

How to Pick a Financial Advisor

This weekend I read an article in *The Wall Street Journal*. It went over the hundreds and hundreds of designations financial reps use. There can be a virtual alphabet soup after a professionals' name.

The article had some important points like which credentials are best (CFA, CPA and CFP) and which are "least rigorous" (CRFA, CSA and CSFP).

One thing it did not mention was the importance of getting advice. Most investors would serve themselves well if they get some kind of advice. The results are there. According to Forrester Research, "four in five US millionaires use a financial advisor." Also, study after study shows that investors with no help at all underperformed the market significantly. But who can we trust?

WHO MOST OF US WILL RUN INTO

As far as professionals managing money, most people will be exposed to three main types: insurance agents, stockbrokers and financial advisors. They might have one or a dozen credentials after their name but most fall into these three categories.

INSURANCE AGENTS

Two of my good neighbors are insurance agents and are like most agents. They are hard-working, ethical and honest. They hold a state license to sell insurance products like term-life, long-term care and health insurance.

Despite having a license investors should still be diligent in researching an agent and understanding their limitations. I see many national ads from agents claiming they are "advisors". This is very misleading. The only thing they can give advice on is insurance. They also do not have a fiduciary duty. This means they do not need to put the interests of the investor or consumer first.

STOCKBROKERS

Any time you see one of the big-name brokerage companies most of their reps will be stockbrokers. They have passed a test called the Series 7. This test covers most "paper" assets like stocks, bonds and mutual funds. It even goes into alternative assets like gold and commodities and topics like taxes and investment strategies.

“A fiduciary is required to act in the best interests of the person he or she is working with.”

Investopedia.com

Are they fiduciaries? There is a trend in the industry to start holding these licenses to a fiduciary standard but currently they do not need to put the investor first in their recommendations. Technically, they have a duty first to their brokerage company.

FINANCIAL ADVISORS

These professionals can call themselves financial advisors. They are licensed as such and they are fiduciaries. The Investment Adviser’s Act of 1940 defines this role of loyalty to the client very explicitly. They must put the client’s interests ahead of their own.

A financial advisor must first pass the Series 7 and then can take the Series 66 test. This covers economics, investment vehicles and strategies, ethics and state laws.

Of the three credentials favored by *The Wall Street Journal*, only one is now held to a fiduciary standard (since 2008). All three professionals are highly trained and are more challenging to become than most of the other credentials. Most investors would be in very competent hands going with these three or a financial advisor.

As with everything having to do with money and investing always do your research and “caveat emptor” (buyer beware).

*Ron Phillips is an Independent Financial Advisor and a Pueblo, Colorado native. He and his wife are currently raising their two sons in Pueblo. Order a free copy of his book **Investing To Win** by visiting www.RetireIQ.info or leaving a message on his prerecorded voicemail at 924-5070. Please mention ID #1001 when ordering.*