



HOW FINANCIAL ADVISORS WORK AND GET PAID

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A professional financial advisor can help you realize your dreams, but buyer beware. Anyone can call himself a “financial advisor” – current law does not require any minimum experience or education. If you’re looking for a professional financial advisor, here are three key questions to ask:

How are you compensated?

This is a central issue. It's the way you can tell if his or her interests will line up with yours. Advisors get paid either through a fee paid by you (“fee-only”), a commission they receive for selling a company’s products (e.g., an insurance policy), or a combination of fees and commissions (“fee-based”).

If the advisor says you don't have to pay anything, get an explanation. You can get to the issue by asking, "What transaction has to occur before you get paid?" Nobody works for free and everybody knows it.

Strong reputations result when companies are transparent in the way they conduct their affairs.

Charles Fombrun

Ask for full disclosure of all money that will be paid to an advisor or his firm before proceeding with any proposed transaction. It is crucial to know what you are paying and what you are receiving in return. Advisors who refuse to provide full disclosure should be viewed with skepticism. True professionals are transparent as to compensation.

A “financial planner” or “financial advisor” should be registered as an investment advisor with his or her state or with the Securities and Exchange Commission. Ask to see their ADV Form Part II. It contains important information about the advisor’s background, the services he or she provides, and how they charge for their services. If you are considering an advisor who is a licensed securities broker, you should also check his background at www.nasd.com.

Are you a fiduciary?

Registered Investment Advisors are fiduciaries, which means that they must put their client's interests first, ahead of their own. Brokers are paid a commission by the company they work for (they get paid for selling you products); they are not fiduciaries.

Find out what kind of responsibility your advisor takes on. Get it in writing. Many of the nation’s top journalists, such as Jane Bryant Quinn, Jonathan Clements and Harriet Brackey, come down on the side of using a fiduciary. You wouldn't want to go to a doctor or even a veterinarian who doesn't put your interest first, would you?

Tell me about your credentials?

Competence is what you are paying for when you hire a financial advisor. Well-meaning people can be incompetent. So can nice people, or friends and members of your church or country club. And incompetence can destroy your financial objectives.

Only two professional designations really signify the core knowledge of personal finance – CFP® and CPA/PFS. CFP stands for CERTIFIED FINANCIAL PLANNER™ professional. CPA/PFS stands for Personal Financial Specialist and is coupled with CPA qualifications. The Chartered Financial Analyst (CFA) and Chartered Financial Consultant designations also denote rigorous training, but they tend not to be focused on personal finance – they are centered more on investment analysis (in the case of the CFA) or insurance based solutions (in the case of the ChFC). Still, all four of these designations involve stringent examinations and continuing education.

The culture that dominates the financial services industry is based on selling, not advising. Every penny of compensation that advisors receive, whether it is a fee or a commission, comes from you. Are you getting what you're paying for? Does your advisor really have the competence and integrity to help you achieve your financial objectives? Is the advice objective and devoid of conflicts of interest?

Don't lose your focus. This is about your family and your money – and they are much too important to accept anything less than full disclosure and competent unbiased advice.

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