



Tips That Help You Select the Best Financial Advisor



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This FREE guide is provided to you by Paladin Research & Registry. The Guide provides information and tips that will help you find, screen, interview, and select a competent, ethical financial advisor.

This Guide provides:

- Comprehensive information about financial advisors
- Access to public data about financial advisors
- Tips that help you select the best financial advisors
- Tips that help you avoid low quality advisors

Why spend 30 minutes reading this Guide? The selection of an advisor, who will control or influence your financial decisions, is one of the most important decisions you will ever make. Their advice impacts when you retire, how you live during retirement, and your financial security late in life when you need it the most.

Selecting a competent, ethical financial advisor should be a simple, easy process that is based on a mutual exchange of pertinent information.

You tell advisors your current circumstances, requirements, concerns, and goals. Advisors tell you their qualifications and describe how they can help you achieve your financial goals.

Unfortunately, selecting a financial advisor can be a complicated, risky process. That's because a high percentage of advisors are using sales tactics to convince you to buy what they are selling.



1.

Background Information

There is a right way and a wrong way to select a financial advisor:

- The right way: You control the process you use to select an advisor
- The wrong way: You let the advisor control the process

The wrong way creates a major, hidden financial risk. When you let financial advisors control the process there is an increased risk you will select the advisor with the best sales skills versus the advisor with the best credentials, ethics, business practices, and services.

You may have already experienced the impact of the wrong way if you have terminated an advisor who created high expectations in the sales process and failed to meet those expectations.

Tip: You have to control the selection process so you get the information you need to make the right decision.

● Getting the Facts

It is vital to obtain facts about advisor credentials, ethics, business practices, and services. This is the information that impacts their competence and trustworthiness. However, gathering that information can be a challenge. You have to:

- Ask the right questions
- Know good answers from bad ones
- Know how to verify the accuracy of information
- Know where to go to view public information
- Understand some financial terminology

Your best sources for public data are FINRA.org, SEC.gov, BBB.org, and your state's securities and insurance commissioners.

Tip: Trust what you see, not what you hear, when you select financial advisors.

● Salesman or Advisor?

The financial service industry employs and/or licenses salesmen and saleswomen (Series 6 license, Series 7 license, insurance licenses) and financial advisors (Registered Investment Advisors, Investment Advisor Representatives).

It is imperative that you know the critical differences between sales people and financial advisors.

Tip: Some professionals have sales licenses and advisor registrations.

● Advisor Personalities

Do not base your selection decision on advisor personalities. A friendly personality has nothing to do with advisor competence, ethics, business practices, or services.

In fact, personalities can mask weaknesses, for example a lack of financial knowledge. For example, the advisor is a nice person, but is new to the industry.

The advisor with the best personality may also have the best sales skills.

Tip: You are seeking the best advisor, not a friend. Selecting an advisor should be an objective business decision.

● Advisor References

Some advisors use references to validate the quality of their services. They may also use references to create track records for their investment advice and services. For example, a reference says the advisor has averaged a 20% rate of return for the past five years.

Tip: The comments of references are not substitutes for audited track records. You should discount the comments of references on the basis no advisor will give you a bad reference.

● Performance Claims

Paladin has vetted thousands of financial advisors since 2003. Less than 5% had documented, audited track records. However, some advisors claim substantial past performance in their verbal sales presentations.

Be extra cautious if an advisor claims he can produce high returns for low risk. This sales tactic is used to create high expectations. It is not possible to produce high performance with low risk exposure.

Tip: Valid track records are produced, audited, and documented by independent third parties.



2.

Credentials

All advisors claim to be financial experts in their sales presentations. They know that is what you want to hear.

But, is the claim true? If it is not true, it is a major source of financial risk.

There are four sources of financial expertise: Education, experience, certifications, and association memberships.

● Education

One source of knowledge is degrees from accredited colleges and universities.

The best degrees are in applicable financial fields: Financial Planning, Finance, Portfolio Management, Accounting, Economics, etc.

