

Ironstone Partner Article

Selecting a Trustworthy Financial Advisor

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One of the most important decisions a person will make about their financial destiny is selecting the financial professional they work with. The first question everyone wants an answer to is, *do I really need a financial advisor?* The answer, with very few exceptions, is a resounding YES!

While there is an entire industry dedicated to the “do-it-yourself” finance crowd, these resources are not enough to compensate for the advice of a *good financial advisor*. Many argue that with access to limitless internet resources and discount online trading, a relatively intelligent person, without an overly complicated set of objectives, can do it all themselves. This is a fallacy. The most dangerous financial mistake a person can make is deciding what to do with their most important assets and how to guard their financial health, without seeking the assistance of a professional. Most people don’t know, what they don’t know, which is a lot riskier than not knowing is something and having an advisor to show you other options!

You would never self-diagnose serious illnesses, just because websites like www.webmd.com exist as a resource, would you? No, you would go see a doctor. This just makes sense. If you make a bad decision about what course to take regarding your health, it could have very serious adverse results. The same is true of financial decisions. Failure to plan adequately, poor diversification, and overlooking financial minutia can cost you big. Saving too little will cripple your dreams of a cushy retirement or paying for a child’s education. Saving adequately, but being allocated too conservatively or aggressively, can be a detriment to your results as well.



So then why do so many people think it is okay to make these decisions without the help of a professional? The answer is simple: the ease in which a service's value can be observed. If you go untreated for an illness, you get worse. If you do your taxes yourself and you overlook deductions, you will get a smaller tax refund. The value of doctors and accountants are obvious. Financial planning, which is seen as somewhat of an art form, and one whose results are almost never obvious until you need them, is less easily identified as an essential service.

Those "do-it-yourself" services have a cadre of talking heads that support their effectiveness. Advice columnists like Suzie Orman make a living decrying the financial services industry as one of scams, excessive costs, and little value added. But, one of the primary tenants of good financial planning, as defined by the Certified Financial Planning Standards board, is to monitor your plan regularly. Your online broker is not going to call you quarterly to see if you have had a major life event. Your online savings account is not going to remind you that you need to open a 529 Plan for your newborn. After Suzie tells you to open an online account, she is not going to be there to make sure you stay on track!

None of these services are going to be able to balance your *intangible* factors for investing, with your appropriate need for risk. A real person can ask you if you are the type of person that can tolerate certain risks. They also know your other factors, like income, savings needs, goals and objectives. So they can determine your risk thresholds. The difference between tolerance and threshold is something most people don't know. Tolerance speaks to your emotional ability to cope with risk and loss. Threshold is the amount of loss your *goals and objectives*, coupled with your hard data, can withstand and still be met.

While it is true that boiler rooms and scams (see: Maddoff) do exist, the vast majority of financial professionals are honest practitioners of a difficult and thankless profession. So how do you avoid scam artists and find the best financial advisors if you are not a multi-millionaire that can afford to work with advisors on Barron's Top 1,000 Financial Advisor list?

1. **Go with names you know and trust.** Even though their investment banking, trading and lending units are in the news every day, major financial institutions are still the best place to get started. They have a wide-variety of professionals who specialize in a multitude of disciplines. Chances are, no matter what you need these financial services supermarkets can help. As for the headlines, the U.S. government, through the FDIC, insures cash deposits up to \$250,000 per depositor per institution. A lesser known safety against your institution going broke is SIPC. This government sponsored insurer protects your invested assets up to \$500,000 per investor per unique account. So stop worrying about the big boys going broke and start letting them help you plan for your future.
2. **FINRA Broker Check.** You can go online to www.finra.org and look up any licensed financial advisor to see if they have had complaints, judgments, or investigations launched against them. A clean license is the mark of a better broker.
3. **How do they get paid?** All advisors get paid for their services. Not all ways are in your best interest. The three biggest ways an advisor gets compensated are: transactional, assets under management, and fee-only. Transaction only advisors do not necessarily have your interests aligned with theirs. Fee-only advisors won't implement the plan they charge you for, leaving you responsible for carrying out a complicated process. Advisors that charge you based on a combination of these processes; that are flexible and look to reduce the cost to the client, are often the best ones to work with.
4. **Letters at the end of their name.** An advisor with additional letters, like CFP, or CIMA, at the end of their names and titles, has gone through additional training and has continuing education requirements. They are going to be better suited to handle certain situations. If you are looking for simple investment planning, a CFP certified advisor is a good place to start.



5. **Personality Matters!!!** If you choose a good advisor, they should be able to guide you through all of the stages of financial planning, from growing to passing on your assets. That means this is someone you are going to be working with for a long time. Make sure their style of doing business, personality, and professional demeanor all match up to your expectations. Don't forget, you are the client. You certainly wouldn't keep going to a doctor with cold hands and a gruff bedside manner, so why would you let someone that rubs you the wrong way earn your financial planning business.

