How to Find and Pay for a Financial Adviser
Agenda

• Terms for Financial Advisers
  • Designations and Specialties

• How to pay for financial help

• Questions to ask during your planner search

• Resources to start your search
What’s in a Name? Adviser Terms and Designations
There are many titles people use for themselves in the personal finance business:

- Financial Planner
- Wealth Manager
- Investment Advisor
- Personal Finance Coach
- Stock Broker
- Money Manager
Registration

When looking for financial advice, you want to be sure the person you are working with is registered for oversight with the SEC or State Regulatory Agency.

Hint: Bernie Madoff was not a registered investment adviser

- A Registered Investment Adviser (RIA) is registered with the SEC or a states securities agency.
- Registration does not signify that the SEC or state regulatory agency has approved of the advice given by the representative.
- Registration means that the representative agrees to adhere to a certain standard of business practices and is periodically audited by his regulatory agency.
- You can check if an adviser is registered by going to FINRA’s Broker Check tool.
Any person, regardless of education or experience can open a financial advice business.

After you’ve verified that your potential adviser is registered, ask about their professional designations.
Here are some of the more common professional designations

**Certified Financial Planner (CFP):**

- Awarded by the Certified Financial Planner Board of Standards.
- Advisers must have three years of experience and a bachelor’s degree, or five years of experience with no college.
- Requires passage of a fairly demanding and broad-based exam.
- Continuing Education requirement of 30 hours of additional coursework every two years.
Professional Designations

Chartered Financial Consultant (ChFC):
• Issued by The American College, an accreditation and education institution for the financial services industry.
• Requires 75 hours of coursework and passage of an exam covering issues such as estates, taxes, portfolio management and financial planning.
• Most commonly held by people in the insurance industry.

Chartered Life Underwriter (CLU):
• Issued by the American College
• Requires 3 years business experience
• 5 Core classes and 3 electives for equivalent of 24 hours semester hours
• Continuing Education of 30 hours every 2 years
Certified Investment Management Analyst (CIMA):

- Awarded by the International Management Consultants Association.
- Two exams, along with some on-site and independent study coursework, is required.
- Applicants need three years of experience and must show that they have no criminal history, regulatory violations, civil actions or formal customer complaints on their records.
- Continuing Education of 40 hours every 2 years.
Certified Divorce Financial Analyst:
• Issued by the Institute of Divorce Financial Analysts
• Requires 3 years service in finance, accounting, or law
• Self Study course with open book case study exam after Module 4
• Continuing Education requirement is 15 hours of divorce specific information every 2 years.
Professional Designations

FINRA Licensing: The Financial Industry Regulatory Authority (FINRA) oversees all securities licensing procedures and requirements.

- FINRA is a Self Regulatory Organization that administers many of the exams that must be passed to become a licensed financial professional.
  - Series 6: Allows representatives to sell mutual funds, variable annuities, and Unit Investment Trusts.
  - Series 7: Allows representatives to sell the above plus stocks, options, and bonds.
  - Series 3: Allows representatives to sell commodities futures contracts.
- FINRA performs all relevant disciplinary and record-keeping functions.

NASAA Licensing: The North American Securities Administrators Association (NASAA) oversees the licensing requirements of three key licenses:

- Series 63: All Series 6 and 7 licensees must also have this license which enables them to do business in their particular state.
- Series 65: Representatives who are selling investment advice must pass this exam.
- Series 66: A combination of the Series 63 and 65 that you can test for all at once.
The Fiduciary Standard means that an adviser is putting your needs above his own when recommending an investment or action.

Most stock brokers and representatives selling investment products for commission are not held to the fiduciary standard. This could mean that you are being sold products that benefit the adviser more than you.

Financial Planners who hold additional professional designations tend to be held to the fiduciary standard by their governing board.
Ways to pay for financial help
Financial Advice and Investment Products are NEVER Free!
There are a variety of ways you might pay for financial help.

- An hourly fee for advisory services
- A flat fee, such as $500 per year, for an annual portfolio review or $2,000 for a financial plan
- A commission on the securities bought or sold, such as $12 per trade
- A commission (sometimes called a “load”) based on the amount invested in a mutual fund or variable annuity
- A “mark-up”: when one buys “house” products (such as bonds that the broker holds in inventory), or a “mark-down” when they are sold
- A fee for assets under management, such as 1% annually of assets managed
Mutual Fund Fees

Front End Load:
A commission or sales charge applied at the time of the initial purchase for an investment, usually mutual funds and insurance policies. It is deducted from the investment amount and, as a result, it lowers the size of the investment.

• Generally the loads run between 3% and 8.5%. Usually around 5%-6%
• Funds sold with a front end load are called A shares. For example, American Funds Growth Fund of America A fund has a 5.75% front end load.

Example: Jeff invests $2,500 in a mutual fund with a 5% front end load.
• Jeff actually invests $2,375 in the mutual fund and $125 is paid to his adviser as a commission.
• Jeff’s mutual fund must earn 5% to get back to his original $2,500 investment.
• If Jeff decides to sell his mutual fund, there will be no fee to sell.
Mutual Fund Fees

Back End Load

A fee (sales charge or load) that investors pay when selling mutual fund shares within a specified number of years, usually five to 10 years.

