# How to Select a Financial Advisor

The Motley Fool
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You are the absolute best person to manage your money.

That is one of the foundational beliefs of The Motley Fool. We offer plenty of ways for investors to help each other out — from newsletter services to discussion boards — but you make the final decision.

While we think that's the best way, it's not necessarily the easiest way. After all, it can take some time to learn all the ins and outs of personal finance. So what happens in the case of the busy individual who simply does not have the time to study on his or her own? Or what about the individual with a complex retirement plan question? Or the need for a comprehensive estate plan? Fooldom can get you started; books from your local library can provide useful ideas to think about. But where millions of dollars may be involved, doing it right can require an office visit with one or more professionals. In that case, how do you find the right advisor?

**What do you need?** A first consideration is what services are required. In most cases retirement planning requires working within the rules for traditional IRAs, Roth IRAs, 401(k) plans, etc. For the most part these are governed by federal law. That makes it easier to find national sources — books, sources on the Web, and an array of professionally trained individuals.

A financial planner may be your best choice, but if a business is involved or major tax issues are to be considered, a certified public accountant may be more appropriate.

Inevitably retirement planning turns to estate planning. All of us should have at least a will, a power of attorney, and a living will. Sometimes trusts are used to maintain privacy, reduce taxes, and provide for situations such as minor children. In these circumstances, state laws come into play. In most cases, you will need a local attorney to work out the details for you.

The composition of your team can change from time to time depending on the needs that arise. It's best to choose a team to go the whole distance with you. Look for someone with seven to 10 years' experience. Professionals with that much experience have reasonably current training and are probably up to date. Plus they have dealt with most situations. The less-experienced individual may still be learning his stuff. The superannuated expert may retire on you long before you retire. By choosing one with 10 years' experience, and about your age, you get one likely to go the distance with you. That avoids problems that can arise if you are forced to change advisors.


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**Where to turn**

Financial advice is available from a wide variety of sources. Traditional Main Street sources include stock brokers, banks, insurance companies, and sometimes credit unions. Major mutual fund companies often deal with their customers by 800 numbers or by Web interactions, but some such as Fidelity also have offices in some cities. Discount brokers also now have offices in some cities. So which do you choose?

In selecting financial advice, there is no substitute for a recommendation from a satisfied customer. If friends or family members use these services, often they can recommend someone who has done good work for them. Sometimes training and style will be inappropriate for what you have in mind. You can also network various places — church, school, PTA, social clubs, etc. — to find out who provides this service in your area.

Although brokers, insurance agents, and others offer "free" financial advice, most are compensated by commissions on the financial products they sell. If for example, you invest $40,000 in an annuity (an insurance product that offers tax-deferred growth on the investments), a commission of 7% means the insurance agent gets $2,800 off the top, plus other fees as long as you own the investment. Sometimes a conflict of interest leads them to recommend products that make the best commissions for them rather than the best returns for you. For that reason, Fools usually recommend a fee-only financial planner. He may well charge $100 to $150 per session with you, but his advice is likely to be more cost-effective — and less conflicted — than that provided by those who sell products. And beware of the adviser who recommends strange, unknown investments with fantastic yields. Every so often, one turns out to be a skillful con man who takes an entire community.

Once you have a list of prospects, your next step is to interview them to determine which is most suitable for your needs. A phone call will get you a brochure with basic information on products and services offered, credentials, and certifications. Ask about fee structure. Ask for references from satisfied clients. Ask for recent performance data on portfolios managed. From there, a preliminary meeting usually follows to determine if the chemistry is favorable. It helps to have a good idea of your risk tolerance and what services you are likely to need and in what time frame. That way, you can select the candidate best suited to the whole job.

Happy hunting