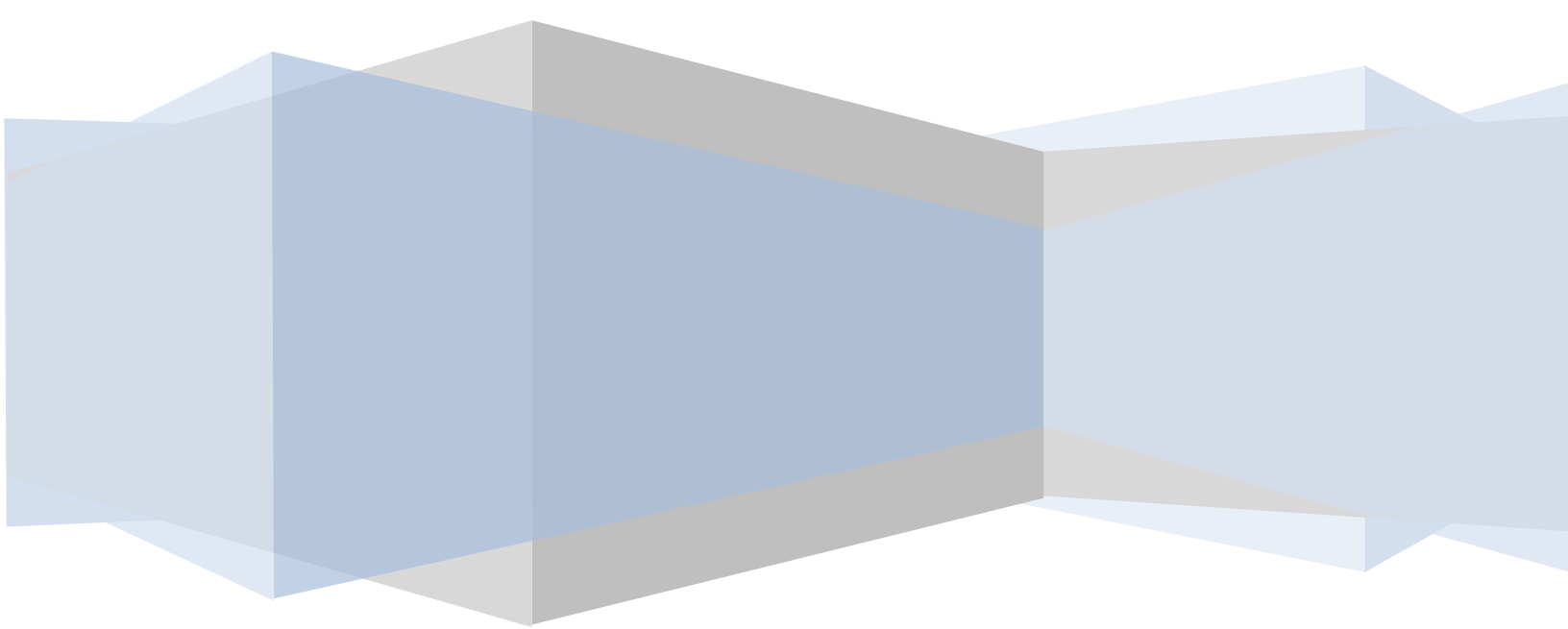




# **Choosing Your Financial Planner?**

**Wealthy Choices®LLC**

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When you want to do the right things with your money you need to ask the right questions and you need answers that fit your particular circumstances.

For example, when you ask, “Where can I find the lowest mortgage rate?” you can find that answer by talking to friends who have just taken a mortgage, by asking a librarian to guide you to the appropriate resources, by searching the Internet, or by looking in a newspaper that lists the lenders in your area and the current rates being offered on fixed 15-year, or 30-year mortgages or adjustable rate mortgages. The next question is the more difficult one: Which one is right for your circumstances?

Now you are moving toward making a financial plan. When you are no longer satisfied with the answer to an isolated question (like what’s the lowest mortgage rate) and are coordinating that answer with other goals and other decisions, you are beginning a plan. You may be content to work on this by yourself or with another person in your household.

You may feel that no one can take care of your money better than you can. In which case, you owe it to yourself to keep learning and reading so that you can make better decisions. If, however, you decide to hire a financial advisor, how do you check out a good one?

