



## *The Choice...*

### **How to Select the Best Financial Advisor for You**

By: Robert Klosterman, CEO & Chief Financial Officer

**F**inancial advisors are chosen for a variety of reasons. Often the catalyst is some event that suggests it is time for professional help. It may be that the portfolio has grown to a size where one feels a second opinion is in order, or the evidence seems to suggest that someone else may be better suited for the job. Other motivations come from significant changes in circumstances such as divorce, career/position change, receiving an inheritance, or retirement is just around the corner. Whatever the reason, the choice to engage a financial advisor leads the “really big choice”...who and what criteria to use in selecting a relevant, qualified and effective financial advisor to meet your needs, whether it is for a short-term project or long-term engagement.



The Choice is an important one to get right and a good set of criteria will go a long way to find an advisor that you feel the most comfortable and confident with. The following points can provide a broad based spectrum to discern the proper choice.

- Education
- Experience
- Commitment
- Ethics
- Advisor Niche
- Unique Firm Characteristics
- Conflicts of Interest

Let's examine these seven points in more detail:

**Education:** It is not hard to find someone in the financial services business with initials behind their name. It became clear a couple of decades ago that these initials of various types provided credibility to those who put them on their business cards. With that revelation firms would create a course, have a short course with the tested information and administer a test. Some could accomplish in a few hours.



## Portfolio Design for Serious Money – FOR CLIENT USE ONLY

The “Gold Standard” with regards to designations is the Certified Financial Planner (CFP®) for the financial planning profession. Currently over one hundred accredited universities across the country offer the coursework for the CFP®’s seven areas of study.

Topics:

- General Principles of Financial Planning
- Insurance Planning
- Investment Planning
- Income Tax Planning
- Retirement Planning
- Estate Planning

Professional Conduct and Fiduciary Responsibility

This information is tested in a two-day comprehensive exam. The first time pass rate for the exam is around 50%. This is clearly not a show up and study, for a couple of hours, exam. Additional requirements include a Bachelors Degree and three years of relevant planning experience.

There are other credentials that add value such as the Chartered Public Accountant (CPA) and Chartered Financial Analyst (CFA). The CPA designation has an affiliated designation to the PFS and has creditability. The CFA is centered more on investments.

**Experience:** Having interviewed dozens of applicants over the years for planning positions, I have found that being affiliated with a financial services firm may suggest more digging on experience than one may think. It is very common for advisors and wealth managers to be given the title and their job was to find new clients for the firm with no solid planning experience. The larger the financial services firm the more likely this is true. At the same time I know very competent, knowledgeable and ethical people in large firms. Ferreting them one from another is the challenge. The credentials mentioned above can be effective when gauging experience.

It is important to keep in mind that 90% of the hires in the large financial services firms are gone before five years are up. Some wash out and others leave to start their own firms as they see their opportunities are better. Still others jump ship to the next large firm for large payments to transfer firms. Some may be offended that the person changing firms may receive money to go to the new firm. It’s always good to know the actual reason behind it all.

I may have sounded a bit negative just now. I will add the individual with long tenure at a firm probably indicates a solid client base and is doing an okay job. You still need to watch for conflicts of interest mentioned below. Also, keep in mind that the firm who is paying large changing bonuses (often two to three times the most current annual revenue produced) is focusing on that rather than being a low cost provider.

**Commitment:** This is a tough one to assess but the clues are often found in a few areas. One, has the individual made a commitment to the profession such as obtaining the CFPTM designation? Second, is the individual a member of the professional associations such as the Financial Planning Association (FPA) or the National Association of Professional Financial Advisors (NAPFA)? The serious practitioners do and are



proud to be members. Third, what continuing education has the advisor participated in? If it is only firm sponsored it may indicate a narrower spectrum of knowledge and interests.

