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8/19/2011 12:48 PM ET | By Liz Weston, MSN Money

Can financial advisers be trusted?

Not every investment consultant has your interests as the top priority, or even the necessary credentials. Here's how to find the right type of adviser.

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If you have a financial adviser, then it's time for a pop quiz. When the markets go nuts, your financial adviser:

A. Reassures you that the world isn't coming to an end and encourages you to stick to your carefully crafted investment plan.

B. Tries to sell you an investment product or service to "fix" your concerns.

C. Does whatever you say -- buy in a frenzy, sell in a downturn -- without comment or question.

D. Maintains radio silence. You never hear a peep.

If I ruled the world, everyone with a financial adviser would answer "A." Someone entrusted with advising you about your money should take the time to get to know you. This adviser should work out an investment plan that makes sense with your goals and risk tolerance. Then he or she should remind you of that plan when you're tempted to make rash decisions.

bing
The best financial advice ever

Most people with advisers, though, can't answer "A." Their investment consultants don't communicate ("D"), just take orders ("C") or, worst of all, try to take advantage of their fear and confusion by trying to sell them yet another magic bullet ("B"). By the way, if you're not high-income and your adviser has ever tried to sell you a variable annuity, you're probably in that last group.


Liz Weston

Here's one of the big problems: The vast majority of people presenting themselves as financial advisers don't have to put your interests first. They can recommend you buy a financial product or use an investment strategy because it makes them more money than the alternatives.

These advisers have only to prove, if questioned by regulators, that they didn't suggest you invest in something "unsuitable."

A push to hold all advisers to a higher standard got a big boost during the 2008-09 financial crisis. The idea was that all retail investment advisers should be fiduciaries, which means putting their customers' interests ahead of their own. But some big financial companies, particularly insurers, are fighting back against this push.

"Most people think they're getting a fiduciary standard

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Can financial advisers be trusted?

when they're not," said Karen Nystrom, the manager of public policy and advocacy for the National Association of Personal Financial Advisors, or NAPFA, a group of fee-only planners who are fiduciaries. "There's a lot of consumer confusion on this issue."

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Another big problem: Not all advisers know what they're doing. Many don't have training in comprehensive financial planning. Some know only what their companies tell them. If those companies want to sell certain financial products, their employees aren't likely to learn much about alternatives that might be less expensive, more effective or a better fit for their clients.

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You may like your adviser. Your adviser may be personable, caring and seem smart. But that doesn't mean you're getting good advice.

So what are you to do? If you're going to take personalized financial or investment advice from someone, make sure he or she has:

- **The right credentials.** Don't be impressed by a string of letters after someone's name. Some of those could be little more than mail-order credentials. You want the designations that matter. If someone is a registered investment adviser, that's potentially good news, since RIAs are held to a fiduciary standard. For investment advice, one of the topflight credentials is chartered financial analyst. A CFA has passed a tough, three-level test in investment analysis, economics and portfolio theory, among other topics. For financial planning, the top credential is certified financial planner, or CFP. The credential requires significant coursework, a rigorous test and three years' experience. Another well-respected financial planning credential is the personal financial specialist, or PFS, which is granted to a CPA and has education and experience requirements similar to the CFP. The credential of chartered financial consultant, or ChFC, is typically granted to insurance agents who have passed college-level courses in financial planning.
- **The right standards.** You can cut right to the chase with your adviser and ask, "Are you willing to be a fiduciary -- and to put that in writing?" You should know whether someone giving you advice is putting your interests first. If your adviser isn't willing to go on the record as being a fiduciary, you don't necessarily have to drop him or her. But you should understand that the advice you're getting may be influenced by the commissions or other rewards the adviser stands to earn. You'll need to be diligent about asking, "What are the disadvantages of this approach? What are the alternatives to what you're recommending?"
- **The right approach.** If you're paying for investment or financial advice, you deserve a little hand-holding now and then. Your calls should be returned promptly, and your questions answered in a way that doesn't make you feel like an idiot. In times of market turmoil, your adviser should reach out to offer some reassurance -- if not in person, then at least through a newsletter or email message. If you're really high maintenance -- you're calling every day or freaking out at every dip and turn of the stock market -- your adviser should talk to you about ways you can calm yourself down, rather than simply ignoring you.

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Breaking up with an adviser may be hard to do, but it may be the best way to preserve your portfolio -- and your sanity. You can get referrals to advisers who hold themselves to a fiduciary standard from the Financial Planning Association. If you want referrals to fee-only financial advisers -- planners who don't take commissions but who are compensated only by the fees you pay -- you can get referrals from NAPFA (where many planners charge retainers or base their fees on a percentage of your investable assets) or from the Garrett Planning Network, which represents planners who typically charge by the hour.

