

What You Should Know Before Hiring A Financial Advisor

You are ready for help with your financial life. You've maybe even done a little research, searched the web or asked your family and friends for referrals.

While that's a good start, you don't want to stop there.

Why? Because pretty much anyone can call themselves a financial advisor: commissioned-fueled stockbrokers, insurance agents and the guy at your local bank pitching his mutual fund.

One route to avoid amateurs is to start with a Certified Financial Planner® or CFP®. They advise their clients on how best to save, invest and grow their money. They're licensed and regulated and take mandatory classes on different aspects of financial planning—in addition to meeting continuing education requirements.

Once you've identified candidates—certified or not—to serve as your financial advisor, you want to ask some very pointed questions:

1. How do you get paid? If the answer is commissions, then know they only get paid when you buy and sell. They are incented to keep you trading. If they are paid by fees AND commissions, it's time to dig deeper. Make sure all fees and expenses on the investments they offer are transparent.
2. If the representative charges both fees and commissions, ask whether they adhere to the "fiduciary standard" or the "suitability standard". The fiduciary standard *requires* the advisor to act in your best interest. The suitability standard is a



much lower target—it means that the product you are sold is “suitable” for your net worth and risk tolerance.

3. If the advisor is a fiduciary, you can glean even more information. They are required to provide you with their form ADV that discloses any conflicts of interest, their background, and fee and practice structure. The ADV also discloses any prior legal problems that you'd want to know before making a decision. It is tempting to skip this step, but do take the time to read this document carefully and investigate any questions that arise.

Now that you've explored how the advisor gets paid and you've read their ADV, are you ready to hire this person? Not yet. Here are a few common questions to ask and look for:

1. Will you prepare a written financial plan? If so, is there a charge?
2. Does the advisor ask you good questions, such as about your money history and your expectations for the relationship?
3. Does the advisor present their expectations as well and do they feel appropriate?
4. How many clients do they serve? Are they over extended?
5. How long have they been in business?
6. How has their business changed over the years?
7. Do you feel comfortable that you're being heard and that the advisor “gets” your priorities and risk tolerance? Do they care about you as a person?

Choosing the perfect advisor for you is not random. Start by ensuring they meet the highest standards of the profession. Then—and only then—invest your time in deciding if there is a good fit and great chemistry. Because you deserve nothing less.



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