EQUIPPING YOURSELF - KNOWING WHAT TO ASK!

Once you are ready to narrow the field, here is a series of questions that will help you determine whether or not your targeted advisor will be a good match for your needs and will work in your best interests.

The following questions are accompanied by the NAPFA-recommended response you should receive to each question:

Are you or your firm a Registered Investment Advisor (RIA)?

NAPFA believes that any financial advisor offering comprehensive financial planning services should be registered as an investment advisor with either the Securities and Exchange Commission (SEC) or with the state regulatory agency within the advisor's state. Information pertaining to both SEC Registered Investment Advisors (and the vast majority of state registered investment advisors) is set forth on Part I of the advisor's Form ADV (see www.sec.gov). Unlike other investment professionals, only Registered Investment Advisors owe a fiduciary duty under law to their clients.

What is your educational background?

Although not currently required by regulatory authorities, NAPFA believes that a financial advisor should have an advanced education in financial planning topics such as investments, taxes, insurance, or estate planning, in addition to a college degree. Also, NAPFA believes that your planner should be required to participate in continuing professional education to keep his/her knowledge base current.

What are your financial planning designations, credentials and affiliations?

There are more than 100 certifications or designations financial advisors can obtain, but they cover a wide range in terms of education, experience and ethics requirements. Make sure your advisor's credentials indicate a broad-based education in financial planning topics and a requirement to put the interests of the client first.

How long have you been offering financial planning services?

To become a NAPFA-Registered Financial Advisor, a professional must have a certification (CFP or CPA/PFS) and must have at least three years of experience in financial planning. (Provisional members have certifications but have not yet achieved three years of experience.) Taking an advisor's experience into account can be important, especially when you are seeking comprehensive financial planning for a complicated financial situation.

Will you provide me with references from other professionals?

The financial advisor should be willing to share the name of another financial professional with whom he/she has worked. From this other financial professional, you might be able to learn more about your prospective advisor's abilities and strategies for recommending prudent courses of action. Privacy laws severely limit an advisor's ability to share client information.

Have you ever been cited by a professional or regulatory governing body for disciplinary reasons?

Be wary of a financial advisor who has been disciplined by a professional or regulatory body. In many cases, financial advisors who are disciplined are being held accountable for imprudent advice or abuse. You should, however, give an advisor the opportunity to explain his/her side of the disciplinary incident.

How many clients do you work with?

Personal attention is important when engaging a financial advisor. The number of clients an advisor works with will help you better understand how much attention he/she will be able to devote to you and your situation. If the number of clients seems excessive, ask how advising that many clients will affect your relationship. Keep in mind that larger firms often use a “team” approach in which numerous professionals on the staff will provide services.

Will you or an associate work with me?

When engaging a financial advisor, you will want to know whether you will be working with that person directly or another qualified professional who is part of a team. If the advisor indicates that an associate will primarily work with you, ask to meet that person prior to commencing the relationship.

Will you sign a Fiduciary Oath?

Accountability is important in financial planning. While there are many people in the financial services industry who profess to have the client’s best interests at heart, they still may make recommendations that present a conflict of interest. NAPFA requires all of its members to sign a Fiduciary Oath; this helps to ensure that each client’s best interests, not the advisor’s, are always a priority. Learn about the NAPFA Fiduciary Oath by visiting http://www.napfa.org/about/FiduciaryOath.asp.

Do you have a business continuity plan?

A concern for many clients is they will retain the services of a financial advisor who might retire, pass away, or transition completely out of financial services. If any of these events were to occur, what would happen to you? You should ask your prospective financial advisor if he/she has a plan in place to address any potential situations whereby he/she might no longer be able to provide services.

How is your firm compensated and how is your compensation calculated?

NAPFA members firmly believe that financial advisors should be compensated solely by the client (a Fee-Only basis). Although NAPFA recognizes that financial planners can provide services on a commission basis, it is NAPFA’s core position that a Fee-Only engagement removes the potential conflicts of interest that are inherent in a commission relationship.

Do you have an agreement describing your compensation and services that will be provided in advance of the engagement?

Prior to formalizing a relationship, a financial advisor should always provide full and clear disclosure about how he/she will be compensated. Ask for this information prior to signing a contract, and make sure you understand any conflicts of interest presented by the compensation arrangement.

Do you have a minimum fee?

Financial advisors may charge a minimum fee for services they render. If you have limited financial planning needs and/or a small portfolio, paying a minimum fee may not be in your best interests. If that is your situation, search for an advisor who will provide you with professional advice on a flat-fee, project, or hourly basis.

If you earn commissions, where do they come from?

While NAPFA encourages you to consider using a Fee-Only Financial Advisor, you may instead select an advisor who accepts commissions. Financial advisors who are compensated based on commissions should be able to explain how they are compensated and identify what percentage of their compensation is derived from the sale of various commission-based investment products and/or securities trading.

Are you currently engaged in any other business, either as a sole proprietor, partner, officer, employee, trustee, agent or otherwise?

By knowing what other business ventures a financial advisor is involved in, you will better understand if there are any conflicts of interest with regard to the advice that you might receive. This is especially important if the advisor is involved with an investment-related entity. Ask for a detailed account of how that relationship will impact the advice he/she will provide you.