## List of Candidates

Who do you ask? Ask everyone you know and respect for their evaluation of whomever they work with. Ask an accountant or attorney for names of people they recommend and ask why they recommend that person. As long as you do more thorough questioning, you can use any

other source as well, like an adult education catalog that offers courses near you, a seminar teacher, a teacher in a business department, the yellow pages, Internet search engines. Any of the institutions that runs a program for training financial planners is a resource for you. These include many colleges thorough out the United States, as well as the more specialized colleges with just this particular focus: American College in Bryn Mawr, Pennsylvania, and the College for Financial Planning, Denver, Colorado. It is easy to compile a long list of candidates. The issue is evaluating them.

Now that you have a list of names of people to interview for the position of your financial advisor, what's next?

## **Set Up Interviews**

Set up interviews with the potential advisors and then ask questions. Most advisors will offer you a free session to explore if what you need fits what they offer. Check how much time the advisor will allot and that there will be no charge or obligation. It is better to interview in person because we learn from what the person answers and we learn something from looking at each other. If you visit the office of the planner, pay more attention to the office interactions than the décor. If you are treated well and the staff is treated curtly, or without respect, consider the impact on the office team. Will they “pull together,” to create a spirit of excellence? If there is genuine respect in the office, and each person is valued for his or her contribution, it is more likely that the filing, processing and the day-to-day activities that are the underpinnings of your plan will be done well and with a commitment to service. You will get answers to those inevitable service questions.

## **What Do You Ask?**

“What do I want?”

Start with you. Ask yourself, “When I look back after a year of working with this person, what would I want to be able to say about my financial circumstances?” If your only answer is, “I want more money,” then you need to be able to explain if that means more money to live on today, or more money to accumulate for a goal. How much more money? What risks are you willing to take to have that much money? Is it a realistic goal? Does the advisor think it is a realistic goal? If you don’t hit that target, what will you do? Will you and the advisor have been in close contact during the year?

Maybe your questions are vague, and you feel that you just want help figuring out a plan of action for a set goal: managing your commission income, bonuses, irregular cash flow, rolling over a retirement plan, saving to start a business, to purchase real estate, or saving for college, or retirement or any other goal. The advisor can help you align your goals and your available investment dollars. If you have many tax or legal questions, be sure the advisor handles those matters, or will refer you to others who will answer your questions.

## **The Relationship**

What sort of relationship do you want with the advisor? How do you want to feel after a meeting with the advisor? Stressed? Impressed? Listened to? Understood? Helped? Do you trust that the advisor is solidly by your side and working for your best interest? Do you want to feel that no matter how difficult the financial problem, the advisor will do whatever is possible to provide you with the right resources to answer the question, which might include referrals to other professionals. Do

you want a business associate? a friend? a guide? Would you be comfortable referring your very best friend or business associate to the advisor? If not, is that a comment on the advisor, or your own habit of referring?

## **Contact Style**

What frequency of communication do you want with the advisor? Do you want someone to call you monthly, quarterly? Do you want a plan set up and you call the advisor only when you have a new question? Do you need phone access? Email access? What's your ideal timetable for getting a call back or a response? Is speed critical to you, and compatible with the advisor's style or schedule? What is the advisor's communication style? How quickly does the advisor respond? Only responds to phone calls? Is proactive? Is always presenting you with new ideas? Is always selling? Has another person in the office call you with an answer?

## **Communication Compatibility**

Test your communication compatibility. I have not seen any other advice article offer this concept. Too much goes sour in human relationships because of poor communication. So ask the advisor a question that you think you already know the answer to, or a question about something that really puzzles you; for instance what is an annuity? Is a Roth IRA right for you? How should you evaluate an equity or a bond? Do you understand the answer? If you continue to ask questions, or want further written information, does the advisor become irritated, or make you feel embarrassed or uncomfortable when you don't understand?

In a good financial planning relationship there is a lot of explaining going back and forth. In addition to knowing the financial landscape, the

advisor's mission is to understand and remember who you are and what is important to you. Your role is to be honest about your information and intent because these become the building bricks of your plan.

## **Compensation**

If you ask the advisor, "How do you get paid?" you should hear a clear explanation. There are many models for running a consulting practice. Some financial planners run their practices the same way that accountants, or attorneys do. They work on a project basis, or an hourly basis, or on a retainer given in a lump sum or monthly. They should be able to estimate the cost for the work. Be sure to ask what work will be done for that cost. Something in writing is a valuable aid to memory and good relationships.

