



## How to Choose a Financial Advisor

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*“I know where I am financially and what I need to do next.”*

*“My portfolio is tailored to my personal goals, and I understand how it is working.”*

*“I feel organized, in control, and on top of my financial life.”*

*“I feel like I have someone on my side.”*

Are these statements aligned with how you feel about your relationship with a financial advisor?

### **Why is it so difficult to choose an advisor?**

It's not your imagination – there is a confusing jumble of terms that advisors use to describe themselves including financial advisor, financial planner, and private wealth manager.

In contrast to other fields, you can't tell from a financial person's title what services they offer or what background and training they bring to the table. You know what a medical doctor is, and what an accountant is, and what an attorney is, but there is no similarly legally enforceable term in the financial advisory field that you can rely upon as you shop for an advisor.

But you can ask good questions. The following guide can help you ask those questions.



## Money Manager or Financial Planner

### 1. Is the advisor a money manager or a financial planner?

*Money management is different from financial planning. Be clear which one is right for you.*

Money managers focus just on portfolio management. They don't look at your whole financial picture.

In contrast, financial planners work with you on your total financial situation, including the nuts and bolts of cash flow planning, insurance considerations, income and estate tax optimization, and investment management in tandem with career considerations, intergenerational issues, and legacy concerns. Just as personal growth is never finished, neither is your financial planning.

A financial planner serves as your partner in the financial planning process. With a financial planner on board, the difference is the opportunity to gain a trusted sounding board, information resource, money manager, coach, reality-checker and cheerleader, plus someone who can keep you organized, connect you to other professionals, and quarterback your advisory team.

The objective of a financial planning relationship is the goal of more informed personal choices, vibrant career choices, meaningful family conversations, knowledge about social and economic policy, and of course, higher lifetime wealth with investment strategies tailored to your ability and willingness to take risk. The result for you is peace of mind and more effective progress towards your goals.

*If you simply want someone to manage your investment portfolio you don't need a financial planner.*



## 2. How can I distinguish a money manager from a financial planner?

*Straight-up money managers will tell you from the get-go that what they do is manage your portfolio. And that's fine. If that is what you want.*

What about firms that say they offer financial planning as well as portfolio management services? How do you check the assertion?

Often, if you look closely, the real focus of attention and activity is investment management, in gathering assets to manage. In those instances, the promise of planning might be more marketing sizzle than substance. In the business, those firms are known as “asset-gatherers”. Their real business is portfolio management.

Firms that emphasize planning tend to describe themselves as offering “comprehensive” advice. How can you tell whether this is marketing hype or a true differentiator?

*Look for clues that reveal the difference between “asset-gathers” and financial planners.*

*One good clue is the content of client meetings and regular reports to clients. Are they all about the portfolio? Or do broader financial planning objectives take center stage? Do regular quarterly reports contain financial planning information and recommendations that are distinctly personal to you—or do the quarterly reports convey mainly generic information about investment performance and market activity?*

*Another clue is how the advisor talks about portfolio management. If the emphasis is mainly on expected returns, it's more likely the advisor is focused mainly on investments. If instead the conversation focuses on matching investment risk to specific personal planning goals, it is more likely that the advisor is taking your whole financial picture into consideration.*

*Consider these further nuances: Does the advisor determine how much portfolio risk to take for you solely from a risk tolerance questionnaire, or does the advisor give careful, detailed, and personal attention to other areas of your financial life that impact risk decisions, including for example, the stability and security of your income, your desire to leave a legacy, the strength of your balance sheet, and any health or family issues that could impact your financial planning? For financial planners, consideration of risk capacity, not just risk tolerance is central.*

*Financial planning—when done well—is ongoing, visible, and personal. Look for the clues.*



## Firm Regulation

### 3. How is the firm regulated—as a broker or Registered Investment Advisor (RIA)—or both?

*Currently, one of the most differentiating questions you can ask an advisor is: How are you regulated?*

*If the answer is the Financial Industry Regulatory Authority (FINRA), you are talking with someone whose legal standard of behavior is suitability of sales, which means they are a broker. Advisors subject to the suitability of sales standard must recommend investments that are reasonably appropriate for you, but not necessarily objectively the best or least expensive solution for you. A broker is not required to disclose to you all of the sources of their compensation.*

*If the answer is the United States Securities and Exchange Commission (SEC) or the comparable state-level agency, then you are talking with someone legally subject to the fiduciary standard, a Registered Investment Advisor or “RIA”. RIAs are legally required to act solely in the best interest of their client. They must also disclose actual and potential conflicts of interests and how they are compensated. They are sometimes referred to as Fiduciary Advisors because of their legal fiduciary duty of loyalty to their client.*