Beware of financial advisors who buy degrees to look more knowledgeable than they really are. If you haven't heard of the school use the Internet to check its accreditation.

Tip: The financial service industry does not have a minimum education requirement - not even a high school diploma.

● Experience

They say experience is the best teacher. That is certainly true for financial advisors. It takes years to acquire the specialized knowledge they need to be experts in their fields.

However, you want applicable experience. For example, you are hiring a professional to help you develop a complex financial plan. The professional says he has 10 years of “financial service” experience. He did not say he has 10 years of “planning” experience.

What if he sold mutual funds for nine years and has one year of actual planning experience?

You do not want your future financial security to be part of someone’s learning curve. Advisors must document their years of “applicable” experience.

Tip: Do not assume chronological age indicates experience. A 40-year-old advisor could have one year of financial service experience.

● Designations & Certifications

The fastest way to obtain specialized knowledge is an education program that produces a certification or designation.

Paladin has found more than 250 certifications and designations that are used by financial advisors.

Some financial certifications and designations are very high quality:

- CFP® (Certified Financial Planner™)
- CFA® (Chartered Financial Analyst™)
- CPA® (Certified Public Accountant™)
- CIMA® (Certified Investment Management Analyst™)

There are also fake designations that advisors buy to look like knowledgeable experts. There is a free online resource you can use to check the quality of advisor certifications and designations: [Paladin Registry-Check a Credential](#)

Tip: Do not assume letters after advisor names mean they are real financial experts.

Association Memberships

The financial service industry has several high quality associations that are sources of specialized knowledge for planning, investment, and insurance professionals.

The best associations have high ethical standards and substantial continuing education requirements.

High-quality associations include: Financial Planning Association (FPA), National Association of Personal Financial Advisors (NAPFA), Investment Management Consultants Association (IMCA), and the American Institute of Certified Public Accountants (AICPA).

Tip: Use the Internet to check the quality of associations the same way you check the accreditations of colleges and universities.



3.

Ethics

Industry pundits say money moves on trust. Therefore, all financial advisors claim to be trustworthy and put your financial interests first - whether it is true or not.

Who should you trust to help you achieve your financial goals?

● Licensing & Registration

Financial advisors have two types of registration: Registered Investment Advisor (firm) or Investment Advisor Representative (professional). These registrations permit them to provide financial advice and ongoing services for fees (hourly, fixed, asset-based).

Salesmen have securities licenses (Series 6, Series 7) that permit them to sell financial products for commission. Salesmen are not allowed to provide financial advice and ongoing services for fees.

Some advisors and salesmen also hold licenses that permit them to sell insurance products for commissions.

There are advisors who hold all three types of registrations and licenses: RIA or IAR, Series 6 or Series 7, and active insurance licenses. In this case they can provide investment and insurance advice, services, and products for fees and/or commissions.

Tip: Make sure advisors have active licenses before you select them.

● Compliance Records

You can check financial advisor compliance records at FINRA ([BrokerCheck.FINRA.org](https://www.brokercheck.finra.org)). You can also obtain additional information at the SEC ([advisorinfo.sec.gov](https://www.advisorinfo.sec.gov)) and your state's securities and insurance commissioners.

FINRA regulates salesmen who hold active securities licenses and their broker/dealers. The SEC regulates Registered Investment Advisors (assets over \$100 million). States regulate Registered Investment Advisors (assets under \$100 million).

Tip: Avoid financial advisors who have histories of frequent client complaints, company terminations, or sanctions by regulatory agencies.

● Fiduciary Standard

Financial advisors (RIAs, IARs) are fiduciaries. They are held to the highest ethical standard in the financial service industry. They must put your financial interests (achieve your goals) ahead of their personal interests (make money).

Salesmen (Series 6, 7 licenses) are not fiduciaries. They are held to a lower ethical standard that is called suitability. The suitability of investment recommendations is vague, varies by consumer, and is subject to interpretation.

