Part I

A Soup-to-Nuts Guide to Selecting Your Advisor

Chapter 1

You Need Financial Help. Now What?

The only way not to think about money is to have a great deal of it.
—Edith Wharton

Most people know when they need help to solve one of life's problems. Oh, they might pull out a plunger when the toilet backs up, or pop the hood and look at the engine when the car breaks down, or take a store-bought remedy or cook up chicken soup to try to heal themselves, but if they lack the skill to make a quick fix, they're going to find someone to lend a hand.

And that makes sense with your plumbing or your car, because a bad repair job could damage or ruin one of your biggest assets. Likewise, your good health is irreplaceable.

Yet, when it comes to finances—which hopefully will be the biggest asset of your lifetime—people are skittish, scared, and reluctant to seek out help.

Talking about money is still one of the biggest taboos in modern society, so people learn their lessons from parents, friends, and co-workers, at the barber shop or on the sidelines of the kids' soccer games. They'll watch television shows or listen to radio hosts, read articles, and try to cook up a portfolio or an investment strategy with help from all of those sources. A 2009 study by Sun Life Financial showed that one third of Americans cited online or television news as a place where they turn for financial advice; that's nearly the same percentage of people who cited financial advisors.

But finances and money are not like food, where failure to follow a recipe or simply using bad ingredients can leave a bad taste in your mouth. You can throw out a bad dish and forget about it by the time your next meal arrives, but bad financial mistakes will be with you for years, possibly as long as the rest of your life.

In the end, there comes a point—typically when someone has amassed enough money that he can see the cost of mismanaging it—when most people acknowledge that they could use some help, the kind of insight that will make them comfortable that their biggest decisions will turn out right.

That's when one of two things happens: They jump on board with the first possible helper they find, or they put off looking for help, believing that it's easier to find a mythical creature like a unicorn than it is to find someone who is smart, savvy, and worth the cost of their advisory fees.

Either they believe that the easiest way to amass a small fortune is to start with a big one and let a financial planner, insurance agent, banker, or broker lose it down, or they don't believe anyone could turn their meager holdings into that small fortune.

Both sides are wrong, because the expectations are wrong.

Go back to the basic need for help, the necessary fix to the plumbing or car. You want things fixed and running right, safe and protected, so that you can live your everyday life without worrying about a messy problem or a personal catastrophe. You don't expect an auto mechanic to change your car from an American-made sedan into a Porsche or Lamborghini, you simply expect them to help you keep the car running properly so that you can reach your destination and make the journey to wherever you want to go.

That's precisely why you should hire financial advisors, to help you make the journey from where you are to where you want to go.

At the very least, over the course of a lifetime, you will need to manage investments, amass college and retirement savings, secure and work out loans, buy or sell property, insure that home and your other possessions, protect your family and home against catastrophic losses, develop a plan to pass your life's work to your heirs, and pay taxes on the whole thing.

Say hello to a broker or financial planner, banker, real estate agent, insurance agent, lawyer and/or estate planner, and a tax preparer or accountant.

Finding someone trustworthy who can do any or all of these jobs is not as hard as searching for a unicorn, but it's also not as easy as handing your money to the next person you meet who purports to know something. That's why you want to go about hiring financial advisors the right way, no matter which job they'll do for you.

I'm always amazed that people spend more time researching a new flat-screen television or home computer than they spend checking into the background of the person who will determine a big chunk of their financial future. Presumably, no one fears offending the television by asking tough questions about it, whereas they are uncomfortable asking personal, prying questions to people they don't know.

By reading this book, you are distinguishing yourself from that crowd and showing that you want to do the research and ask these types of questions. Good for you.

You're about to learn that hiring good advisors is not an impossible task. You'll be able to do a lot of research from home, on your computer, and the rest you can do by simply taking your time to get questions answered.