*If the answer is both, you are talking with someone who wears two hats, and it is your job to discern when the hats switch from one to another. No kidding. “Dually-registered advisors” are quite common today.*

#### Why do these regulatory differences matter?

*The differences are important. Consider this analogy:*

If you go to your favorite car dealership, you know that the conversation will be about which of their brand cars you will buy. If you work with an expert salesperson, you will end up buying one of their cars and you’ll leave the dealership feeling great and perhaps also a bit more informed about what’s new in the car industry and with your favorite car brand. The price will be somewhat negotiated; you do your best.

You would not, on the other hand, go to a car dealership looking for transportation advice. The salesperson is not going to say any of these comments:

- “You can’t afford to buy a car right now, but I can show you how to save up for one.”
- “Let’s look at some other brands that might be a better fit for you.”
- “Your current car seems to be working fine. Are you sure you want to replace it?”

- “I notice you have trouble seeing. Is it time to stop driving?”
- “I’ve known you for years—you don’t even like to drive!—can we talk about getting you a driver?”

If you are ready to buy a car, or an investment, and know what you need, you go to a dealership or broker.

If you want personally tailored advice, you go to an advisor.



#### 4. How can I distinguish RIAs from brokers?

*In addition to understanding how an advisor is regulated, look for clues to distinguish RIAs from brokers.*

Read the client agreement, the document you sign in order to become a client.

This document is the legal agreement between you and the financial advisor. It has important information in the fine print especially about potential conflicts of interest. A common potential conflict of interest for brokers is revenue sharing. *Revenue sharing* is the agreed-upon flow of money typically from investment product companies to brokerage firms to encourage promotion of their products by the brokerage firm. If you see language about Revenue Sharing in your client agreement, you are likely working with a broker.

Advertisements also provide clues.

Ironically, RIAs are not permitted to have testimonials in their advertisement, but brokers may do so.

Brokers end both print and media ads with the words MEMBER FINRA / MEMBER SIPC. What do these terms tell you?

The terms MEMBER FINRA or MEMBER SIPC in an advertisement signal that the advertisement is from a broker. The Securities Investor Protection Corporation, or SIPC, is a federally mandated non-profit member-funded corporation for broker-dealers. It is designed to protect investors from losses arising if their broker-dealer becomes insolvent, but not from market losses, identity theft or other third party fraud.

If you see or hear MEMBER FINRA / MEMBER SIPC in an advertisement *plus* a message about advice coming from an SEC-registered RIA, the advertisement is from a *dually-registered advisor*, someone who wears two hats.

RIAs have a Firm Brochure, which is the government required disclosure document for fiduciary advisors, described in more detail on page 8.





**You may also encounter the terms “Fee-only” or “Fee-based”.**

- **Fee-only** means the advisor is selling advice, not commissioned investment products. “Fee-only” advisors are RIAs.
- **Fee-based** is very different. Fee-based refers to someone paid by both fees and commissions. Fee-based advisors work for a brokerage firm or insurance agency, often under a dual registration. They wear two hats.

Fee-only advisors are regulated as fiduciaries and work in a business model designed to minimize and disclose all potential conflicts of interest. The national organization for fee-only advisors is the National Association of Personal Financial Advisors or NAPFA. Visit [napfa.org](https://www.napfa.org) for more information.

*A NAPFA-registered fee-only advisor is an RIA with active membership in NAPFA.*



## Checking an Advisor's Background

### 5. How do I check an advisor's background?

For RIA advisors, read the Firm Brochure. This is the legal document in which fiduciary advisors are required to disclose in plain English their backgrounds, strategies, sources of compensation, and potential conflicts of interest.

If the advisor does not have a Firm Brochure, the advisor is most likely a broker regulated by FINRA, not the SEC, and so is subject to a suitability of sales standard not the fiduciary standard.

You can find further regulatory information and also view for free the Firm Brochure for any SEC-registered advisor at the SEC Investment Adviser Public Disclosure (IARD) website at <http://www.adviserinfo.sec.gov>.

**For all advisors, check the advisor's regulatory history.**

- **For SEC registered advisors (RIAs):** Check the SEC website above.
- **For state-regulated advisors:** Check the [NASAA Check Out Your Broker website](#), a resource provided by the North American Securities Administrators Association, the group representing state regulators.
- NOTE: State regulators oversee fiduciary advisors who do not come under SEC registration for one of a variety of reasons, including quite commonly having less than \$100 million of assets under management.
- **For brokers:** Check the [FINRA BrokerCheck website](#).

