yet most fundamental, part of financial planning — living below your means, so you have money to plan.

"You can have the best investment adviser in the world but if you're not continuously building your position by saving regularly, you're not going to have as good an opportunity to create wealth as somebody who is," said Payne of Michael Joyce & Associates. "That's part of bread-and-butter wealth management."

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