With that in mind, you should remember throughout the process of looking for advisors that you (and, hopefully your spouse or life partner) are the only person you trust implicitly to have your best interests at heart. Everyone else must earn your trust, starting from scratch; no one gets a pass, no matter how much you love or trust the person who gave you a recommendation. If they can't live up to the rigorous selection process described here, you either can't trust them or they don't deserve to work with your hard-earned money.

Start your search for any type of financial advisor by asking yourself a few simple questions.

Smart Investor Tip

If they can't live up to the rigorous selection process described here, you either can't trust them or they don't deserve to work with your hard-earned money.

What Kind of Assistance Do I Need?

Need is a critical factor in most of your other purchases, and it plays a direct role in your choice of advisors. If you just don't want to deal with the hassle of filing your tax return, but you are a basic two-income family with a plain-vanilla earnings picture, you have a lot of choices, but if you are an entrepreneur with head-of-household status, supporting children and parents and wanting to make sure you take advantage of all available tax credits, you'll need someone who has worked on cases like yours before.

The more advanced your needs, the more you will tilt your decision-making process to getting additional services and paying the full ticket price.

That's why you start the process with a needs assessment, a self-examination of what you are trying to accomplish, what type of advisor is best suited to help, and what you want in an advisory relationship from that service provider.

This is particularly important in financial services, in which so many products are "sold," rather than purchased based on the consumer's knowledge. No one wakes up one morning and says, "Today, I need to go to the grocery store, fill the tank with gas, and buy a variable life insurance policy." She *might* be thinking it's time to increase her coverage safety net and, perhaps, save some more, but it's the insurance advisor who pushes the policies. And because variable life policies are not right for everyone, it's only years later when the person wakes up and starts second-guessing her decisions.

The process is not that dissimilar from when a consumer buys some new technological gadget or doodad, and is pushed into all sorts of features that he doesn't really know about or need. You don't want to "pay up" to get features and abilities you don't need; that's a waste of money that ultimately will play into how satisfied you are with the advisor.

Knowing your needs and being able to explain them to an advisor will go a long way toward ensuring that you hire people who can remain good advisors for the rest of your lifetime.

The Ideal Advisor–Client Relationship

There are some advisors you date, and others you marry.

If what you need is a quick fix—you want to write a simple will, you are looking for a one-time portfolio review, you are selling your house and moving away, or you need to answer an unexpected notice from the Internal Revenue Service—you may want to engage an advisor on a one-time gig, getting the job done without much regard for the future.

But if you need help and can see yourself requiring assistance and hand-holding again in the future, then you should look for an advisor you can have the "ideal relationship" with. The ideal relationship between client and advisor ends under one of two circumstances: You die or he or she retires.

Being a serial employer of advisors—where you move from one to the next—is asking for trouble; it gives you more chances to encounter a rogue, and each new counselor may try to prove his or her worth by changing up what you did before, and a constantly changing strategy is the same as having no strategy for reaching your goals.

So while you might be looking for help because of something that is happening "right now" in your life, try to view potential advisors as someone you'd like to call on whenever you need help for the rest of your life.

What's It Going to Cost Me?

Price is always a key consideration. No one, no matter how wealthy, has the ability to say "cost is no object" when it comes to his or her financial affairs; that is how large fortunes unravel in lurid tales of greed, fraud, or ineptitude.

Just as you eyeball grocery prices before making a selection or get an estimate before hiring a contractor to do some home repairs, you need to ask financial counselors how they bill for their services. You may worry that they will burst into an "If you have to ask me, you can't afford me!" rage, but that hotheaded reaction would actually be a good thing, because it would let you know you're talking to the wrong advisor.

Smart financial advisors of all stripes are happy to explain their charges and justify the reasons behind their rates; it is up to you to decide if you want to pay the freight.

A price check also is important because fees and payment structures can vary tremendously from one advisor to the next. I have seen two financial planners in the same town, both providing similar sample plans and advice, charge rates that varied by hundreds of dollars per hour. The higher charges could go to pay for the fancier office, the years of experience, and the professional designations earned, or it might just be that one provider believes he can get away with charging more.

