Personal Finance

6 Steps to Hiring a Financial Planner

By Mark Miller | 01-12-12 | 06:00 AM | E-mail Article

Resolved for the New Year: I will not make a financial plan for my future in 2012.

That's the disturbing finding of a survey showing that 80% of Americans won't focus on financial planning this year--the highest percentage found since Allianz Life Insurance of North America started asking about this three years ago in an annual New Year's resolution survey.

Why? The largest group of nonplanners--35%--said they "don't make enough to worry about it."

A sizable share of financial advisors might agree. Forty percent of advisors focus on clients with more than $500,000 in investable assets, according to a survey by Cerulli Associates in cooperation with Morningstar. But that doesn't mean planning isn't accessible to folks with less wealth. Thirty-five percent of advisors told Cerulli they focus on clients with assets ranging from $100,000 to $500,000, and many will dip below that range--some even will do one-shot plans for as little as $1,000.

At a time when retirement security has eroded, a plan for retirement has never been more important--especially for middle-class families who might be facing deficits in retirement savings, sharp declines in the value of their homes, and unforeseen loss of income from employment.

Do-it-yourself planning certainly is an option, but a little help from a professional advisor can be well worth the time and money. The rationale for hiring an advisor is simple: Money spent now could make a big difference in helping you achieve a secure, happy future retirement down the road.

Different Kinds of Advisors

Middle-class retirement savers often get assistance from advisors at wirehouses, banks, and insurance companies. But that's mainly asset management advice. I often urge readers to get the bigger picture by hiring a fee-only planner who will examine the client's complete financial picture--investments, insurance, debt, and estate planning.

Another key benefit: Fee-only planners are Registered Investment Advisors. This type of planner is required to meet the so-called fiduciary standard, which is a legal responsibility requiring an advisor to put the best interest of a client ahead of all else.

Stockbrokers, broker-dealer representatives, and people who sell financial products for banks or insurance companies adhere to a weaker suitability standard. (The Dodd-Frank financial services reform law kicked off a lengthy regulatory wrangle that may conclude with adoption of the fiduciary standard--in some form--by non-RIAs, but the rule-making process isn't complete yet).

The difference between "best interest" and "suitability" can be huge. A fee-only planner has no vested interest in recommending any particular financial product. But advisors who work on commission at big brokerage firms often have marching orders to sell proprietary in-house products, such as mutual funds or shares of initial public offerings that they manage. These products often come with much higher fees and other costs than could be obtained outside the firm. A product like that might be "suitable" for you without necessarily being the best solution available in the marketplace.

Alphabet Soup of Designations

Here are the most common designations earned by advisors:

- **Certified Financial Planner**
  Awarded by the Certified Financial Planner Board of Standards Incorporated. CFPs can provide financial planning and advice on retirement planning, investing, taxes, estate planning, and insurance.
- **Certified Public Accountant**
  CPAs specialize in accounting and taxation. They can provide overall planning, although they tend to bring a tax focus to the discussion.
- **Personal financial specialist**
  This is a CPA with additional training in financial planning.
- **Chartered financial consultant**
  This designation usually is earned by insurance professionals.
- **Chartered life underwriter**
  These are insurance specialists.
- **Chartered Financial Analyst**
  CFAs are experts who usually provide investment and portfolio management for institutional clients, but some also provide advice to high-net-worth families.

Adapted from The Hard Times Guide to Retirement Security (John Wiley & Sons, 2010)

You'll also encounter an alphabet soup of professional designations that planners can earn from an array of private professional associations--CFP, CFA, CLU, and the like. The designations indicate that a planner has taken a specific course of training that usually comes with a specific continuing-education requirement. But the designations don't really represent any specific seal of approval (see sidebar at left).

If you decide to go the fee-only route, you may discover that finding a good advisor can be challenging. Most of them work as independent practitioners or for small firms that don't have multi-million-dollar national ad budgets to promote their services.

So, it's worth the extra effort to find a great fee-only planner; following are six steps to take when interviewing and hiring a financial planner--including those who are willing to work with clients of modest means.

1. What do you need?
Are you looking for someone to take over management of everything, or just someone to do portfolio management and investing? Do you need someone to do a one-time checkup and financial plan or an ongoing relationship?

"You need to determine not so much how the process will work, but what both sides expect from the relationship," says Sheryl Garrett, founder of the Garrett Planning Network of fee-only advisors. "Is there a specific issue, or a small number of issues that require immediate attention?"

Also give consideration to the investment philosophy that would make you comfortable. Do you want an advisor who prefers index or active funds or individual securities? Buy-and-hold or more active investment?