Liz Weston is the Web's most-read personal-finance writer. She is the author of several books, most recently "The 10 Commandments of Money: Survive and Thrive in the New Economy." Weston's award-winning columns appear every Monday and Thursday, exclusively on MSN Money. Click here to find Weston's most recent articles and blog posts.

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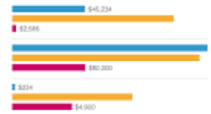

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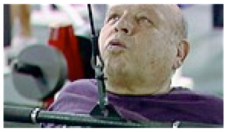

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1 2

Barbara cormeny Sat 8:39 PM

One the biggest problems for investors and financial advisors remains constant,accounting footnotes.To the layman it is called lying through your teeth,to the officers of the corporations it is called the annual report.
If you read the back of a bottle of a drug you'll notice the footnotes or warnings. The print itself deters all those but the brave.The same thing occurs in annual reports. To those issuing the shares it is known as due diligence.
The other problem is far more serious,diversity.
TVG runs a show which brings together about seventy five tracks from the US and the world. Each announcer sounds like the person on the FM station who reads the covers of the classical CDs and solemnly recites the summary.

More

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Barbara cormeny Sat 8:33 PM

It might help your advisor if he tied his investments to yours
.You could purchase a few extra shares for him or her and then watch and see how these extra shares perform
.You could purchase a separate set of shares with another advisor,and then see how these shares perform. This way you might sharpen their focus by keeping records of both advisors.

1 1

Tider222 8/27/2011 11:23 AM

never totally trust anyone whos profession is studying money'

13 3

vk99 8/24/2011 3:36 PM

ACA (www.acaplanners.org) is another source of qualified, credentialed fee-only financial planners who have a fiduciary responsibility to their clients. ACA members use holistic financial planning strategies which means that the services are truly comprehensive and custom as they incorporate each individual's values, beliefs and priorities into their financial plan.

0 8

Virgil Hicks (lesspeopleworship) 8/24/2011 1:45 PM

Trust in God,not man! When it comes to your money,the vulchers will gather!

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Purplesky 8/22/2011 4:09 PM

NO.
How succinct is that?

5 4

Maxjay 8/22/2011 2:08 PM

kykid, this discussion is not about fees, it is about trust and understanding of how the different types of advisors work for the client and how we are compensated. The blanket statements in the original article are what is at issue. You basically are saying that 220,000 registered representatives are overpriced and should be put out of business because the registered investment advisory world is less expensive. On the flip side, I compete against registered investment advisors that charge 1.5% of assets up to $1 million who use automated account maintence software. Would you buy that widget? No, just like I would not buy your deal. By the way, registered representatives can use multiple share classes of funds for clients without the up front sales charge of 5%. I guess that is why many still have jobs?

4 3

honesty lost 8/22/2011 1:36 PM

Morgan/Stanley is only a full service Broker (per their advertisement) for themselves. They have never given me professional service - only bad advice. They have never forgotten to deduct fees while I lose from their recommendations.

20 2

_Cygnus 8/22/2011 12:55 PM

Some other ideas, if you can find out if they work on salary or commission, then the one that works on salary only is more likely to be fiduciary. Also, if they are working out of an investment bank or a retail bank, the retail ones are more likely to be fiduciary.

Oh and remember, no one can predict the future, not even a good financial advisor. Don't assume that you can't do the job well enough all by yourself by taking the time to Google and research tips on how to invest and save on how your taxes are done.

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kykid10 8/22/2011 12:26 PM

Max, I know all that. "Sir, the commission for my advice on this investment is 5% of the purchase price. That will come to $5000. Do you want to proceed with the transaction?"

5 2

Maxjay 8/22/2011 11:59 AM

Kykid, that disclosure is legally called a prospectus and or fund fact sheet. Not only does it contain fee explainations and examples but also contains standardized performance of the investment, which is something that I do not have to provide as an investment advisory representative, as babybaby53 sites below. If the client does not read that information after we supply it to them that is their fault. Our business is in flux right now due mostly to the market and some "part-time" and unsupervised advisors giving us a bad name, but the holier than thow attitude of registered investment advisors is dissappointing given that the major transgressions lately have been by RIA's not registered representatives. Just look at your last post, most of your statements are based on hearsay like the "higher standard."

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kykid10 8/22/2011 11:14 AM

Max, the suitability standard has little to do with protecting investors. Only in extreme cases does it do that. Yeah the competitive market exists to allow choice but it is not an even playing field. With a fee-only advisor you know what you are paying and the advice you get is unbiased. An even playing field would be full disclosure regarding compensation. Then and only then can a consumer make a good choice. They have to trust who they work with because most lack the understanding to invest on their own. They need help to build and maintain wealth. It's complicated to do correctly. Once again, decades of acceptance is the issue. I work with some smart people that are probably better than 95% of the average do-it-yourselfers but still fall victim. If someone has $100,000 to invest and is charged a 5% commission that's $5000 that should be disclosed. Then it is apples to apples.

