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Handbook 1

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"I had contributed to my 401(k) at work for about 11 years when I realized that it was important to find a financial advisor to make sure my investments were adequately diversified. What really held me back from picking an advisor is one word" 'trust.' I didn't know how to go about finding one, and then didn't know what was appropriate to pay. They don't teach you these kinds of things."

—Jeffrey P. (52 years old)



## Selecting a Financial Advisor

One of the top reasons Baby Boomers don't use the services of a financial advisor is lack of trust. Although millions could benefit from having a "second partner" on their financial team, they are deterred by not understanding how planners are compensated, where to find a good one, and whether or not to trust one. The reality is that finding a good financial advisor takes as much time as you'd spend shopping for a car, and the process is a lot easier than you might think.

You need to consider three issues: how the advisor is paid; how knowledgeable he/she is about the issues that concern you most; and how good a "team" you make together.

### Types of Planners

- **Fee-only planners.** Charge hourly rates ranging from \$75 to \$250 or more, or a flat fee, for advice. To manage your money, they charge an annual fee that's a percentage of your assets (typically one percent). The fee for drawing up a financial plan depends on the complexity of your financial situation.
- **Fee-plus-commission planners.** Charge a combination of fees and commissions. This type of advisor might charge a flat fee for creating a financial plan and also earn commissions by selling investments that implement the plan. One way to evaluate these planners is to ask what percentage of their earnings comes from fees as opposed to commissions.
- **Commission planners.** Paid based on the product they sell you. The commission is built into the sales price of the investment product. The commissions usually cover the cost of a

### Financial Titles and Terms

Financial planner, financial consultant, and financial advisor are meaningless terms unless backed by one of the following:

#### CFP™: Certified Financial Planner™

Considered by many to be the standard because of the education and training required to pass the two-day, 10-hour exam administered by the Certified Financial Planner Board of Standards, Inc. Continuing education required.

#### ChFC: Chartered Financial Consultant

A designation awarded by The American College in Bryn Mawr, Pennsylvania, to those who take a 75-hour course, pass an exam, and take continuing education courses.

#### CLU: Chartered Life Underwriter

Also issued by The American College, with an emphasis on insurance course work.


#### CPA/PFS: Certified Public Accountant with a Personal Financial Specialist designation

This means the CPA has passed a PFS examination given by the American Institute of CPAs.

financial plan. Again, most commission-only planners should disclose the fee they are earning on the product.

An important component in developing trust is being assured that a financial advisor has the appropriate training to meet your needs. Some financial planners have earned the *Certified Financial Planner<sup>TM</sup>* or *CFP<sup>TM</sup>* designation by passing a rigorous certification exam that demonstrates expertise in all aspects of financial planning. Many standard financial planning books on the market explain more fully what all the different financial credentials and designations mean. Use the Financial Titles and Terms chart to the left as a starting point. Most importantly, you want to find an advisor who is knowledgeable about investments, taxes, insurance, retirement, and estate planning.

**RIA: Registered Investment Advisor**  
Obtained by registering with the Securities and Exchange Commission. Brokerage firms can be RIAs. No training required.



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