**Ethics:** Of course, everyone wants an ethical person. Ethics are always complicated and one thing I've found is that you can often draw from is the small things in life. Those who think "small things" can be bent, folded, spindled and mutilated will likely feel the same way about most things. Of course, it's the nicest people that often get caught up in some nasty thing. Nice is nice but a few items to look for are: the credentials of CFPTM with a signed ethical pledge, ask for a firm's code of ethics and read it, ask as many questions as you can about what the advisor states. If the statements seem mushy and change, make the appropriate decision. Validate in some way what the advisor is saying; we all know what you want to hear. Can we back it up? Ask for references and ask if they have written any papers that represent what they believe.

**Advisor Niche:** One of the great questions asked is "what do you specialize in"? There is no bad answer, but the answer will help provide information on the interests and scope of the advisor's work with her/his clients. Some may lead you to believe they are great at insurance work. Is that what you are looking for? If it is, great, but if you are looking for a comprehensive planner who can deal with a number of issues that will inter-relate with other issues, then maybe not so much. Specializations or niches may be what you want and/or need, but this is not always the case.

**Unique Firm Characteristics:** Size matters! But maybe not in the way you think. If you want a personalized, long-term relationship smaller firms may be a better choice than the gargantuan financial service firms. As mentioned above, collectively, they hire thousands of people to be "advisors". Most will be gone in a few years. Another dynamic is that if they are really good (especially at getting new clients) they may get promoted or transferred to another department. For clients less than \$10,000,000 of assets or under, an 800 number for service may be in your future.

In independent firms the principles play a significant and prominent role. In most cases you are talking right to the decision maker rather than getting information translated from the Investment Research department. By the way, the research is widely distributed to the independent firms as well. Why? Because the independent firms represent a "large checkbook" that the large firm wants to tap. Advisors represent another "channel" to tap to get more business. One would think the large institution would protect "their advisors" but in my experience, none do. They want the money no matter which channel develops it.

**Conflicts of Interest:** In an ideal world we would all want someone whose only interest was in serving our needs. If one could exclusively hire someone to look after our needs it would be the highest, and best, opportunity for an individual. No conflict there! Take care of the boss or find other opportunities. Large financial firms have many departments/decisions to create and promulgate product offerings. Yet, if additional compensation or bonuses are part of an advisors compensation that may present strong incentives to promote, suggest or recommend products based on the incentives that are part of their compensation package. Often, not good!

Most people can't hire an individual or team of individuals to meet their needs. The next best thing is a fee-only financial advisor who is willing to sign a fiduciary oath that she/he will only represent your interests in the recommendations they present to you. Fee-only advisors are not the majority of financial



advisors, but they can easily be found at NAPFA.org, which is the professional association for fee-only advisors.

**Summary:** Finding an advisor with your best interests at heart is challenging, but with the proper questions and some diligence an advisor can be discovered that will be a good fit for you. By asking questions related to the seven points above one can move forward with confidence and enthusiasm to a better plan for long-term financial security.

### *About the Author*

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Robert Klosterman, CFP® is Founder, CEO and Chief Investment Officer of White Oaks Wealth Advisors, Inc. and its predecessor R.J. Klosterman & Co, Inc. Bob has been a Certified Financial Planner licensee since 1989. He has a clear vision for the future having worked in financial planning since 1975, and feels a strong need to provide people with expert and independent wealth advisory services. As a Certified Financial Planner and certificate holder for Family Wealth Advising, Bob's expertise and guidance have helped to fuel the steady growth of the firm. Today, White Oaks Wealth Advisors boasts a talented staff of advisory professionals, hand-picked for their financial planning and wealth management knowledge as well as their dedication to client service.

"My mission is to serve our clients through the combined expertise of our advisory team. I want to use my experience to really impact the lives of the people who place their trust in us."

Bob's leadership within the firm's Advisory Committee regularly encourages fresh thinking and new approaches that provide clients with innovative wealth management solutions in the areas of economic and investment market analysis, stock option strategies and wealth transfer techniques.