10 Questions for Finding the Right Financial Advisor

Selecting the right financial advisor is important. The wrong decision can lead to unmet goals, wasted time and regret. It also has opportunity costs – missed chances to accomplish more for yourself, your loved ones and the causes you care about.

But how do you find a good fit? Many advisors would welcome your business, yet the decision is often clouded by personal biases, the fact that past performance does not guarantee future results, and the reality that investment performance is only one aspect of success when it comes to financial planning.

However, the process does not need to be long or difficult. Often, asking your accountant or lawyer – rather than a friend or family member – for a referral and performing some simple due diligence is a good place to start. To help, we suggest asking the following questions to identify the best fit.

01 ARE YOU A FIDUCIARY?

The word fiduciary gets thrown around quite a bit in the financial industry but has a specific legal definition that is important to understand. For financial advisors, the fiduciary designation means being legally and ethically bound to act in clients' best interests. In practice, this means providing clients advice that is unencumbered by potential conflicts of interest, such as recommending investment or insurance products tied to that advisor's compensation.

Not all financial advisors are fiduciaries. For example, some advisors are registered representatives of a broker-dealer and are only required to adhere to a suitability standard versus a fiduciary standard. The suitability standard permits advisors to recommend any product suitable for someone in a similar situation, a less stringent standard that in practice does not necessarily prohibit recommending products tied to compensation.

Starting in 2020, brokers and registered representatives became covered by the SEC's Regulation Best Interest. This regulation moves closer to a fiduciary standard but still falls short; it applies only to the moment that a particular transaction is recommended. The duty to act in the client's best interest does not extend to all advice given or to the overall relationship with the client.

Just because someone is not a fiduciary does not mean that they are not a good advisor. That said, your relationship with a financial advisor is based on trust. A fiduciary standard strengthens trust because it is free from conflicts of interests; you don't need to question the motive behind fiduciary advisors' recommendations. For that reason, we strongly recommend considering working with a fiduciary.

02 WHAT SERVICES DO YOU OFFER?

Generally, there are three categories of financial advisors, ranging considerably by the depth and breadth of advice and solutions they provide.

- Investment advisors manage money. They provide investment management services and only investment management services. The range of these services — from investing in more traditional asset classes, such as public equities, to alternative assets, such as private companies and hedge funds — varies widely but is limited in scope to investing.
- Financial advisors typically provide investing services but also offer some level of financial planning, covering areas like retirement, taxes, health care and estate planning. However, the planning capabilities in this category tend to be relatively basic.
- Wealth managers also provide financial planning services in addition to investment management but are typically better equipped to handle complex situations requiring multiple specialties. For example, affluent families' tax mitigation plans often interact with their charitable giving strategy, which interacts with their wealth transfer goals. A true wealth manager has experience in each of these disciplines and understands the importance of viewing them together under one umbrella to seek optimal outcomes for your assets.

Chances are, if you're reading this, your needs extend beyond investment management and you should work with someone who also offers some level of financial planning. If you are a high earner and/or have more complex assets (e.g., private business interests, real estate, single-stock concentrations, etc.), a wealth manager is likely a better fit for your situation.

03 WHAT PROFESSIONAL ORGANIZATIONS ARE YOU INVOLVED WITH?

The financial planning landscape continuously changes as regulations, tax laws, technology, investment trends and other factors evolve. Look for advisors who participate in professional organizations and forums, as they are more likely to adopt industry best practices.

Also, pay attention to advisors' professional designations. Designations such as Certified Financial Planner (CFP®), Chartered Financial Analyst (CFA), Certified Private Wealth Advisor (CPWA®), and Certified Investment Management Analyst (CIMA®) suggest a more comprehensive base of knowledge and experience, as they require significant and continuing education. These programs also emphasize ethics — offering another indicator that the advisor is trained and incented to act in your best interests.

Other designations, such as a Certified Financial Divorce Analyst (CFDA®) or Chartered Advisor in Philanthropy (CAP®), demonstrate specific areas of knowledge that may add significant value to your financial plan, depending on your circumstances.

04 DO YOU HAVE EXPERIENCE SERVING CLIENTS "LIKE ME?"

Replace the "like me" with your specific situation. For example, perhaps you have significant illiquid assets, own a business, have inherited significant wealth or are going through a divorce. Look for someone who has relevant experience advising clients with similar asset profiles and circumstances.

05 TELL ME ABOUT FINANCIAL PLANNING YOU HAVE DONE FOR PEOPLE "LIKE ME."

As a follow-up question, evaluate how the advisor has helped such clients. This goes one step further than the previous question, requiring the advisor to demonstrate specific solutions they have implemented and allowing you to evaluate the advisor's relevant experience, work style and creativity.

06 WHAT ARE YOUR FEES?

While selecting a financial advisor based on fees alone is not advisable, looking for transparency is. Again, advisors who are fiduciaries will not give advice based on their own compensation. Further, they should fully disclose their compensation and fees upfront. Depending on the nature of the work, they may charge a flat project fee, a flat quarterly retainer or an hourly rate for financial planning work, whereas for ongoing investment management services, they may charge a percentage fee based on assets under management (AUM).

The important point is to look for clear answers.

07 HOW WOULD YOU WORK WITH MY OTHER ADVISORS?

Look for someone who welcomes working with your other advisors, such as your accountant and attorney. Financial planning is inextricably linked with tax law, trust law and other professional disciplines. As such, multidisciplinary coordination will likely produce better results and avoid unintended consequences. Plus, good financial advisors know they are not authorities on every topic and appreciate others' expertise.

08 WITH WHOM WILL I WORK?

If you're contemplating engaging the services of a firm vs. sole practitioner, understand the team structure, who would regularly communicate with you and who would provide input into the recommendations you receive. It is completely reasonable – and often advantageous – for other team members to help support your day-to-day needs. But you should know this upfront, confirm that you will have access to your financial advisor on a regular basis and make sure you are comfortable working with any other points of contact.

09 WHAT IS YOUR INVESTMENT AND PLANNING PHILOSOPHY?

Look for an advisor who can easily answer this question, demonstrating an established set of guiding principles, and has values that align with yours. This question also allows you to get to know the advisor better on a personal level – to understand what is important to them and how it is reflected in their professional practice.

BONUS QUESTION TO ASK YOURSELF:

10 HOW COMFORTABLE WILL YOU FEEL WORKING WITH THIS ADVISOR?

This is a deal breaker. You need to feel comfortable confiding in this individual, sharing confidential information and trusting their recommendations. While there are many highly qualified financial advisors, you will simply like some better than others. If two individuals compare roughly equally on all other points, there is nothing wrong with selecting the person you simply like better.

Choosing the right financial advisor can significantly improve both your financial health and emotional well-being. The right person for you likely has experience helping others with similar circumstances, puts your interests first and enjoys your company. The good news is that identifying this person is relatively straightforward – so long as you perform some due diligence and trust your instincts.

www.alexandriacapital.com