

An Important Employee: Your Financial Advisor

by vcmorris - Thursday, March 12, 2009

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It works my very last nerve when I hear people say: "I let my financial advisor figure out what to do with my money. They're much better at it!" Guess what? It's *your* money, so I think there's something a little scary about just turning *your* money over to someone else to manage.

Always remember - it's YOUR money and always take it personally.

In order to make money grow and for you to sustain your financial independence - it's critical for you to build a financial team - if only of one: a financial advisor. This is the person who can help you reach your personal money goals by working with you to create a financial plan and put it into practice.

How do you find a financial advisor? Ask around. Check with family, friends, attorney and accountant for referrals. Be sure to check the financial services that your bank provides, too.

When choosing a financial advisor, what you're looking for is someone with whom you feel comfortable. Someone who makes you feel that he or she is taking your money needs personally - professionally. Look for a person who has been in the field five years or more and can tell you their code of ethics. Make sure to check their background (www.sec.gov click on "Check Out Brokers and Advisors" for more information). Also confirm their credentials with one of several accrediting organizations such as the National Association of Personal Financial Advisors (<http://www.napfa.org/>).

There are many professional designations out there among money specialists - but only a few deserve your consideration.

- There are CFPs - certified financial planners who are trained in risk management, investments and tax, retirement and estate planning.
- There are PFSs - personal financial specialists who are certified financial accountants who specialize in financial planning.
- There are chartered financial analysts (CFAs) who must pass a three level test on investment analysis, economics, portfolio theory, accounting and corporate finance.
- There are chartered financial consultants who are insurance agents who've passed college courses in financial planning.

Regardless the designation of the financial specialist - **be sure** you know how they get paid. There are several compensation models. Some are strictly fee only (like the members of NAPFA). I prefer fee only advisors since they sell no products and therefore have fewer potential conflicts of interest. Other financial advisors are paid by commission and take a percentage of your assets plus a fee. There are some who charge an hourly rate of \$120-\$300 per hour. And still others who charge you an annual retainer. You can find good advisors in any of these compensation models. Then schedule what should be a *free consultation* with several the advisor so you can get a one-on-one sense of your comfort level with this

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person.

When choosing the best person to help you manage this important area of your life, what should you expect them to do? The advisor should:

- know and focus on your risk tolerance in selecting your portfolio and provide you a performance review of at least 5 years
- work with you to set target rates of return meaning the returns you will need to achieve your objectives
- show you different models and mixes of investments that have the highest probability of achieving your goals
- write an investment policy statement for you (or you request one) that provides specific instructions such as target return, risk tolerance, time horizon, anticipated withdrawals or contributions, tax constraints and regulatory issues, if any
- rebalance your portfolio periodically and make suggested adjustments as needed
- provide you with a quarterly assessment of the portfolio's performance and market values.

Here's to your health and wealth.

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