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pmark 8/22/2011 10:59 AM

No matter which financial advisor you the SAME mantra and game plan-

Game Plan being- Let's buy a bunch of different stock in each sector, cross our fingers and hope the winners outnumber the losers.

Mantra being- The market should come back, historically it always has before- there's no reason it shouldn't also this time- BUT don't hold us to that statement because we really don't know for sure.

The whole Wall Street/Financial sector is a legalized government sanctioned Ponzi scheme based on ever increasing population groups. when that stopped happening the people who run the show

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boxerwalker 8/22/2011 10:38 AM

Just keep one thing in mind with a 'Professional Financial Adviser'. They are SALESMEN. They work on a commission. They want to SELL you a PRODUCT. They are not there to do anything more that to separate you from your money. After have three other PFAs pull radio silence, I thought I had found one that was more on the 'heart of the teacher' type. Nope, this guy is currently MIA, won't return calls or email. I even called his office to a. see if they were still in business b. to see if he still worked there. I am currently in the process of converting all of the 'products' he sold me into secure retirement CD with my credit union. I may only earn 2% on it, but no one is going to take any more money away from me. The long term approach is a myth. You will never earn that promised 7%. It is just simply a way to keep you hooked into the system that makes them money, not you.

9 11

Maxjay 8/22/2011 10:20 AM

Maybe I should clarify, as both a registered representative and investment advisory representative I understand the difference. Broker dealers are simply compliance conduits for securities compensation, again another compliance checkpoint. Independent broker dealers dont have any company allegiance. The great thing about "suitability" is that it exists to protect the investor. That does not exist for investment advisors. Next, the competitive market exists to allow choice! If the registered representative puts the client in a bad fund the client should walk just like he or she would do if the investment advisory account would underperform. And frankly, I like many others acting as registered representatives would love to simply live by mythical "the higher standard." Broker dealers are fighting this because they would have to retrain their registered representatives as they are essentially all SRO's.

5 7

Down4good 8/22/2011 10:05 AM

"You can trust all financial advisors some of the time." Wait that doesn't work.
"You can trust some financial advisors all of the time." No, that doesn't work either.
"You can trust all financial advisors all of the time."…..

Darn, you're right, this is a tough one.

11 1

Baybaby53 8/22/2011 10:04 AM

I can't understand why anyone would pay someone 1-1.5% of the portfolio without some tie to performance. Every planner I interviewed could not or would not tell me how their clients did during the '08-'09 downturn. "Every client/porfolio is different, it depends on the investment mix, no easy way to compare one portfolio to the broad market, blah blah blah" Market benchmarks should be an easy way to measure performance. But not one advisor I spoke with would agree to performance metrics. So now I keep 20% of my assets in cash, use a screener to buy individual stocks that pay a dividend, and I sleep just fine at night. $7.95 for a trade sure beats $9500 a year for nothing (IMO).

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kykid10 8/22/2011 9:55 AM

Liz is 100% correct in this article. Several of you are defending your way because your livelihood is at stake. Bottom line is broker/dealers allegiance is to the company and not the consumer. Putting together a portfolio and financial plan requires more than just looking at investments in your clients account with you. I recently assisted a man with three accounts. Did his taxable account 'advisor' bother to look at the the other two accounts or to make sure they were in line with his goals?
This buddy did nothing of the sort. Why? Makes no money doing a thorough analysis. Why would he recommend 2 star funds that significantly underperforms the market and has fund fees that are not low? Because he makes money by selling it. After all, it's 'suitable'.

The #1 problem is the suitability standard has been in effect for so long that it is accepted as the way

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steve smith (sjacobs123) 8/22/2011 9:28 AM

I like the way Dave Ramsey described how to spot a good financial advisor. He said the good ones always have the "heart of a teacher". The role of an advisor is not to dictate or take orders, but rather to educate.

27 1

Maxjay 8/22/2011 8:54 AM

I think the first thing you should explain is the difference between a registered representative and a registered investment advisor. You should then explain how a registered representative is subject to government and broker dealer compliance, continuing education, strict licensing and a second set of eyes at their broker dealer scrutinizing all sales called "suitability," which insures sales are appropriate for the client. Then explain how none of the above apply to a registered investment advisor............They have no oversight, oh sorry they do, an understaffed, underfunded SEC! The same governing body that missed those that live by the mythical "higher standard" numerous times, Mr. Stanford, Mr. Madoff etc. What most people don't understand is that most registered representatives become registered investment advisors to avoid compliance headaches. I agree we as financial advisors must be held to a higher standard, but ultimately we also **all** need to be subject

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