

## Diversity Article – March 2011

### Finding Financial Help

To a kid with a hammer, everything looks like a nail.

Unfortunately, that's true for a lot of professionals as well. If you are trying to figure out what to do with a small inheritance and go to a broker, they will be confident that they have the perfect solution for you. So will a Registered Investment Advisor. You could also knock on the door of a wealth manager, a financial planner, or a financial counselor and get several more "perfect" solutions. The problem is that each one of these solutions will be different; one might actually be the perfect solution for you, a few might be appropriate, and a few might be totally inappropriate. The purpose of this article is to help you understand the different types of professionals that offer financial advice and how to find the one that can best meet your needs.

Unfortunately (again), how someone gets paid can have more influence on their recommended solution than your situation or needs. Understanding how different financial professionals get paid can help you choose the most appropriate one with which to work. There are three common compensation models:

**Commissions:** The advisor sells different investment products and their pay is directly related to which products they sell. This type of compensation creates a tension between which product is best for the advisor (the one with the best commission) versus the product that might best meet your needs.

**Fee-Based Compensation:** This refers to a combination of fees and commissions. The advisor may charge clients a fee for advice, but then still earn commissions on product sales. In some cases the commissions can be credited towards the fee so, to the client, it might look like a low-priced option. However, once again, the advisor has a financial incentive to prefer certain products over others.

**Fee-Only:** The client pays the advisor directly for advice or investment management. The fees might be based on an hourly rate, a percent of assets under management, a flat fee (for a financial plan, for example), or a retainer. Under this model the advisor has no financial incentive to select certain investment products over other investment products, and can choose investments based entirely on what is in the best interests of the client.

Another important aspect of all this is whether the advisor is a broker-dealer or a Registered Investment Advisor (both call themselves advisors, planners, wealth managers, etc.). **Brokers** are held to a "suitability" standard and can recommend an investment as long as it is appropriate for the client. For example, while a broker is not supposed to sell a high-risk investment to an elderly person with limited means living off her investment income (not suitable), they can sell you a mutual fund with higher expenses than a similar alternative. **Registered Investment Advisors** are held to the higher "fiduciary" standard, requiring them to act solely in the best interest of the client.

A third aspect to consider when choosing an advisor is their credentials. Last year the Wall Street Journal published a list of 50 designations used by financial professionals; some require substantial education, exams, experience and an ethics commitment (such as a CFP® designation), while others might just require a few hours of self-study and a check. If the advisor you are considering has initials after their name you should ask what they mean, what the advisor had to do to get them, and whether they require any ongoing education. Other respected credentials among financial planners include the Personal Financial Specialist (provided to CPAs who meet additional requirements), and Chartered Financial Consultant (ChFC).

All this can get pretty confusing. However, choosing a financial advisor is important; after all, it's your financial future! A great resource that includes additional guidance as well as key questions to ask a potential advisor, is "Pursuit of a Financial Advisor Field Guide" recently published by the National Association of Personal Financial Advisors. The Guide is available for free at [www.arcadvisers.net](http://www.arcadvisers.net) under the Resources tab.

*Kathy Stearns is a CERTIFIED FINANCIAL PLANNER™ and investment advisor in Boise. She is fee-only and sells no products and earns no commissions. She is an Investment Advisory Representative of First Affirmative Financial Network (SEC File #801-5687), which serves socially conscious investors and has nearly \$700 million under management. Prior to becoming a financial planner she spent more than 20 years working in the nonprofit sector to increase economic opportunities for the disadvantaged in developing countries and the US. Her website is: [www.arcadvisers.net](http://www.arcadvisers.net). The views herein are those of the author and do not necessarily reflect those of First Affirmative, its management or staff.*