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FINDING THE RIGHT FINANCIAL ADVISOR

In my last column I reviewed the importance of finding the right financial advisor or trust company instead of using discount brokerage houses. While many folks might do a fine job managing their own money, if they become incapacitated or die, often their loved ones are not as skilled in making investment decisions or managing day to day finances. Making the transition to a competent financial advisor or firm is much more difficult in a time of crisis than it is when everyone is well and can make judgments as to whether a particular advisor or firm is the right fit.

With that said, how does one go about judging a financial advisor or a financial firm? Today I will explore these questions and how one might approach them.

First, you should personally visit with the advisor you are considering hiring. Ask him or her questions about his or her credentials, experience and tenure with their existing office. Beware of those that seem to jump from firm to firm every few years. Turnover in the financial services industry is quite common, but can be a pain for those that have to deal with a new staff every few months.

Second, they should be asking you a lot of questions about your investment philosophy and risk tolerance. What seems risky to some might be well within the comfort zone of another. Are your goals growth or income oriented? How much income must your investments earn for you to feel comfortable? What is the level of risk associated with obtaining that income? What is the firm's performance relative to these goals?

Third, are they recommending high commissioned and fee based products such as variable annuities, life insurance (as a primary investment strategy) or certain mutual funds. The honest advisors will tell you that if they put you into a certain mutual fund class that they will earn far more in commissions than a similar class that has similar investments without the annual commissions. While life insurance and annuities can be right in many situations, how much of your net worth should be tied up in these products is something that you need to carefully consider. Before investing in these types of vehicles, you should ask what are the early termination fees and

penalties associated with the investments being offered if you should decide to sell them within the next year, two years, five years or seven years.

With that said, it is important to note that you should not base your decision on fees alone. As with most things in life, you get what you pay for. Some financial advisory firms do not charge any commissions, but instead charge based upon a percentage of the value of the portfolio that they are managing. This may be a good way to pay the advisor, as then he or she does not have any interest in buying or selling assets (to earn commissions or fees). I, for one, prefer to have an investment advisor whose decisions on my account holdings are independent of whether he or she is making any fees as a result of those decisions.

Fourth, beware of an investment firm's proprietary mutual funds. These are funds that are unique to the firm, and cannot be obtained anywhere else. The reason you may wish to avoid proprietary mutual funds is that if you should ever decide to leave that advisor or his firm, you cannot usually transport your ownership in the mutual funds to an outside firm. In other words, you must first sell the funds, and incur capital gains before you can fire your advisor and transfer your investments. Along the same line, make sure that your investment advisor's firm is not underwriting the securities it is proposing to you.

Fifth, ask for references. The financial advisor should be able to provide you the names and contact information for a few of his clients who would be willing to talk to you about him or her. Ask your attorney or CPA about a financial advisor, as these professionals often deal with advisors on a daily basis. They often have opinions as to which ones might be better for you and which ones might not be.

So do your homework, and take the time to learn all that you can before putting your hard earned money with a new advisor.