

WHAT YOU SHOULD KNOW BEFORE HIRING A FINANCIAL ADVISOR



You are ready for help with your financial life. You've maybe even done a little research, searched the web or asked your family and friends for referrals. You may have completed some of the tools from the Resource Lab off our web site. While that's a good start, you don't want to stop there.

Why? Because pretty much anyone can call themselves a financial advisor: commissioned-fueled stockbrokers, insurance agents and the guy at your local bank presenting their mutual fund choices.

One route to avoid amateurs is to start with a Certified Financial Planner™ or CFP®. They advise their clients on how best to save, invest, and grow their money, along with steps in creating your financial life plan. They're licensed and regulated and take mandatory classes on different aspects of financial planning—in addition to meeting mandatory continuing education requirements.

Once you've identified candidates—certified or not—to serve as your financial advisor, you want to ask some very pointed questions:

Choosing the perfect advisor for you is not random. Start by ensuring they meet the highest standards of the profession. Then—and only then—invest your time in deciding if there is a good fit and great chemistry. Because you deserve nothing less.

- 1.** How do you get paid? If the answer is commissions, then know they only get paid when you buy and sell. They may be incented to keep you trading. If they are paid by fees AND commissions, it's time to dig deeper. Make sure all fees and expenses on the investments they offer are transparent. They may offer annual retainers, ask about the formula and annual renewal of such retainer.
- 2.** If the representative charges both fees and commissions, ask whether they adhere to the "fiduciary standard" or the "suitability standard". The fiduciary standard requires the advisor to act in your best interest. The suitability standard is a much lower target—it means that the product you are sold is "suitable" for your net worth and risk tolerance.
- 3.** If the advisor is a fiduciary, you can glean even more information. They are required to provide you with their form ADV that discloses any conflicts of interest, their background, and fee and practice structure. The ADV also discloses any prior legal problems that you'd want to know before making a decision. It is tempting to skip this step, but do take the time to read this document carefully and investigate any questions that arise. In addition, will the advisor sign a Fiduciary Oath, as part of their membership to the Committee for Fiduciary Standard. Now that you've explored how the advisor gets paid and you've read their ADV, are you ready to hire this person? Not yet. Here are a few common questions to ask and look for:

- 1.** Will you prepare a written financial life plan? If so, is there a separate cost for this life plan?
- 2.** Does the advisor ask you good questions, such as about your money history and your expectations for the relationship?
- 3.** Does the advisor present their expectations as well as yours and do they feel appropriate?
- 4.** How many clients do they serve? Are they over extended? How many meeting will they have annually?
- 5.** How long have they been in business?
- 6.** How has their business changed over the years?
- 7.** Do you feel comfortable that you're being heard and that the advisor "gets" your priorities and risk tolerance? Do they care about you as a person?
- 8.** Is their investment management in house or out-sourced?

Rick O. Helbing CFP®, ChFC

Mailing address:
15 Paradise Plaza #354
Sarasota, FL 34239

25 YEARS+
OF DEDICATED SERVICE

Office address:
1911 N. Lakeshore Dr.
Sarasota, FL 34231
941.375.7320 office
941.320.5532 cell

rick@suncoastadvisorygroup.com
www.suncoastadvisorygroup.com
www.freshfinancialideas.com



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