The most frequently used strategy among financial planners (52%) is strategic allocation with a tactical overlay, according to a survey by Cerulli Associates in cooperation with Morningstar. That means setting a long-term goal for asset allocation and periodically rebalancing to stay on target, but mixing in some degree of active portfolio management that takes advantage of specific market conditions. A much smaller percentage of financial planners use pure tactical allocation (10%), strategic allocation (10%), or mean variance optimization (14%).

2. What will you pay?
Seventy percent of RIAs are compensated via a percentage of assets under management, according to Cerulli. Another 11% receive retainer fees, and 7% receive hourly fees.

"The frustration I hear from people seeking a planner is that most want to generate at least $2,000 per year from the engagement," says Garrett. "It's true that most planners want to have a recurring relationship and revenue stream with the client."

But some planners will provide a basic financial check-up for less than $1,000. "That would allow you to get a plan drafted that you can go off and execute yourself," says Roger Wohlner, a Chicago-area fee-only planner. "So at least you can get a plan laid out for you and go execute it for a few years. Then go back for a check-up."

3. Make a short list
Start by assembling a list of five or six possible candidates. The best ways to generate names include:

- **Word of mouth**: Rather than rely on friends, look for references from trusted professionals you already know and work with, such as an accountant or attorney.
- **Online directories**: The National Association of Personal Financial Advisors offers an online directory that can be searched by ZIP code and then refined by more than two dozen criteria. Similar searchable databases are available from The Certified Financial Planner Board of Standards and Brightscope Advisor Pages.
- **Online networks**: Two proprietary networks of fee-only planners also offer a great resource for candidates: the Garrett Planning Network and the Alliance of Cambridge Advisors.

4. Winnow it down
Once you've generated a short list, get in touch with each candidate, notifying them that you're considering interviewing them using their services, and asking them to complete a short questionnaire that will help you narrow your list. Morningstar has developed a downloadable questionnaire adapted from Sheryl Garrett's *Personal Finance Workbook for Dummies*.

"If a week or two passes and you've only received a couple of questionnaires back, or if one is very sparsely completed or a bit curt, that tells you the planner isn't really interested in going through this process with you. That can help you narrow down the list and save everyone some time. On the other hand, you may have written to someone who is a very busy professional."

Garrett recommends following up with in-person interviews with at least two finalists.

"You should come into the interview with an idea of what you are looking for. Be very upfront--'This is what I want; this is what I need.' That may turn off some advisors, and that's fine. It's your money, so find someone who matches up well with what you need."

Garrett also advises paying close attention to the prospective advisor's style of communication and overall approach to working with clients. "Are they asking thoughtful, provocative questions? Or are they just interested in finding out how many dollars you have to invest? If you hear drooling on the other end of the phone, hang up."

5. Check references
Checking an advisor's references is important--but it's best to get past the usual approach of talking with existing clients. After all, that strategy didn't do much for the victims of Bernie Madoff.

Instead of client references, Garrett suggests doing character references. Ask for a reference to professionals who know the advisor's work and are in a position to make an endorsement. "It could be a CPA, an attorney, or an elder-care specialist. You want references from the people the advisor has worked with," she says.

You can also run a due diligence check on your finalists to see if they've been subject to any professional disciplinary action or other potentially disqualifying problems. The following websites will allow you to find information on specific financial advisors:

- **U.S. Securities and Exchange Commission**. The SEC maintains an online database that contains information about most brokers, their representatives, and the firms for which they work. Learn whether brokers are properly licensed in your state and if they have had run-ins with regulators or received serious complaints from investors. The site also describes advisors' educational backgrounds and employment histories.
- **The Certified Financial Planner Board of Standards**. The CFP Board database allows you to confirm that a planner is authorized to use the CFP designation and whether a planner has been publicly disciplined by the CFP board.
- **FINRA Broker Check**. The Financial Industry Regulatory Authority broker checker website offers a tool to help investors check the professional background of current and former FINRA-registered securities firms and brokers.
- **Brightscope Advisor Pages** aims to provide a one-stop shop for transparency, including disciplinary information.

6. Make the hire, prepare for hard work
I hired a fee-only planner two years ago and can attest that it's not the last step. Instead, it's the start of a process that will involve considerable exchange of financial records, discussion, and planning. But I can attest that when it's done,

you'll feel good about having a retirement roadmap in hand. If you're among that 80% of nonplanners, consider revising your resolutions for the year ahead.

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Morningstar columnist Mark Miller writes about trends in retirement, aging, and the economy. He is the author of The Hard Times Guide to Retirement Security: Practical Strategies for Money, Work and Living, and writes a syndicated column for Reuters. Mark blogs at RetirementRevised.com Twitter: @retirerevised.