Smart Investor Tip

Smart financial advisors of all stripes are happy to explain their charges and justify the reasons behind their rates; it is up to you to decide if you want to pay the freight.

We'd all love to get free advice, but you may be hiring a planner or broker because the free "counsel" you have gotten from friends and loved ones has been worth every penny you have paid for it, and now you want a better grade of assistance. That said, seek out a price point and pricing structure that you feel good about, because that will encourage you to use the advisor's services regularly and build the relationship.

What Do I Get for My Money?

If you haven't worked with an advisor before, you don't truly know what to expect. Sure, you've seen financial planners and brokers on television shows, but you're doing your own reality program here. Even if you think you know what to expect from an advisor, learn about everything available.

One key place where consumers make a mistake is that they focus entirely on the bottom line, without recognizing that what matters with an advisor is the journey to reach that end point. Consumers focus in on “How much money have you made other clients by picking mutual funds?” rather than on “How do you determine what mutual funds are right for me?”

What most people want from a financial advisor—particularly financial planners and people who manage money—is “emotional discipline,” the ability to put together a sensible plan and then stick with that program through thick and thin. The advisor doesn’t just determine the strategy or pick the investments, she provides the hand-holding necessary to see the plan through tough economic and market times.

Smart Investor Tip

Your needs and desires must be a match for what the advisor is offering, or you’ll never be satisfied.

Just as you would want a refrigerator salesman to explain the different ways the removable shelves can improve your life and allow you to decide whether it is worth paying for a second “crisper,” so can you talk to a prospective financial advisor about what the relationship is going to be like and what you can expect. Will it be regular phone calls and the ability to chat without receiving a bill every time you need a consultation because you anticipate a major event in your life? Will the broker accept your calls whenever the market makes you nervous? Does the accountant or financial advisor offer a regular newsletter to customers, and is that publication merely a pass-along from a national office or does it reflect the advisor’s feelings about the market, economy, law changes, investment strategies, and more? How much of your contact with the advisor will be person-to-person, and how much will be you getting blast-mail tweets because your counselor uses Twitter to soothe clients?

Your needs and desires must be a match for what the advisor is offering, or you’ll never be satisfied.

Can One Size Fit All?

Bankers can sell you investments, many insurance agents do financial and estate planning, accountants and tax preparers offer investment advice, stockbrokers now offer planning services, and financial planners offer just about everything.

These hazy definitions and boundaries make it so that advisors frequently cross the line from one specialty to the next, hoping to sell you another product or to capture more of your assets under their management.

It's tempting to let an advisor cross the line into a different arena, because you already enjoy working with him, he understands your situation and has earned your trust. One-stop shopping is a convenience many people desire.

But a good accountant isn't necessarily an outstanding financial planner, or vice versa. Advanced credentials are no guarantee; the fact that a counselor studied for a certificate in another specialty does not make him good at that job, especially if it is no more than a sideline business. While it may be common practice for an advisor to wear two hats, it is malpractice if he can't do each job equally well.

Over your lifetime, you are building a team of financial advisors, and you don't want a team of "utility infielders," players who are qualified to fill many vacant positions, but not good enough to star at any one job.

Each job an advisor is going to do for you requires starting your search from scratch, asking new questions and determining whether you can be as happy with her counsel in the second area as you are in the job you first hired her for. You don't want to be her guinea pig. Without the same expert credentials as a full-time practitioner, you should stick to one advisor for each need.

And while consumers value convenience, think of the potential inconvenience, too. If the advisor fails in his second job on your team, you actually lose counsel in two areas, as your primary relationship is likely to be impaired when you fire him from his secondary role. Financial services is not a one-size-fits-all business; if an advisor's play to get a bigger role feels forced or the least bit uncomfortable, don't let it happen.

Can I Afford It?

You've already looked at the cost, but affordability is a different issue. Some of the priciest financial planners in the world charge thousands of dollars for the same services that their clients could get for 90 percent less.

