Choosing a Financial Advisor

Taken from a SmartAssets article and edited with additions by Peter Kote

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Choosing a financial advisor is a major life decision that can determine your financial trajectory for years to come.

A 2020 Northwestern Mutual study found that 71% of U.S. adults admit their financial planning needs improvement. However, only 29% of Americans work with a financial advisor.[1]

The value of working with a financial advisor varies by person and advisors are legally prohibited from promising returns, but research suggests people who work with a fee only fiduciary registered investment advisor feel more at ease about their finances and could end up with about 15% more money to spend in retirement.[6]

1. Hiring an Advisor Who Is Not a Fiduciary

By definition, a fiduciary is an individual who is ethically & legally bound to act in another person's best interest. This obligation eliminates many conflict of interest concerns and makes an advisor's advice more trustworthy.

If your advisor is not a fiduciary and constantly pushes investment products on you, you need a different professional and likely have a broker and not an advisor. Financial products that are commissioned based is not in your best interest.

2. Hiring the First Advisor You Meet

While it's tempting to hire the advisor closest to home or the first advisor in the yellow pages, this decision requires more time. Take the time to interview at least a few advisors before picking the best match for you.

3. Choosing an Advisor with the Wrong Specialty

Some financial advisors specialize in retirement planning, while others are best for business owners or those with a high net worth. Some might be best for young professionals starting a family. Be sure to understand an advisor's strengths and weaknesses - before signing the dotted line. Remember most fee only advisors allow you to leave to another advisor without penalty of any sort.

4. Picking an Advisor with an Incompatible Strategy

Each advisor has a unique strategy. Some advisors may suggest aggressive investments, while others are more conservative. If you prefer to go all in on stocks, an advisor that prefers bonds and index funds is not a great match for your style.

5. Not Asking about Credentials

To give investment advice, financial advisors are required to pass the Series 65 test. This is required if the financial advisor wants to charge a fee to give securities advice to residents in most states. You do not need any other licenses to act as an investment adviser representative. In fact, if a financial advisor does have other licenses be sure to ask why.

The Series 66 license are for advisors who want to have the Series 7 license. The Series 7 allows a broker to sell commissioned based financial products to investors who rely on their registered representatives' competence. Ask your advisor about their licenses, tests, and credentials. The Series 7, and Series 66 or Series 65 are licenses and are not credentials. The entry level credential to be a financial advisor is the Certified Financial Planner, or CFP designation.

6. Not Understanding How They are Paid

Some advisors are "fee only" and charge you a flat rate no matter what. Others charge a percentage of your assets under management. Some advisors are paid commissions by mutual funds, a serious conflict of interest. If the advisor earns more by ignoring your best interests, do not hire them. "Fee-Only" is dramatically different than "Fee-Based" since this professional is likely to charge you both commissioned base products and fees.

7. Trying to Hire an Advisor on Your Own

Chances are, there are several highly qualified financial advisors in your town. However, it can seem daunting to choose one.

Visit the web site for organization called NAPFA

NAPFA
THE NATIONAL ASSOCIATION OF PERSONAL FINANCIAL ADVISORS

The National Association of Personal Financial Advisors is the leading association of fee-only financial advisors.

https://www.napfa.org/find-an-advisor

Applicant Requirements

An applicant must have a Bachelor's degree in any discipline from an accredited institution. Applicant must have a CFP® certification. Applicant must sign the NAPFA Fiduciary Oath. Once approved for membership, the applicant must earn 60 continuing education credits every two years.

Sources:
1. Northwestern Mutual study
6. Journal of Retirement Study