- The fee is a percentage of the value of the share being sold. The fee percentage is highest in the first year and decreases yearly until the specified holding period ends, at which time it drops to zero.
- Also known as a "contingent deferred sales charge or load."
- Funds with a back end load are labeled B shares. For example, the Prudential CA Municipal Income B fund has a deferred sales charge of 5%.

Example: Judy invests $5,000 in a mutual fund with a 5% back end load.

- Judy’s entire $5,000 is immediately invested.
- If Judy wants to sell her fund 2 years after she bought it, she will pay 3% of the fund value.
- If Judy waits until Year 6 to sell her fund, she will pay no fee to sell it.
**Expense Ratio**

The annual amount it costs an investment company to operate a mutual fund.

- An expense ratio is determined by dividing the fund’s operating expenses by the average dollar value of its assets.
- Operating expenses are taken out of a fund's assets and lower the return to a fund's investors.
- Expense Ratios are disclosed as a percentage.
- The higher the Expense Ratio, the less of your investment you keep each year.
- All mutual funds charge an expense ratio. There is no such thing as a mutual fund with no fees!

**Example: Josh has $10,000 each in 2 different Mutual Funds**

- Fund ABC has an expense ratio of .55%. The annual dollar amount Josh pays for Fund ABC is $55.
- Fund PDQ has an expense ratio of .87%. The annual dollar amount Josh pays for Fund PDQ is $87.
You will pay a commission to trade stocks.

The commission is charged both to buy and to sell stocks.

The amount you pay varies by the type of stock broker you use.

Making trades online through a discount broker will generally cost between $7 and $20 per transaction.

- You will not get help or advice for trading through an online brokerage.

Buying and selling stock through a full-service broker will generally cost $100 or more per trade.

- Full-service brokers are supposed to give clients more personalized service. They sometimes advise clients on picking stocks and when to buy and sell.
Commission-based Brokers

Brokers sell investment products for which they get paid a percentage of your assets for the sale.

- **Pro:** The cost of the broker’s expertise comes from the assets you invest. You don’t have to write a separate check for his advice.
- **Con:** Is the product the broker recommending best for you or best for him? Also, it can be a while before you break even on your investment after commissions have been paid.
- **Best for:** People just starting out in investing who need some hand-holding, but don’t have extra money to pay separately for advice.
Ways to Pay for Investment Advice

Percentage of Assets Under Management.

Here, you pay an annual amount over all of your assets for ongoing investment monitoring.

- Typically, the charge is about 1%/year of assets managed.
- Charges are deducted from the investments quarterly.
- If your assets go up in value, the dollar amount you pay rises.
- If your account drops in value, the dollar amount you pay is less.

Pros: Generally your investments will be in no-load mutual funds or other less expensive products. The adviser is incented to keep you as a long term client, not just a quick sale.

Cons: Larger account minimums are usually required to use these services.

Best for: People who have accumulated a nest egg of $100,000 or more and would like professionals to manage the investment mix.
Ways to Pay for Investment Advice

Flat Fee or Annual Retainer.

Advisors using this business model charge on a project or hourly basis.

- Advice is not centered around investment sales, but more about solving financial questions
- Investment recommendations can be made, but the adviser is not making a commission on the investment you buy.
- This is like working with a CPA for your taxes or attorney for your will.

Pros: Not all financial questions are answered by buying a mutual fund. Sometimes you need a pro to advise you on college savings, how much to save for retirement, whether to rent or buy a home, etc.

Cons: You will need to be able to write a check for the financial advice. Fees are not deducted from investments in small increments.

Best for: People who have accumulated a nest egg of $100,000 or more and would like professionals to manage the investment mix.
Questions to ask during your planner search
Questions to Ask a Financial Adviser

1. How do you charge for services and how much?
2. What licenses, credentials, or other certifications do you hold?
3. What services do you/your firm provide?
4. What types of clients do you specialize in?
5. Could I see a sample financial plan?
6. What is your investment approach?
7. How much contact do you have with your clients?
8. Will I be working only with you or with a team?
9. Did the adviser ask questions about me?
Resources to start your search
Resources to Start Your Planner Search

**Financial Planning Association:** The FPA is a national professional organization dedicated to education of financial planners and the public. [www.fpa.org](http://www.fpa.org)

**Certified Financial Planner Board of Standards:** The CFP ® Board administers the licensing of Certified Financial Planner designees. [www.cfp.net](http://www.cfp.net)

**National Association of Professional Financial Planners:** NAPFA is a professional organization of Fee-Only planners. Typically members hold the CFP ® designation. [www.napfa.org](http://www.napfa.org)

**Personal referrals:** Ask your friends and family if they work with a planner that they like. A warm introduction is always a nice way to start.
Resources to Check A Planner’s Reputation

Don’t just take a planner’s word for how great he/she is. Do your homework to see if a planner has a history of complaints or litigations.

**FINRA Broker Check:** brokercheck.finra.org

**Better Business Bureau:** www.bbb.org

**Google:** Go past the first couple of pages of your search to see if there is a complaint web page or Facebook page out there about your potential planner.
Your MPP Plan Provider: Wells Fargo

- [www.wellsfargo.com/retirementplan](http://www.wellsfargo.com/retirementplan)
- 800-728-3123 for one on one help
- Access your account to:
  - View your account balance
  - Change your investment elections

Strategies, LLC is the Investment Advisor for your plan.

- ksullivan@strategies-llc.net or 1-800-276-8952 for investment help on the MPP
- Strategies can give investment advice, but we cannot make changes to your account.