There is financial assistance at virtually every price point, from ultra-discount to through-the-nose chic. On the low end, it might be free advice offered by a public agency such as the Internal Revenue Service or a consultation with your own mutual fund company or using their discounted advisory services; the upper end of the scale includes top planners, who charge hundreds of dollars just for an initial interview—regardless of whether you hire them to work for you—and money managers who take a big slice of the assets they run for you each year.

A lot of people who could not actually afford to work with upper-crust private money managers snuck and chiseled their way into becoming clients of convicted fraud Bernie Madoff. They were stretching their finances for something they could not afford—and lowering their defenses at the same time, because they could never get a personal consultation or meeting with Madoff—all because they assumed that a rich, wealthy advisor with a long record just had to be terrific and safe and worth the risk of putting all of their eggs in one basket. They might have been right, had they not selected a crook.

Smart Investor Tip

The Madoff case is proof that it is not enough to simply look at what you are being charged; you must see how it fits into your budget.

The Madoff case is proof that it is not enough to simply look at what you are being charged, you must see how it fits into your budget. If you want ongoing financial planning services but cannot afford a $300-an-hour planner, then you will have two shopping choices: Change your expectations about how often you actually work with this advisor or set your sights on a lower-priced advisor who can meet your quality expectations and still deliver the service you need.

The Right Time to Hire an Advisor

If you knew trouble was coming, you'd get out of the way or fix the problems long before they get out of hand. With your finances, it is best to assume that there is trouble ahead and to go for assistance that will help you avoid it.

If you wait until you have trouble before hiring an advisor, the process becomes much harder to do properly. You'll go with a gut feeling or forego background checks or simply lower your standards to get out of the pinch.

But there's a big difference between "waiting too long" and having real trouble. If the IRS is beating down your door demanding money, you need help right now. If you just inherited $1 million and want to put it to work securing your future, you can set it aside in an interest-bearing account and take your time finding the right advisor.

No one ever got to retirement age and said, "Shoot, I can't quit now because I missed a day [or week or month] in the market." Plenty of people have rushed into bad financial advisory relationships and arrived at retirement age years later to wonder where their money had gone.

It's best to hire advisors when you don't need them. If you can't do that, at least understand that most financial concerns are not so pressing that you should settle for an advisor without putting him or her through a full and thorough review.

Can I Do It Myself?

Financial planners like to compare what they do to doctors, as if managing money is somehow akin to brain surgery.

It's not.

For years, advisors have hated me for comparing them to plumbers and auto mechanics, but that's a much better comparison than a doctor. While you might be able to diagnose your own physical condition, you could not operate on yourself, no matter how many books and articles you read or courses you sit through.

But you can learn how to do auto repairs, fix plumbing, or make home improvements by reading books, watching television, and taking classes.

You can also learn how to manage your money and buy financial products on your own. You can even use software products or websites to help with your legal needs, your taxes, and more.

But this is a case where you need to "go strong or don't go at all." Being partially competent to help yourself means you are mostly incompetent; you will not get away without financial help forever, you will just put it off to a point where your own shortcomings become such a problem that you can't overlook them anymore. The problem for most people is that, by the time they reach that point, they have already hurt their finances and have probably done a lot more damage than could have been done by a mediocre advisor with complete training.

Just because you can do these things yourself doesn't mean you should. So if you need someone to fix your financial plumbing or to put a new engine into your investment portfolio to improve its get-up-and-go, take control of the process by finding the right person for the job and by recognizing that the right person might not be you.

Key Points

- If the issues that are pushing you to seek out assistance can't be fixed quickly by some single action, then you are looking for solutions that can last as long as your lifetime. If that's the case, you should be looking for an advisor you can trust for the rest of your life.
- Every job and every task done by every financial advisor of every stripe can be done on your own, without help. But "go strong or go get help." Admit that you know what you are doing, or that you haven't got a clue. The last thing you want is a half-hearted or half-baked effort, especially from yourself.
- The right time to start your search for an advisor is the minute you are certain you need help; the right time to hire an advisor is when you are certain he or she is the best person available to help you.