



Consumer Action How to Find a Financial Planner

By Hayley Green
May 16, 2000

MAYBE IT'S THE market's latest volatility. But Americans clearly feel rattled. According to a recent survey by Bethesda, Md.-based Forum for Investor Advice, 27% of American investors have a complete lack of confidence in their own investment abilities, up from 17% in 1998.

And this isn't a responsibility they can shrug off. Americans are wealthier than ever. And, they are bearing the burden of funding their own retirement. No more cushy pensions; no more fat Social Security checks.

Unfortunately, investors can't go looking for hand-holding from their company or 401(k) providers. Corporations are afraid of lawsuits over bad advice or poorly performing accounts, and 401(k) providers generally offer one-size-fits-all planning tips. In other words, it's a do-it-yourself world. And that's one reason investors are leaning more on financial planners. According to a 1999 survey conducted by the Certified Financial Planning Board, 83% of financial planners are serving more clients now than before.

So how do you find a financial planner whose interests are aligned with your own? Here are the steps you should take.

Getting Started

Just like when you hire an accountant, lawyer or contractor, the best place to start is with references from friends. Remember, you are looking for a financial planner, not a stockbroker or software salesperson. You want an impartial expert, not one who is getting paid extra for selling you any particular product or service. Unfortunately, many people call themselves financial planners, and since they are not regulated by the Securities and Exchange Commission, extra scrutiny is necessary.

Look for someone who is a Certified Financial Planner (CFP), says Scott Kahan, president of New York-based Financial Asset Management and a member of The Financial Planning Association's board. "A CFP license means they passed a comprehensive exam. The other part is that they have to maintain continuing-education requirements every two years and part of those credits have to be in ethics," he explains.

Where to Look

ORGANIZATION	ACRONYM	REFERRALS	MEMBERSHIP/SERVICES	NUMBER OF MEMBERS
Financial Planning Association	FPA	online	All recommendations have CFPs	30,000
National Association of Personal Financial Advisors	NAPFA	email	Exclusive to fee-only advisors	690
Society of Financial Services Professionals	SFSP	email	Includes many financial service professionals	32,000
American Institute of Certified Public Accountants Personal Financial Planning Division	AICPA-PFP Division	phone	Members have CPA licenses as well as CFPs	7,000
Certified Financial Planner Board	CFP Board	phone	Web site lists licensed CFPs, as well as complaints and disciplinary actions	35,457

If you don't have any luck polling your friends, there are several Web sites that can help. The National Association of Personal Financial Advisors is a good place to start. The advisers listed here are so-called fee-only advisers. That means they don't receive any compensation from financial-service providers for selling their products. You can email the group your location and criteria, and you will get back a list of planners that fit your requirements.

The Financial Planning Association has an entire consumer section with articles about choosing a financial planner and the FPA PlannerSearch, which allows you to enter your ZIP Code and get a list of CFPs in your area.

The Interview and Background Check

A trustworthy financial planner should be willing to outline his or her services, fees and investment strategy in a free consultation. Find out exactly what is provided and what the costs are. Make sure the investment strategy fits your own personal philosophy. You can ask for references from other clients, and you should also ask for a copy of the planner's ADV form. This form, filed with the SEC or state, describes the planner's firm, the clients it serves, the securities it uses, how compensation works, the background of the planner and any potential conflicts of interest.

Once you found a planner you like, you can confirm that the planner does have a CFP license and check to see if there have been any complaints or disciplinary actions against him or her by going to the Web site of The Certified Financial Planner Board of Standards.

"People should remember that it is their money and they should look for someone they are comfortable with," Dee Lee, a CFP and author of "Let's Talk Money" (Chandler House Press, 1999) said, "You are going to financially undress with this person, you should have trust and a good rapport."

What It Costs

There are three compensation methods by which financial planners are paid. One is fee-only. The second is commission. And the third is a combination of the two. The demand for fee-only financial planners has skyrocketed in recent years because investors are looking for advisers who are independent and can offer a universe of products rather than be tied to a single brokerage's lineup.

Gary Schatsky, chairman of the National Association of Personal Financial Advisors, says the cost of a plan from a fee-only planner can run from \$500 to \$15,000. Some financial planners charge by the hour with fees ranging from \$75-to \$250-an-hour, others charge based on assets, with fees running from 1% to 2%. If you then want the planner to manage your investments, you might have to pay transaction fees.

If you hire a commission-based planner, be aware that he or she will sell you products with sales charges ranging from 1% to 10%. Some may be charged upfront, some at redemption. Either way, the money comes out of your principle. There is also a temptation for the adviser to switch you to new investments all the time in an effort to earn new commissions.

"If you speak to three planners, you are likely to get three different fee structures," Kahan says. Just be sure you understand what you're paying.

What's in a Plan

Once you hire a planner, you will tell him or her about your financial situation and goals including your retirement plans, other savings, insurance coverage, college-spending needs and estate-planning goals. Depending upon your needs and the planner's skills, he may send you to an estate lawyer for things like bypass, Qualified Terminable Interest Property trusts or life insurance trusts.

In any case, there are some basic services you should expect from the planner. These include the following:

- Net-worth statement: This is a list of everything you own; your assets minus your liabilities. It is essential for determining your investment and estate-planning needs.
- Cash-flow breakdown: Where exactly is your money going? You'll have to know in order to develop reasonable savings goals.

- **Asset-allocation breakdown:** A map of where your money is now invested and how it should be invested. The portfolio should include your retirement and nonretirement accounts and should be diversified among asset classes— stocks, bonds, cash and real estate.
- **Retirement Strategy:** A savings plan for reaching your retirement goals, including an estimate of how much money you will need to retire and a strategy for accumulating it.
- **Education Strategy:** A plan for helping to pay for your children's education. This might include UGMA/UTMA accounts or state college-savings plans.
- **Tax Analysis:** Suggestions on reducing your tax exposure. For instance, switching to a Roth IRA or taking measures to avoid estate tax, such as a Q-TIP trust.
- **Insurance recommendation:** A recommendation for the amount and type of insurance you need to reasonably cover you and your family in emergencies.

Follow-Up

Like most things in life, a financial plan is not a one shot deal. Maintenance is necessary. After the first six months, the communication between you and your financial planner will slow, but it shouldn't evaporate. "We recommend meeting two to four times a year and encourage clients to call or email as often as possible," Kahan says. The price of the follow-up meetings depends on the deal you worked out with your planner. If you are paying him or her hourly, you can expect a bill for the time you spend in his or her office.

Finally, don't rely entirely on your planner. You should still do some of your own research. That way you can be sure your planner isn't forgetting anything. To that end, you will find lots of useful articles and tools in SmartMoney.com's Planning Section, which includes articles and interactive worksheets on Retirement, Estate Taxes, College Planning, IRAs, 401(k)s and more.