

Tips on Finding a Financial Adviser

Ignore Brochures Aiming to Sell You Something, Know the Costs And Ask the Right Questions

By ELLEN E. SCHULTZ

Staff Reporter of THE WALL STREET JOURNAL

IF YOU WANT TO FIND a good financial adviser, don't get a referral. In fact, don't do most of the things you're told to do in brochures on "how to choose a financial adviser." Those tip sheets are often created by the marketing folks at brokerage firms and life-insurance companies, and they're swell if what you want is to find someone who is going to sell you something.

Not that there's anything wrong with that. But you can probably do better if you know a few things.

FUND TRACK Let's say you have a portfolio worth \$500,000 (including your retirement accounts), a home, the usual debts, some stock options. You want to know whether your investments make sense, whether you're on track with retirement savings, and whether there's anything else you need to worry about, like life insurance or buying a long-term-care policy.

So, following the brochures, you choose someone who has been in the business for years, has a lot of impressive credentials, hasn't been arrested, and is a real nice person. Now what?

Here's what you could expect:

Worst-case scenario: Most financial advisers/planners/consultants (take your pick) are brokers and insurance agents. The quickest way to make a buck off you is to get you to shift your assets into an expensive financial product, perhaps a variable annuity paying the adviser and his firm a fat 7% commission, plus annual trailing commissions. Your \$500,000 could generate \$35,000 in commissions, plus \$5,000 annually in "trails."

In addition, the adviser charges you an annual fee (say, 1%) based on a percentage of your assets. All told, you're worth \$40,000 to the adviser the first year, and \$10,000 each year thereafter, for only a couple hours of the adviser's time.

Of course, this worst-case adviser doesn't tell you about all these fees and commissions, and you discover belatedly that the investments haven't been chosen with an eye toward what's best for you, and you're getting shortchanged on guidance about everything else. You think you've got a cheap deal, but you've been taken to the cleaners.

Common arrangement: Your adviser is compensated by commissions and fees, but isn't a shark like the hypothetical guy above. He chooses mutual funds that waive the front-end loads but pay him a trailing commission, typically 0.5% to 1% a year. He also charges an annual fee based on the size of your portfolio (say, 1%).

If your portfolio is \$500,000, his total compensation could be \$10,000 per year (\$5,000 from you, and \$5,000 from the fund companies). Your out-of-pocket costs are the 1% fee, but the indirect cost could be as much as an additional 1% a year, because the mutual fund will have higher annual expenses.

A variation: The adviser uses front-end load funds but gets you a discount (called a break point) if you invest a large amount—something you can't do with annuities. In these arrangements, the adviser usually doesn't charge an annual asset-based fee. In terms of cost, this can be comparable with the fee-commission arrangement above. But the same conflicts

of interest exist: The adviser has an incentive to get you to change your investments, even if you don't really need to.

In either case, a good adviser will tell you about the commissions he stands to earn on a mutual fund or an annuity.

Fee-only arrangement: Some advisers charge an hourly fee like accountants and lawyers. If you need investments, they recommend only no-load funds, which have no hidden trailing commissions. The funds also tend to have lower annual expenses, because commission costs aren't built into their expenses. A variation: Many fee-only advisers charge an annual fee based on your account size (typically 1% of assets).

Your total costs for fee-only advice might range from several hundred dollars to several thousand dollars. Regardless of the type of adviser you choose, there's no free lunch. With a fee-only adviser you can see what the total bill is; with a fee-and-commission adviser, the costs may look smaller but can be the same as or higher than fee-only advice. Take your pick.

In any case, the standard advice on finding a financial adviser won't necessarily weed out the sales-driven fellows in the worst-case scenario. But there are some things you can do to sift through the more

On-Line Resources

To get a list of advisers in your area, plus their areas of expertise, contact:



National Association of Personal Financial Advisers
(a fee-only group)
888-333-6659
www.napfa.org



American Institute of Certified Public Accountants
(CPAs with a specialty in financial planning)
888-999-9256
www.cpapfs.org



Cambridge Advisors
(Fee-only advisers who typically focus on taxes, and comprehensive planning for middle-income families)
888-834-6333
www.cambridgeadvisors.com

(over please)

than 200,000 people out there who call themselves financial advisers:

- Don't rely on a referral. Sure, your brother-in-law may gush that his adviser is great, but unless he can tell you what he is invested in and why, and whether the returns are good or bad, he's like someone who tells you his mechanic is fantastic because the guy has a tow truck.

Instead, rely on referrals from friends only if it's clear they know what they're talking about, which can be a sign of a reliable adviser. Good advisers try to educate. Mediocre advisers may take a "trust me" attitude, and like to keep things mysterious. That isn't a good sign.

- Don't pay too much attention to credentials. Once you get a list of referrals, don't obsess about the strings of letters after their names. These professional designations often mean the person is licensed to sell, can pass a multiple-choice exam, or has gone to a lot of conferences in places like Palm Springs, Calif.

Instead, ask advisers what they did before they became advisers. Most will have sales backgrounds, but an increasing

number are coming out of other professions such as accounting, engineering, teaching and law. This can give a different perspective that can benefit you.

- Ask what kinds of clients they have. An adviser with a lot of clients who are government employees knows the ins-and-outs of government retirement systems; an adviser who is a former engineer or human-resource manager for a local corporation probably has expertise in stock options and corporate pensions; and an adviser with older "high-net-worth individuals" (rich people) may know a lot about estate planning, nonqualified pensions and real-estate issues. You get the picture.

- Beware of these red flags. Steer clear of any adviser trying to sell penny stocks, tax liens, commodities, options, futures, coins, art, racehorses or anything "guaranteed." (Stick with mutual funds, stocks trading on a major exchange and high-grade corporate or government bonds.)

Someone claiming insider knowledge of the markets or a "secret strategy" is a scoundrel or an idiot. There's no magic to this stuff, and decent advisers know it.