

**Complimentary Podcast Download** (this is a summary of the issues discussed in “Money, Mindset and the Suddenly Single, the Ultimate Guide for Divorcees & Widows” by Bonita K Bell-Andersen). *Available on Amazon at <https://tinyurl.com/suddenlysinglebook>*

## **"Choosing a Financial Advisor: Insights from Bonita K Bell-Andersen and guest Dean K Piper, CST of "Talk 4 Media"**

**My opinion:** What I have always felt is that when we talk about financial planning and investment, the role of a financial advisor becomes essential. The right financial advisor can guide the client through the fog of market volatility and the overwhelming array of investment choices. On the other hand, I believe you could look at the investment industry as a vast conspiracy in the world of finance and Wall Street to separate you from your money. Here is what it has always seemed to be and how it seems to work. The securities industry seems to generate legions of brokers who some perceive as slick salespeople, bolstered by huge advertising budgets.

Their goal seems to be to sell you a wide array of actively managed investment and insurance products that you possibly don't need and possibly shouldn't buy. The worst products they sell are complex and hard to figure out (like hedge funds and private equity funds), which generate even larger commissions for them and potentially poorer returns for you. *Again, my opinion!*

**Do you think it is possible to find someone who fits with your goals?**

**Direct Impact on Your Goals:** *The right advisor understands your personal goals—saving for a house, preparing for retirement, or funding education. They tailor advice specifically for you, making those goals more achievable.*

**How would you look for someone who you feel is knowledgeable?**

- **Knowledge at Your Fingertips:** *Navigating the markets requires expertise. A knowledgeable advisor brings this to your portfolio. Aim for finding someone that wants to improve your financial outcome, and will help you to understand the why of what you are doing, coupled with understanding the purpose of your money.*

**How do you align what you are doing with how much risk you should take?**

- **Understanding Risk:** *Good advisors align your investments with how much risk you're willing to take, protecting you from unnecessary setbacks.*

**Some people just say, "I don't want to deal with it. I just want someone else to do it." Your thoughts?**

- **Time and Peace of Mind:** *Managing your own finances can be overwhelming. A good advisor takes this burden off your shoulders, allowing you to focus on what matters most to you.*

- **Empowering You:** *Beyond just managing your finances, advisors equip you with knowledge, helping you make informed decisions in the future.*

## What are the risks of getting it wrong?

*Some ideas could include:*

- **Conflicting Interests:** *Advisors paid on commission might prioritize their gain over your best interest, leading to less-than-ideal advice for you.*
- **Hidden Details:** *If your advisor isn't upfront about how they're paid or the risks involved, you might find yourself in unexpected situations.*
- **Questionable Credentials:** *An advisor without the right background or experience could make poor decisions with your money.*
- **Generic Advice:** *Not getting advice tailored to your unique situation means you might not reach your financial potential.*

## I see a lot of articles on Google about getting an advisor that is a fiduciary....is that important?

### **Understanding Fiduciary Responsibility**

*A fiduciary is someone entrusted to manage assets or money while putting the client's interests ahead of their own. When we say a financial advisor has fiduciary status, it means they're legally and ethically required to act in your best interest. This status is significant because it sets the standard for advice and service you receive. It ensures that the advice given to you aims at benefiting your financial well-being, rather than being influenced by any potential commissions or conflicts of interest the advisor might have. This is the world that we stand in.*

### **How Fiduciary Advisors Differ from Non-Fiduciary Advisors**

*The main difference between fiduciary and non-fiduciary advisors lies in the level of trust and obligation towards your interests. Fiduciary advisors are bound by the principle of fiduciary duty, meaning they must prioritize your financial goals and interests above their own at all times. Non-fiduciary advisors, while still offering financial advice, are not held to this same legal standard. They may recommend products or investments that offer them higher commissions, even if there are better options available for you. Understanding this distinction is crucial when selecting an advisor, as it directly impacts the type of advice and service you will receive.*

*Fiduciary advisors are subject to stringent legal obligations. These obligations ensure they always act in the best interest of their clients, avoiding conflicts of interest and making transparent disclosures. They must:*

- **Put the Client's Interests First:** *Every decision and piece of advice must aim to benefit the client, even if it means earning less or no commission.*
- **Provide (hopefully) the Best Advice:** *Fiduciary advisors are required to recommend the best investment options available, based on thorough research and the client's financial goals.*

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- **Charge Reasonable Fees:** Fees for services must be clear, disclosed upfront, and reasonable in relation to the services provided.
- **Avoid Conflicts of Interest:** Fiduciary advisors must avoid conflicts of interest or fully disclose them if unavoidable, ensuring clients can make informed decisions.
- **Ensure Investment Advice is Accurate and Complete:** Advisors are obligated to provide advice that is based on accurate and complete information.