Does any member of your firm act as a general partner, participate in, or receive compensation from investments you may recommend to me?

Ask your prospective financial advisor if he/she is limited to presenting certain types of investments or investment products to you. If so, inquire why he/she is limited, and how this might affect the success of attaining your goals and/or the amount of fees to be paid.

Do you receive referral fees from attorneys, accountants, insurance agents, mortgage brokers, or others?

As you work with a financial advisor, you might need the assistance of other advisors, such as attorneys, accountants, insurance agents, and mortgage brokers. Always ask whether your financial advisor will receive a referral fee for recommending you to another professional. If the financial advisor does receive a referral fee or some other type of compensation from the professional(s) that he/she may recommend to you, you should seriously consider this conflict of interest prior to engaging the recommended professional.

Do you receive on-going income from any of the mutual funds that you recommend in the form of "12(b)1" fees, "trailing" commissions, or other continuing payouts?

Mutual fund and investment product sponsors often pay extra fees to advisors as a way to encourage the advisors to recommend their products to their clients. Also, investing in funds and financial products with these fees usually is more expensive than investing in products without the fees, because the sponsors raise the costs to recoup the fees. These fees are legal, but they can raise conflicts of interest on the part of advisors who accept them. A financial advisor who receives 12(b)1 fees or “trailers” is not a Fee-Only financial advisor.

Are there financial incentives for you to recommend certain financial products?

Commission-based advisors may receive higher commissions on certain products they sell than on others. They may also receive incentives like special awards, bonuses or trips based on sales volumes. This may influence their decision to recommend investment products that are not in your best interest. Ask your prospective financial advisor how his/her recommendation might affect the success of attaining your goals and/or the amount of fees you will pay (immediately and over a period of years). Fee-Only advisors do not have this conflict of interest; they are able to recommend investments based solely upon your specific needs.

What personal financial issues will your services address for me?

Many financial professionals loosely use the term “comprehensive” to describe their range of financial planning services. At its best, comprehensive financial planning covers a wide range of both short- and long-term financial issues and addresses your personal goals, objectives, and significant life cycle events. But many advisors who say they are comprehensive do not really offer more than investment advice. Find out in detail what services your advisor is offering, because the broader the range, the more likely you will be getting truly comprehensive financial planning.

Do you provide a comprehensive written analysis of my financial situation and recommendations?

The financial advisor that you engage should be able to provide you with a written analysis of your current financial situation as well as appropriate corresponding recommendations to help you accomplish your objectives. This written analysis can be both the culmination of your first comprehensive financial plan, as well as the starting point for a long-term client/advisor relationship that adjusts the plan at regular intervals.

Do you offer assistance to implement the plan?

The development of a comprehensive financial plan is the initial step to properly assess your finances and define your long-term goals. A plan, however, has little value until it is implemented. As opposed to 'going it alone', consider having your financial advisor implement the plan. Fee-Only advisors can often reduce your investment costs by investing in assets with reduced annual expenses and no related sales commissions.

Do you offer continuous, on-going advice regarding my financial affairs, including advice on non-investment related financial issues?

Many consumers find regular or periodic reviews and on-going communication necessary to remain on track toward achieving their financial objectives. If this level of involvement is important to you, make sure the financial advisor you hire provides ongoing support.

Other than receiving my permission to debit my investment account for your fee, do you take custody of, or will you have access to, my assets?

Allowing an advisor to debit your investment account for his/her fee is standard practice in the financial services industry. However, that should be the only direct access for withdrawals that the advisor should have. You should avoid permitting an advisor to have physical "custody of your investment assets" or the ability to make withdrawals or transfers from your account(s) without express specific prior written consent prior to each such withdrawal or transfer. Generally, Fee-Only advisors will not expose their clients to these "custody" type situations. When you use a Fee-Only advisor, an unaffiliated brokerage firm will usually maintain physical custody of your investment assets.

If you were to provide me on-going investment advisory services, do you require "discretionary" trading authority over my investment accounts?

If you grant an advisor "discretionary" trading authority over your investment account, the advisor can place orders to either buy or sell securities without consulting with you ahead of time. If you have not granted your advisor "discretionary" trading authority, the advisor must obtain your approval prior to making any transactions in your account. If you are going to grant discretionary authority to your advisor, it is advisable to have a written document setting forth the terms and conditions of the discretionary engagement (usually set forth in an Investment Management Agreement). Make sure this is in place prior to making the first investment. Additionally, you should receive a signed, written document setting forth the investment parameters for the accounts to be managed (i.e. investment objectives, percentage allocations, restrictions, etc.), often referred to as an Investment Policy Statement. Of course, you should always continue to monitor the activity within your investment account to make sure that transactions are within the parameters of an agreed-upon investment policy.

Do you have many clients like me?

You are more likely to have an excellent experience with your advisor if he/she works with people of your asset level and concerns. Working with the "rockstar" advisor sounds good, but unless you are a "rockstar", you're not likely to get the best service.

The right questions will tell you if the prospective advisor is right for you.