Independent Investor

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How to Work With a Financial Advisor

The continuously shifting investment climate, the sheer number of investment products to choose from and the emergence of employee-driven retirement savings plans, such as 401(k) plans, have all contributed to the increased need for qualified financial advice. No matter what your level of investment experience or sophistication, you may benefit from developing a relationship with a financial advisor.

Financial Advisor: What's in a Name?

A qualified financial advisor is trained to analyze your personal financial situation and prepare a program designed to help you pursue your financial goals and objectives. It might be helpful to think of your financial advisor as a kind of doctor for your financial health.

Financial advisors (also called financial planners or financial consultants) can earn certifications or designations by completing accredited courses of study. Two of the most common are the CERTIFIED FINANCIAL PLANNER™ (CFP®) certification, which is awarded by the Institute of Certified Financial Planners, and the Chartered Financial Consultant (ChFC) designation, which is awarded by the American College of Bryn Mawr.

Financial advisors are often trained as accountants, lawyers, insurance agents or stockbrokers—all professions that have a relationship to different aspects of your financial well-being. Because of this association with another profession, a financial advisor frequently will specialize in a specific type of financial planning, such as retirement planning or estate and trust planning.

Financial advisors are usually compensated in one of three ways. They may:

- Charge a fee for their time and service, but sell nothing.
- Give free advice, but charge a commission on transactions involving investment products such as mutual funds, stocks, bonds and insurance products.
- Charge both a fee and commission on transactions.

Benefits of Working With a Financial Advisor

Most people can benefit from professional guidance when they venture into the complex world of managing their financial affairs. A financial advisor will be able to assess your risk tolerance, analyze your resources and current asset allocation, take into account your tax liability, and make investment recommendations in the form of a written financial plan. The plan should help ensure that your current and future assets are used to their best advantage given your financial situation and financial goals.

Building a Strong Relationship

Knowing what to expect from a financial advisor can help establish a long and successful relationship. Here are some preliminary questions to ask to help you evaluate whether an advisor would be a good fit for you.

- What is your educational background?
- What, if anything, did you do before becoming a financial advisor?
- Do you offer specific or general recommendations?
- Will you help implement these recommendations?
- Do you offer financial advice on non-investment issues, such as estate law or taxes?
- If so, at what point would you bring in someone else to help?
- How do you keep in touch with your clients?

The First Meeting

At your first meeting, you and your advisor will identify your financial needs and investment goals. Although it sounds simple, this can be harder than you think. Your advisor will be able to ask you the right questions to help you determine what your goals are, just in case you aren't sure yourself.

To prepare for your first meeting, call your advisor and ask what documents and information you should bring. These may include essential documents such as a will, copies of insurance policies, pension information and investment account statements. In addition, you should be prepared to answer or at least discuss the following questions:

- When do you plan to retire? How do you envision your retirement lifestyle? Do you have any retirement savings?
- What is your current income and rate of savings? Do you anticipate a change in jobs, leaving a job to stay home with children or starting your own business?
- Do you have plans to fund or help fund your children's education?
- Are you prepared for the unexpected? If you lost your job, had a serious accident or illness, would you be prepared financially?
- Do you have a will? Have you considered the tax implications of transferring your estate to your heirs?

Once you have established your investment goals and objectives, your advisor will create a plan and review it with you. Among the plan's key objectives may be ensuring that you have sufficient insurance, that you have cash reserves to meet unexpected financial needs and that specific short- and long-term goals are addressed. The plan may also involve reallocating some or all of your assets into more suitable investments aligned with your risk tolerance and investment goals. In addition, the plan should recommend where to invest future assets (regular savings or lump-sum payments), and how much you will need to save to work toward your financial goals.

After you and your advisor have agreed on and implemented a plan of action, all you need to do is schedule annual financial reviews to make sure the plan continues to work to your satisfaction and that none of your goals have changed over time. For example, be sure to inform your advisor if you have a major change in your life, such as a change in marital status, the birth of a child, a change in income or the receipt of an inheritance.

Taking Charge

By deciding to consult a financial advisor, you have begun to take charge of your finances. Over time, your advisor may become a trusted friend and confidant. And together, you will have implemented a strategy to help maximize the earning power of your assets.