Tip: Make sure the financial advisor acknowledges his fiduciary status in writing before you sign a service agreement.

● Criminal Record

Ask the advisor if he was ever convicted of a felony or misdemeanor since he was an adult.

For example, advisors may have records of DUIs, non-payment of child support, or convictions for more serious crimes.

Tip: An advisor with a current license or registration may have a criminal conviction.

● Independence

You may hear advisors say "I am an independent financial professional". What does independent mean and how does it impact you?

It could mean advisors are not employed by major Wall Street firms. It could mean advisors are self-employed or independent contractors. It could mean advisors provide open-architected solutions that do not limit your investment options to particular products.

Tip: You should select an advisor who provides independent advice that is free of potential conflicts of interest.

Foreclosures & Bankruptcies

You would expect a high quality advisor to be able to manage his own financial affairs.

Ask the advisor to document in writing that he has never had a foreclosure or filed for personal bankruptcy.

Tip: Bankruptcies and foreclosures may be indicators of bad judgement or bad life experiences that were beyond the advisor's control.



4.

Business Practices

This section of the Guide describes some of the more important advisor business practices that impact you.

● Transparency

An extremely important business practice is the advisor's willingness to practice full transparency for information that impacts his competence, ethics, and business practices.

Voluntary transparency is even more desirable when advisors' document key information without being asked.

No information should be withheld that impacts the achievement of your financial goals.

Tip: Lower quality advisors do not practice transparency because they have a lot to hide.

● Expenses

One of the most important types of information is full disclosure for all of the expenses that are deducted from your accounts.

Your best measurement is total expenses divided by your asset amount. For example, \$10,000 of fees on \$500,000 of assets is 2% of expenses.

Tip: The financial service industry has layers and layers of fees, commissions, and transaction charges. A high quality advisor should be transparent about fees and make sure you fully understand all of the expenses that are deducted from your assets.

● Compensation

Financial advisors can be compensated with fees, commissions, or both.

The only way you can directly compensate an advisor is with a fee (hourly, fixed, or asset-based).

Commissions are paid by third parties, for example mutual fund families, when advisors sell their products.

Tip: Make sure you know how the advisor is compensated, who compensates the advisor, how much the advisor receives, and what services you receive for the compensation.

● Reports

Financial advisors can provide a number of reports that benefit you:

- Statements that document holdings, transactions, and income
- Performance reports that document results
- Market Outlooks that describe future expectations
- Newsletters that provide general financial information

Tip: Make sure your advisor provides monthly or quarterly performance reports.

● Communications

Technology is changing the way financial advisors communicate with their clients and there are more options than ever for consumers:

- Traditional advisors (brick & mortar) meet with clients face-to-face
- Virtual advisors communicate via telephone, Internet, Skype
- Robo advisors publish information on their websites

Tip: Make sure you know how your financial advisor will communicate with you.

● Frequency of Contact

You also want to know the frequency of communications.

Will face-to-face meetings be quarterly, semi-annual, or annual?

What is the frequency of periodic telephone calls and emails?

Will frequency of communications increase or decrease during significant market declines?

Tip: You want to know what is happening in the markets and how that activity is impacting the achievement of your financial goals.



5.

Financial Advice & Services

You should know which financial advice and services are provided by your advisor, other professionals at your advisor's firm, and by affiliated experts.

You will depend on their collective knowledge, advice, and services to help you achieve your financial goals.

● Five Wealth Services

There are five types of wealth related services. Based on your circumstances, you may need one service or all five services:

- Financial Planning (College, Retirement, Estate, Charitable)
- Investment Advice (Asset Allocation, Manager Selection)
- Insurance Products (Life, Health, Long-Term Care)
- Tax Advice & Services (Planning, Tax Returns)
- Legal Advice (Wills, Trusts, Probate)

Tip: *Each service requires specialized advice from an expert in that field.*

● The Generalists

Some advisors provide planning, investment, and insurance services.