To be thorough in your research, check all sites since advisors can change business models over the course of their careers.

**For all advisors, do a general search online to see what pops up.** This simple and free consumer protection strategy seems obvious but in practice is often overlooked.



## Asking the Right Questions

### 6. Once I have identified a couple of advisory firms to consider, what nitty-gritty differentiating questions should I investigate?

#### a. Do you pay referral fees?

*Be wary if the answer is 'yes'.* All advisors, even fee-only advisors may pay referral fees. Some choose not to, preferring to keep their primary allegiance aligned clearly with the client. RIAs must disclose referral relationships in their Firm Brochure. The risk when an advisor pays for referrals is that the referral relationship becomes so important to the advisor's business that advisor objectivity about the client's best interest becomes clouded.

#### b. Do you have other employment or business interests? For example, does your firm own a partial interest in another firm such as an insurance agency, or act as a general partner in an investment partnership that you recommend to clients?

*Be wary if the answer is 'yes'.* Is your advisor working for you and you alone, or tending to his employer's overall business interests? RIAs must disclose outside business interests in their Firm Brochure.

#### c. Does some other entity own all or a part of your firm?

*Be wary if 'yes'.* The risk is that the owner would exert pressure on the advisor to maintain profitability, for example, by spending less time with individual clients. RIAs must disclose ownership interests in their Firm Brochure.

#### d. What is the firm's investment strategy and what is the full cost to me of working with you?

Is the investment strategy explanation clear enough that you could explain the highlights to a friend?

What are all of your potential costs and what will you get in return for those costs?



## 7. How do I screen for competency and chemistry—and make sense of the alphabet soup of advisor credentials?

Currently, regulators, including both FINRA and the SEC, are looking at and regulating only investment advice and sales. Broader financial planning advice at this point is not even regulated.

In the meantime, the go-to financial advisor competency credential for the public to consider is the Certified Financial Planner® (CFP) designation, with NAPFA membership signaling a fee-only business model and a Chartered Financial Analyst (CFA) designation signaling substantive investment education and experience. (See [CFA Institute](#).)

The Financial Planning Association, a national membership organization of advisors, is another resource for identifying potential financial advisors. In addition, the Chartered Financial Consultant [ChFC] credential indicates training in overall financial planning without an obligation to maintain a fiduciary client relationship. A Chartered Life Underwriter (CLU) signals an insurance specialist working either as a financial advisor or an insurance salesperson or both. CPA/PFS indicates an accountant with specialized continuing education in financial planning.

These websites list advisors and their credentials by zip code:

- Certified Financial Planning Standards Board [website](#)
- Financial Planning Association [website](#)
- NAPFA [website](#)

***Pending more definitive government regulations, it makes particularly good sense to consider an advisor's background and credentials and to do your own gut check for competency and chemistry.***

Look for an education background that you respect, and prior work and personal experience that enhance the advisor's life experience.

*The central question is: Do you want to work with this advisor over the long term on issues that are of great personal importance to you?*

- Pay attention to how you feel when you talk with potential advisors.
- Stay away from advisors who put you on the defensive, make you feel wary, or put down.
- Gravitate towards advisors who create an atmosphere of trust and for whom frank and easy exchange of information is the norm, and from whom you sense optimism, competence, and maturity.

## About Hogan Financial

### **We believe that financial planning is not just business, it's personal.**

Our team of advisors provides comprehensive financial planning services in addition to money management services. Your total financial picture is our greatest priority.

Our firm is registered solely with the SEC. We are a fee-only firm which means we don't carry inventory that we need you to buy nor do we receive any revenue from products or services we recommend. We are subject to the fiduciary legal standard; we are legally obligated to put your interests first. Taking care of your financial interests is the reason we are in business.

**We invite you** to follow our [blog](#) in which we aim to show what comprehensive financial planning looks like and feels like on the day-to-day. Our [website](#) also offers a wealth of information about personal financial management. We would also be delighted to hear from you directly to further explore if what we have to offer is a good match for the financial advisory services you are seeking.

**For more information, please email us at [info@hoganfinancial.com](mailto:info@hoganfinancial.com) or call us at 414-352-9111.**

We look forward to hearing from you.

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**LinkedIn Paula Hogan:** <http://www.linkedin.com/in/paulahogan>

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