Some advisors will only prepare the strategy report and charge a fee for their consulting. These fee-based planners may refer you to someone else to actually place investments, or they may have another part of their company, which can place investments, or insurances for you.

If the advisor is writing a report which sets up a strategy for pursuing your goals, and also placing investments for you, there may be no charge for the report. Instead the planner is compensated by commissions related to the placement of insurances, annuities, stocks, bonds, or other investments. You can always ask what the commission is. If the advisor is reluctant to answer, that is worrisome. There is nothing to hide. It is one of the features of the product, not the only one, or the most important one. What is most important is that the investment vehicle is driving you toward your destination.

## Referrals

Why do advisors ask for referrals, and how can that benefit you?

Referrals are considered a form of compensation to the advisor, but they are really more important than that. When advisors ask for referrals, you become part of their marketing team. It is a valuable place for you to be for several reasons. First you and the planner are more of a team. Each of you is contributing to the other's future. In addition, when you refer people then you know a core of people who are using the same advisor and you can compare notes about service and the type of advice. It will help you evaluate the advisor. Third, your providing new clients makes you even more important to the advisor. You are likely to receive preferential treatment because you are seen as a team player. If time is tight, it is more likely that your call is the one that is returned. Fourth, you are saving the advisor time which would have been spent on marketing which is better spent on thinking about you and learning the next cutting edge idea in the industry.

There are articles that argue that fee-based is better than commission based planning, because a commission based planner may put in front of you what will pay the planner best, not what will be best for you. How odd to assume you can judge someone's integrity by the way he or she is paid. If you do not trust the advisor, find another advisor. If you think you can buy honesty by the method of payment, think again. No matter what the method of payment, abuse as well as exemplary behavior is possible. We have seen people handsomely paid regular salaries who have been scurrilous. How do you know if you have never paid a fee for a plan if the fee is fair or if it is inflated? You know if you have the dollars to pay, but not if someone has pumped up the cost and given you a Cadillac plan when you needed a basic one. Likewise if there is a commission, you must recognize that the advisor must be paid for his or

her knowledge. For many people commissions are the least expensive way to for them to pay for advice. It is critical that the advice is right for you, whether you have paid a salaried employee, a fee-based planner or a commission-based planner.

## **Wrap Accounts**

Wrap accounts charge the investor a fee of .5% to 3% annually on the assets under management. The fee declines as the portfolio assets increase. The fee may cover such services as rebalancing the assets classes in the portfolio, portfolio management, transaction and administrative costs. If a \$500,000 portfolio were charged 3%, that would be \$15,000 that year, or at 1%, the fee would be \$5,000. Each year the percentage would be calculated on the assets under management. The dollars you pay may increase or decrease. The percentage may also change, but in any case some wrap fee continues yearly. Compare that to any other options there are for paying for advice.

Whatever the method of payment, ask what services are covered. The ongoing services should be sufficient in your mind to justify the wrap fee or any other method of compensating your advisor.

What the “wrap fee” wraps around needs to be explained to you. Typically, the fee is shared by a number of parties; among them are generally the broker-dealer, the representative and the money manager. There could be other divisions of the fee. The broker-dealer is generally a firm in the business of buying and selling securities and you will see the statement “Member FINRA/SIPC” after the name of the broker-dealer. The representative works directly with you to establish what is important to you, your goals, and timeframes. The money manager is the

person or group that is making the daily decisions about what securities to buy and sell.

There are many variations of “wrap accounts.” Critical for you, is your clear understanding of the cost structure and the service provided. Compare the costs of the various ways that you might pay for advice and service to see what is best for your pocketbook and your need for feedback.

## **What is the Process?**

In general there are four parts to the financial planning process:

- 1) gathering information, 2) recommendations based on analysis,
- 3) implementation, and 4) review.

The advisor has to collect enough information about your situation to make a recommendation. That is often a meeting or two. You supply all the requested information. You explain what questions you want the advisor to help you with. The financial advisor may want your permission to talk with your other advisors; such as your accountant or attorney or property casualty agent. Check if the other advisors are going to charge you for the time spent talking with the financial advisor. It is valuable for you to have a coordinated plan and often it is the job of the financial planner to pull the team of advisors together for you.

There is a meeting where the recommendations are presented to you. You will decide which recommendations you want to implement and when. There should be follow up to make sure everything is completed as planned. This can take several months.

