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GETTING GOING

By JONATHAN CLEMENTS



Fast Talker? Five Ways to Gauge A Potential Financial Adviser

If you think picking investments is tough, try picking an investment adviser.

Over the past year, I have written a lot about buying financial advice, because readers are clearly interested in the topic. But don't expect any blanket endorsements. Many brokers and financial planners charge too much. Many know too little. And some are crooks.

Searching for an adviser? Repeat after me: This is my life savings. I worked hard to amass this money. And I won't turn it over to an adviser unless I am 100% convinced I have the right person.

So how do you find a top-notch broker or planner? Try these five steps:

1. Make a List: Gather names of potential advisers. Where to start? After years of being bombarded by advertising from the big brokerage houses, many investors assume these firms are their best option.

But in my experience, the brightest advisers are frequently found at smaller financial-planning shops. Often, these advisers don't accept commissions and instead charge by the hour or levy an annual fee based on the size of a client's account. To find such folks, go to the Web sites offered by the National Association of Personal Financial Advisers (www.feeonly.org¹) and the Garrett Planning Network (www.garrettplanningnetwork.com²).

Also, ask friends for referrals. But take those referrals with a grain of salt. An unscrupulous adviser can fool clients for a year or two. But if your friends have had the same adviser for five years and they are happy with the results, that's a good sign.

2. Throw the Bums Out: Before you contact investment advisers, check their record with securities regulators. As a first stop, head to www.sec.gov/investor/brokers.htm.³

If they pass that test, give them a quick call and try to gauge whether they are worthy of further investigation. What should you listen for? Be leery of any adviser who promises high returns, suggests you will have to trade a lot, implies you won't pay anything for the adviser's services or speaks glowingly about cash-value life insurance or tax-deferred variable annuities.

Yes, a little trading may be necessary at first. Yes, variable annuities and cash-value life insurance can make sense as part of an investment plan. But all these strategies are classic ways of squeezing fat commissions out of unsuspecting investors. Consider yourself warned.

GETTING HELP

- Locate a financial planner in your area at www.fpanet.org⁴
- Find advisers who work for fees, rather than commissions, at www.feeonly.org⁵
- Get a list of advisers who charge by the hour at www.garrettplanningnetwork.com⁶
- Check that an adviser is a certified financial planner at www.cfp-board.org⁷

ABOUT THE AUTHOR

Jonathan Clements has written The Wall Street Journal's Getting Going personal-finance column since October 1994. Born in London, Jonathan is a graduate of Emmanuel College, Cambridge University, where he edited the student newspaper. He was a writer and researcher for Euromoney magazine in London before moving to the New York area in 1986. Prior to joining the Journal in January 1990, he covered mutual funds for Forbes magazine.

Jonathan is the author of "You've Lost It, Now What? How to Beat the Bear Market and Still Retire on Time," published in 2003. His earlier books include "25 Myths You've Got to Avoid - If You Want to Manage Your Money Right" and "Funding Your Future: The Only Guide to Mutual Funds You'll Ever Need." He has two children and lives in Metuchen, N.J.

3. Meet the Candidates: Now that you have narrowed your choice, it's time to meet your potential advisers in person. Your goal: Distinguish the studious financial experts from the smile-and-dial salesmen.

Forget the smooth patter. Instead, try to figure out whether these advisers really know what they are talking about. Get them to describe their investment philosophy. Find out how long they have been in the business and where they got their training. Ask about credentials.

Are they a certified financial planner, a chartered financial consultant or a certified public accountant-personal financial specialist? Do they have a business degree? None of these is a litmus test. But you want some sense you are dealing with a well-informed, thoughtful professional.

4. Take the Broad View: When interviewing advisers, pay attention to whether they talk only about investments or whether they discuss other financial issues. Why? If an adviser is offering only investment management, you probably won't get your money's worth.

Sure, an adviser may be able to improve your portfolio's performance. But the improvement probably won't be that spectacular. Indeed, because it's so difficult to beat the market, many top-notch advisers take a different tack. Their focus: Trying to ensure clients reach their financial goals.

To that end, they find out why clients are investing and how much risk they are willing to take. They push investors to save enough, minimize taxes and hold down investment costs. They take a broad view of finance, encompassing insurance, housing, cars and estate planning.

What if an adviser doesn't mention such issues? I would take your money elsewhere.

5. Check the Tab: If the advisers you interview are ethical, they will tell you -- without prompting -- exactly how much they charge and what you will incur in other investment expenses.

I would not use an adviser unless the total annual cost, including the adviser's fee, is less than 1.2% of your portfolio's value, and preferably below 1%. Few advisers will meet that hurdle. But if the total cost is much higher, it will be difficult to earn decent returns.

I would also favor advisers who charge an hourly fee, an annual retainer or a percentage of your account's value. What about brokers and planners who charge commissions? I would be more reluctant to use them, because they will have an incentive to get you to trade and to buy the highest-commission products.

Still, it is possible to pay commissions and incur low costs. You might, for instance, buy and hold exchange-traded index funds or purchase class A mutual-fund shares and qualify for the reduced commission on big fund purchases. If commission-charging advisers say they will fight to keep your total costs close to 1% a year and they explain exactly how they will do it, I would give them serious consideration.

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<http://online.wsj.com/article/0,,SB106072280962515900,00.html>

Hyperlinks in this Article:

- (1) <http://www.feeonly.org>
- (2) <http://www.garrettplanningnetwork.com>
- (3) <http://www.sec.gov/investor/brokers.htm>
- (4) <http://www.fpanet.org>
- (5) <http://www.feeonly.org>
- (6) <http://www.garrettplanningnetwork.com>
- (7) <http://www.cfp-board.org>

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