



How to Pick a Financial Advisor

The Motley Fool

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There's never shame in asking for help.

Managing your finances involves a lot of effort. You have to work hard to earn money. You have to spend time budgeting your expenses and prioritizing what you need most right away. You have to find money to save for long-term goals like buying a car or a house, paying for education for your kids, and your own retirement. Once you find the money, you have to figure out how best to invest it, keeping up-to-date on all sorts of tax and legal changes that seem to happen constantly. Taking care of your money can easily become a full-time job.

Many people don't have that kind of time. For them, finding someone to help is an attractive idea. Yet picking the right person can be difficult, especially with the danger of choosing someone who ends up taking advantage of them rather than helping them. This article will help you to ask the right questions when looking for an advisor to assist you with your finances.

Do your homework first

Before talking with an advisor, you should have a general idea of how you want the advisor to help. If your finances are a mess and you have no idea where to start, you may need to start with an overall financial plan, then address specific items as you go. On the other hand, if you've already figured out what your goals are and how you can save money, you may only need someone to help you with choosing investments. Just as some doctors specialize in certain types of medicine, while others work as general practitioners, some financial advisors specialize in helping people in certain situations, while others have general knowledge to help anyone.

You should also prepare for an initial meeting with an advisor by gathering and organizing your financial information. A good financial advisor will consider as much information as possible in formulating a strategy for you. Among other documents, you should bring with you a list of your current assets and liabilities, current statements for any investment accounts you have, tax returns for the last couple of years, and your check register or a report showing the income and expenses flowing through your checking account.

Learn your advisor's rules

When you meet with an advisor, there are two main things you need to learn: how much the advisor costs, and what work the advisor will do for you. Cost is always a delicate subject, but with financial advisors it can be especially touchy, because of the different ways that advisors get compensated.



Advisors can earn money by charging fees directly to their clients, or by receiving payments from the companies they recommend for you as appropriate investments for your money. Although some advisors may be reluctant to go into detail about their compensation arrangements, you need to understand how your advisor earns his or her revenue, so that you're fully aware of any potential conflict of interest.

For instance, if your advisor receives a substantial amount of money from a particular investment, then the advisor may have an incentive to recommend that investment to you, even if it isn't perfectly suited to your situation. On the other hand, such compensation arrangements sometimes make it possible for advisors to help clients who couldn't otherwise afford to pay them. As long as you know and understand your arrangement with your advisor, you can decide whether or not you're comfortable with it.

The other important thing to understand is what you want your advisor to do for you, and how you will work with your advisor. Many advisors will prefer to help you with your entire financial plan; this makes it easier for them to give you advice based on your overall financial situation, though it also potentially increases their fee revenue. If you have most of your finances under control and need only specialized help in a particular area, be absolutely clear of your intentions when you meet. Whatever arrangement you ultimately make should meet both your needs and those of your advisor.

Finding out how your advisor communicates with clients is also helpful. Some advisors prefer to set up regular meetings with their clients, while others prefer to deal with issues as they come up. There is no general right answer; as long as you feel that you have strong communication with your advisor, you are probably getting the level of attention you need.

Talk at your level

A good financial advisor is also a good teacher. By gauging your current level of financial knowledge, your financial advisor should be able to explain things in language you can understand, while also teaching you new concepts. Although many things about finances are complicated, nothing is so difficult that you shouldn't understand at least the basic concepts. For example, if your advisor recommends **U.S. Steel (NYSE:X)** and explains that its low P/E ratio and stable **EBITDA** justify your buying the stock, make sure you understand what EBITDA and the **P/E ratio** are, and why they're important for your investment strategy. Never agree to do something you don't understand; if your advisor insists, you should be suspicious of his or her motives.

Of course, once you've worked with your advisor, you will establish a level of trust, and you can feel more at ease about the advice you receive. While you should always remain diligent, the best advisor-client relationships are those in which both parties know each other well and can anticipate each other's reactions to regular situations.



Any time you involve someone else in your personal affairs, you have to find someone with whom you work well. If you don't have the time or inclination to manage your finances on your own, it can be extremely beneficial to get help from an outside advisor. By following these basic suggestions, you can find a suitable advisor to keep you on the road to financial stability and independence.

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Fool contributor [Dan Caplinger](#) has been both a financial advisor and a client during his career. He doesn't hold any shares of U.S. Steel. The Fool's [disclosure policy](#) will never steer you wrong

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