At whatever frequency you agreed on, there should be a review of the strategy and the progress of your plan. What results are you looking for

and in what time frame? As the plan is being set up you should agree on some measuring stick for acceptable results. How will you measure, “I’m doing well”? Does that refer to a dollar amount? Does it relate to having a consistent plan of action? Does it mean all your accounts are consolidated and easy to manage? Discuss it with your advisor. Write down what you agreed on. Review it in a year. Understand the results and make adjustments if necessary.

## **What is the Advisor’s Training?**

We are all aware that credentials indicate that someone has been through a course of training. There are many different degrees and designations that are credible for financial advising. Some financial advisors have their primary training as accountants, or tax lawyers, or insurance professionals, or investment advisors, or real estate brokers, or stockbrokers, or professors of business.

Every training has its bias and its strengths. So your questions are: What is your training; what are your credentials and why will that background be valuable to solving the problems I am asking you to address for me?

You will want to understand the advisor’s basic assumptions about, such things as inflation, rates of return, risk, Social Security, taxes, loans and insurance. It is imperative to ask, “What are you basing that recommendation on?” You may agree with the assumptions. If you do not, discuss them. Those are the foundation elements for the planning.

Whether the advisor is only writing a report for you or only investing your money, or doing a combination of both, you will want to know what categories of investments are most often recommended. An advisor who is trained in growth stocks and enthusiastic about that asset class may never think to advise you to purchase real estate or bonds. What is the range of investments the advisor is knowledgeable about? For what

types of investments would the advisor send you to someone else? Is the advisor required by his company to make recommendations of products made by the parent company? Is the advisor free to recommend any reputable product?

## **What is the Advisor's Experience?**

What you are concerned about here is not only how long the person has been in practice, but the team of people the person turns to when there is a tough question. Is there back up? Who are the experts the advisor turns to for an unexpected and unexplored area? Is the person comfortable saying, "I don't know but I'll find out"?

In addition, you'll want to know if the questions you are asking are routine for the advisor. Will the advisor have to "go to school" on your case? If so, that learning curve may be something you are paying for. It still may be worth paying for if you already have a good relationship and the advisor believes he or she can master the material. If not, you would expect the person to refer you elsewhere. You will prefer someone who can be honest about his or her strengths and weaknesses. And it is a fair set of interview questions, just as it would be in any other job interview, for you, in the role of the employer, to ask: What do you do best? What do you like working on? What are your weaknesses? What do you wish you could do better?

## **Where Do You Fit In?**

Are many of the advisors clients like you? Does the advisor only work with people with a certain dollar amount to invest monthly or a minimum lump sum? Will you be working with the advisor or a junior partner or with a senior partner?

These other partners or associates may take on the clients who are not at the core of this advisor's practice. That can still be an advantage to you if you like the team at that office. You need to know what the arrangement is.

It is not unusual in an age of specialization that an advisor moves into a niche market that fits certain of his or her clients but not all of them. The advisor's practice is dynamic just as your life is. Your circumstances may outgrow the expertise of your advisor and then a candid talk about how to transition to a different advisor is in order. You wouldn't expect to have only one physician all your life or one attorney for every life change. So, good communication is the key.

Honest questions and answers will serve you both well. It will allow you to grow together, or apart and still be cordial. No matter what you ask, the arrangement between you and your financial advisor needs to be comfortable, serve you appropriately, and help you get to where you need to go.

I have written this article for you because I think that each financial planner-client relationship is unique. I want you to find someone to work with who suits you well and serves you with integrity.

The advisor-client relationship is where goals and dreams meet strategies, where needs and wants meet order and timetables, where risk is set into the context of values and life experience, not just the ups and downs of the marketplace. It is not an arrangement based just on numbers, and Internal Revenue codes. It is a creative process of shaping a vision of someone's life- yours.

For me, it is a privilege to be trusted with strategizing for your success. It matters to me who I carry around in my head, and whose financial

well being I am worried about. It matters to you that I am working in your best interest.

Find a knowledgeable advisor who you like, and you trust, and start your planning. Shape your version of the good life.

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Penelope Tzougros is author of:

*Wealthy Choices: The Seven Competencies of Financial Success*

*Long Term Care Insurance: How to Make Decisions that are Right for You*

*How to Care for Mom when She is Miles Away*