The AICPA says 35% of CPAs provide tax and financial planning services. Some CPAs also provide investment and/or insurance services.

These generalists market themselves as experts in multiple fields. Make sure the claims are true and they are not just trying to maximize revenue streams per client relationship.

Tip: Generalists work best if you want advice and multiple services from one professional.

● The Specialists

Financial firms may also employ or license specialists for the five disciplines: Planning, Investment, Insurance, Tax, Legal.

Specialists are focused on one discipline. Consequently, compared to the generalists, they may have increased knowledge, but you are paying additional fees for the expertise of multiple professionals.

Tip: Specialists work best for consumers with more complex financial situations.

● The Affiliated Professional

Affiliated professionals are usually CPAs and attorneys who are specialists.

They have their own firms, but coordinate their advice and services with financial professionals (planners, advisors, agents).

For example, your financial planner is affiliated with a CPA who is providing tax advice and document preparation services to you. They work together to provide a more coordinated combination of advice and services.

Tip: You are better off when specialists coordinate their advice and services.

● Who is the Quarterback?

Think of multiple professionals as your financial team. They each have a different role when they provide advice and services that help you achieve your financial goals.

Teams need leaders who can interface with the various professionals who make up the team. The ideal leader is the financial planner who may also provide investment advice and services. That is because most wealth related services involve assets (accumulate, protect, preserve, transfer).

Coordinated advice and services reduce your risk of conflicting advice and the additional expense of duplicate advice.

Tip: You can be your own quarterback, but you are better off designating a professional to be your quarterback.

● The Custodian

Your financial advisor should not come in physical contact with your assets - the only exception is the fee that he charges for his knowledge, advice and services.

This means you will need a custodian that holds your assets, processes transactions, makes distributions, and collects income.

Some big firms have in-house custodians, for example LPL, Merrill Lynch, and Morgan Stanley.

Independent advisors typically use third party custodians, for example: Charles Schwab, Fidelity Institutional, Pershing, and TD Ameritrade.

Tip: Make sure your assets are held by a highly regarded, brand name custodian.



Top 12 Interview Questions for Financial Advisors

Advisors ask you a lot of questions about your financial situation, goals, requirements, and concerns. They use the information to recommend the right combination of advice and services.

You should also ask advisors key questions so you can make informed selection decisions. You use their information to select the best advisor.

However, you have to ask the right questions and you have to know good answers (benefit you) from bad ones (damage you).

We strongly recommend you obtain written responses to the following questions so you have a permanent record.

The following 12 interview questions will help you select a competent financial advisor you can trust.

1. *Are you a fiduciary when you provide financial advice and services for fees?*
2. *Are you a Registered Investment Advisor or an Investment Advisor Representative?*
3. *Who do you work for and what is your relationship to the firm?*
4. *Do you have any potential conflicts of interest that will impact the achievement of my financial goals?*
5. *Do your registrations permit you to provide financial advice and ongoing services for fees?*
6. *Are you licensed to sell any investment or insurance products for commission?*
7. *What are your sources of financial expertise (degrees, years of experience, certifications, designations)?*
8. *Are you a current member of any financial industry associations that have continuing education requirements?*
9. *Do you have any disclosures on your compliance record(s)?*
10. *Will you disclose all of the expenses that are deducted from my accounts?*
11. *Do you provide performance measurement reports?*
12. *What company will have physical possession of my assets?*



About Paladin Research and Registry

Following are a few quick facts about Paladin.

- Paladin was established in 2003 to educate consumers about financial advisors (www.PaladinRegistry.com)
- Jack Waymire, a Paladin founder, is the author of [Who's Watching Your Money? The 17 Paladin Principles for Selecting a Financial Advisor](#) (John Wiley & Sons, December 2003)
- A Registry of vetted, documented advisors was added to the site in 2004
- Paladin's due diligence team reviews public and private data for financial advisors and firms
- Paladin produces free research reports that document financial advisor credentials, ethics, and business practices
- Paladin has an A+ business rating from the BBB

