

FOUR KEY CONSIDERATIONS WHEN CHOOSING A FINANCIAL PROFESSIONAL

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If you're considering working with a financial professional who can help you evaluate your personal finances and recommend strategies to set and achieve long-term financial goals, there are some things to understand first. This fact sheet covers four important aspects to understand when choosing a financial professional; standards of practice, how financial professionals are compensated, financial professional certifications, and questions to ask a financial professional before giving them your business.

1. UNDERSTAND STANDARDS OF PRACTICE

Not every financial professional will have your best interest at heart. It's best to look for someone who clearly follows a fiduciary standard. This means they are legally obligated to act for your best interest even if advice or recommendations include discontinuing services. You can ask to see their standards of practice in writing. Some financial professionals are held to a suitability standard. This means they are free to advise and sell products as long as they are deemed "suitable" for the client's risk tolerance or age. Do not feel silly asking about the code of ethics a financial professional adheres to (Consumer Financial Protection Bureau).

2. UNDERSTAND HOW FINANCIAL PROFESSIONALS ARE COMPENSATED

When you are paying to receive financial advice it's important to understand how the financial professional you are working with gets paid to help you (University of Illinois Extension).

Commission only: Commission only financial professionals sell financial products such as investments or insurance and make money off of commissions received on the financial products they sell.

Fee-based: Fee-based financial professionals typically charge an up-front service fee for their work. They also charge a commission on trades or purchases they make in your behalf.

Fee-offset: Fee-offset financial professionals charge by the hour or annually. Fees can be reduced by any commissions earned.

Fee-only: Fee-only financial professionals charge by the hour for their services. They do not earn commissions. Fee-only professionals do not sell financial products.

The more you understand about how a financial professional is paid, the better you're able to determine when there might be a conflict of interest. If you ever feel pressured or aren't sure that the direction you're headed is right for you, walk away.

3. UNDERSTAND FINANCIAL PROFESSIONAL CERTIFICATIONS

The following certifications and descriptions of financial professionals can help you decide which type you are looking for depending on your goals and circumstance. Many of the qualifications for certification come with a requirement to track training hours before certification is granted. It is also important to understand how your financial professional acquires continuing education.

Also included in the chart is contact information to check the background of the financial professional you are considering. You should do your due diligence to

research qualifications even if the recommendation came from a trusted friend or family member (Garman & Forgue, 2018).

CERTIFICATION	DESCRIPTION	CONTACT INFORMATION
Accredited Estate Planner (AEP)	Estate Planning	www.naepc.org
Accredited Financial Counselor (AFC)	Financial Counseling and Money Management	www.afcpe.org
Certified Financial Planner (CFP)	Best-known Financial Planning Certification	www.cfp.net or www.plannersearch.org
Certified Public Accountant (CPA)	Income Tax and Estate Planning	www.aicpa.org or http://findacpapfs.org
Certified Trust and Financial Advisor (CTFA)	Trusts and Taxes	www.aba.com
Chartered Financial Consultant (ChFC)	Financial Planning in Insurance and Estate Planning	www.theamericancollege.edu
Chartered Life Underwriter (CLU)	Life Insurance	www.theamericancollege.edu
Chartered Mutual Fund Counselor (CMF)	Mutual Funds	www.cffpinfo.com/cmfc.html
Investment Adviser	Stockbroker Managing less than \$100 million	www.nasaa.org or www.finra.org
NAPFA Registered Financial Advisor (NRFA)	Source for Fee-only Financial Advisors	www.napfa.org
Personal Financial Specialist (PFS)	Personal Finance Credential for CPAs	www.aicpa.org
Registered Financial Associate (RFA)	Granted Only to Recent Graduates of approved collegiate programs	http://www.larfc.org
Registered Investment Advisor (RIA)	Stockbroker Managing more than \$100 million	www.sec.gov or www.finra.org

4. UNDERSTAND QUESTIONS TO ASK A FINANCIAL PROFESSIONAL

It is responsible to first ask and understand answers to the following questions before committing to work with a financial professional. These questions can help build trust and ensure proper practices are observed by the person you will pay to help you make decisions with your money.

- What experience do they have, such as work history?
- What are their qualifications to practice financial planning, such as education, formal training, licenses, and credentials, and who can vouch for their professional reputation including some of their long term clients?
- Do they permit a no-cost, initial consultation, and how much time is allowed?
- Do they adhere to a fiduciary standard when working with clients? Why or why not? Will they be the only person or will an associate be involved in evaluating and updating the suggested plan, and how often are formal reviews held with the client?
- How do they evaluate individual investment performance, and how often?
- What process do they follow to identify a client's financial goals and may you see representative examples of financial plans, monitoring reports, and portfolios or actual case studies of their clients?
- How much do they cost, what is their fee structure, how are they personally compensated, and if they earn commissions, how are they earned and from whom?
- Can they provide a written agreement that details the points above and the services to be provided?

- Ask for a copy of the advisor's regulatory disclosure ADV Forms, which outlines any problems with regulators as well as services, fees, and strategies.
- To whom would you take a complaint, if you had one?

Check up on your advisor by contacting your state securities regulator (www.nasaa.org), FINRA (www.finra.org), and the CFP Board of Standards (www.cfp.net) if he/she claims to be a certified financial planner. Finally, do a Google search on the advisor (Garman & Fogue, 2018).

Researching standards of practice, compensation, certification, and questions to ask can help you feel confident and prepared to communicate money matters with a financial professional.

References

1. Consumer Financial Protection Bureau. 2019. *Choosing a Financial Professional*. Available at: https://files.consumerfinance.gov/f/201401_cfpb_guide_choosing-financial-professional.pdf
2. Garman, E. Thomas, Fogue, Raymond E. *Personal Finance*, Boston, MA: Cengage, 2018.
3. University of Illinois Extension. 2019. *Consumer Guide to Choosing a Financial Professional*. Available at: <https://web.extension.illinois.edu/financialpro/consumer.cfm>

Further Resources

www.finance.usu.edu
www.utahmoneymoms.com
www.consumerfinance.gov

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