How To Choose An Investment Counselor

By Carol Kennedy

Many people mistakenly believe that financial advisors are only consulted by the rich and famous. The truth is many people with modest incomes have improved their financial status largely because they consulted a financial planner.

Financial planners offer advice on taxes, wills, trusts, mortgages, insurance and investments. The counsel they provide is based on your individual income and your goals for the future.

Investment counselors hold a variety of credentials from CFA (Chartered Financial Analyst to CFP (Certified Financial Planner) or RFC (Registered Financial Consultant.) Keep in mind that all of these titles are from private organizations based on experience or training, and they do not designate that the planner is recognized by a state, federal or regulatory agency.

To legally sell securities a financial planner must hold a federal securities license issued by the National Association of Securities Dealers. Series 6 license holders can sell mutual funds, investment trusts and closed-end funds, while Series 7 license holders can handle all forms of investments except commodities. Advisors who offer life insurance and annuities must pass state-administered insurance exams.

Anyone who offers financial planning services for payment must register with the Securities and Exchange Commission or a state regulatory authority. Stockbrokers, insurance agents, attorneys and accountants are exempt as long as their advice is incidental to their other work. All other investment counselors must register as investment advisors. It is in your best interests to work with a financial advisor who is registered.

Before you settle on a financial advisor. ask friends, neighbors and business associates for recommendations. Ideally you would seek a referral from someone with finances similar to your own. Interview two or three advisors before you make a final decision. Don't be afraid to ask questions about how they conduct their business, how they are compensated and the type of advice they provide.

It's smart to get some background information such as how many years they've been in business, the type of clients they work for, and how many people are employed as support staff. Also check to see if the advisor is a member of any local organizations such as the Chamber of Commerce, Community Association, etc.

While trying to choose an advisor, visit his/her office to get a feeling for the type of operation it is. Is it well organized or messy? Does the phone ring constantly or does it seem as if the advisor has few clients? Remember a large roster of clients doesn't mean that advisor is best. It could even mean your files will get lost in the shuffle. You want someone who has experience with a few clients but who will also pay attention to your needs. Check with regulatory authorities such as the SEC and NASD to see if the advisor has had any complaints.

Take into consideration how well the advisor's personality meshes with yours. You don't have to spend a lot of time together, but you should have a good enough rapport that you understand each other without confusion.

Ask for referrals and call them. Talking to other clients should give you some insight into how the advisor works, his success ratio and how well he is respected.

When you are trying to decide on a financial counselor ask for full details on how he expects to be compensated. Financial planners are usually paid by fee only, commission only, fee plus commission, and asset management. Commission only planners offer advice based on their broad knowledge but only charge for the recommendations you decide to use. Fee only planners charge hourly or flat fees ranging from $100 an hour to flat fees of $1500 and up. They don't earn commissions and only get paid for the advice they provide.

Approximately 70 percent of financial planners work on fees plus commissions. They hold insurance and securities licenses and charge fees for their advice. In addition they earn commissions by selling investments. Some also charge asset management fees ranging from one to three percent of the value of the assets.

The asset management fee is gaining in popularity because clients avoid paying upfront commissions and because the fee increases according to the growth of the assets. This type of arrangement offers strong motivation for the planner to recommend investments that will result in asset growth for the client.

The financial advisor you hire should be someone you like, respect and trust. If he/she seems too impersonal and seems to be talking in generalities rather than making recommendations based on your personal needs, look elsewhere.