## What is your feeling on how advisors get paid, and which one is best?

### Evaluating Compensation Structures

When choosing a financial advisor, understanding how they are compensated is crucial. It not only affects how much you pay for their services but can also influence the advice you receive. Let's delve into the common compensation models for financial advisors: fee-only, fee-based, and commission-based. Each model has its benefits and drawbacks, and the choice can significantly impact both the recommendations from your advisor and the outcomes of your investments.

### Common Compensation Models

- **Fee-Only:** Advisors charge a flat rate, hourly fee, or a percentage of assets under management (AUM). This model does not allow for any other type of compensation from product sales or referrals.
  - **Pros:**
    - Align advisor's incentives with your interests, as their income comes directly from you.
    - More transparent fee structure.
    - Potentially less conflict of interest, since the advisor doesn't earn from selling products.
  - **Cons:**
    - Can be expensive, especially if the advisor charges a percentage of the Assets Under Management (AUM). May not be cost-effective for those with smaller investment amounts.
- **Fee-Based:** A hybrid model where advisors receive fees from clients and commissions from selling financial products.
  - **Pros:**
    - Offers a combination of structured advice and access to a wide range of products.
    - Flexibility in payment structures can accommodate various client needs.
  - **Cons:**
    - Higher potential for conflicts of interest, as advisors could be incentivized to sell products that earn them commissions.
    - Less transparent fee structure compared to fee-only advisors.

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- **Commission-Based:** Advisors earn their income through commissions on the products they sell to clients, such as mutual funds, insurance policies, and other financial products.

#### **Pros:**

- No direct cost to the client for advice; advisor is compensated through product sales.
- Suitable for clients who need specific products rather than ongoing advice.

#### ○ **Cons:**

- Highest potential for conflicts of interest.
- Advisors may be incentivized to recommend products that offer higher commissions rather than those best suited to the client's needs.
- Lack of transparency in how the advisor is compensated for their advice.

The compensation model can influence an advisor's recommendations and the ultimate success of your financial strategy. Fee-only and fee-based models, with their more transparent structures, encourage advisors to focus on strategies and investments that best meet your needs. However, the potential for a conflict of interest increases with commission-based advisors, who might be swayed by the commission attached to certain products.

### **Clarifying Fees and Costs**

Financial advising services can come with various fees and costs that are crucial for you to understand before entering into a relationship with a financial advisor. These typically include:

**Advisory Fees:** Often charged as a percentage of the AUM, these fees can range from 0.25% to 1% per annum. Some advisors may offer tiered rates depending on the amount of assets managed.

- **Commission Fees:** For advisors who buy or sell investment products on your behalf, commission fees can apply. These are usually a percentage of the transaction value.
- **Flat Fees:** Some advisors charge a flat fee for a specific service, such as creating a financial plan.
- **Hourly Fees:** Particularly for consultation services, advisors might charge an hourly rate.

### **The Impact of Fees on Investment Returns Over Time**

Fees, while necessary for obtaining professional financial advice, can significantly impact the overall returns on your investments over time. Even a one percent fee can reduce your portfolio's value substantially over decades if the rewards do not outweigh that fee. It's important to calculate and understand how these fees compound and affect your long-term financial goals. When you know what is most important for you, you may find that the fee is well worth it!

### **Strategies for Negotiating Fees**

Negotiating fees with a financial advisor is about ensuring value for the services provided. Here are some strategies to consider:

**Understand the Fee Structure:** Clearly understand how fees are calculated and what services they cover. This knowledge is crucial for any negotiation.

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- **Compare Rates:** Research what other advisors charge for similar services to have a benchmark for negotiation.
- **Ask For a Breakdown:** Request a detailed breakdown of fees and negotiate specific aspects that seem higher than the market rate.
- **Negotiate Flat Fees:** For specific services, consider negotiating a flat fee instead of a percentage-based fee, especially for large investment portfolios.

### **What to Expect in Terms of Service and Support**

When discussing fees with your financial advisor, it's also important to clarify what level of service and support you can expect. This includes:

- **Frequency of Meetings:** How often will you meet to review your financial plan and investments?
- **Availability:** How accessible will your advisor be for questions or concerns that arise between scheduled meetings?
- **Reporting:** What type of reporting on your investments can you expect, and how often?

**Additional Services:** Are there any additional services included, such as tax planning or estate planning?

Understanding the comprehensive scope of services offered by your financial advisor ensures that the fees you are paying are justified and aligned with your expectations and financial goals. Always remember that a transparent conversation about fees and services is foundational to a successful partnership with your financial advisor.

### **When you were an advisor, how did you teach clients about how to invest?**

A great advisor will think wide, deep, and long term. For example, I would like to see you hold on to a globally diversified portfolio of quality stocks and bonds. This is a powerful, disciplined, and diversified approach to investing. In my opinion, there are three major principles, or platinum rules, involved with investing correctly:

1. Own equities (company stocks all over the world)
2. Diversify widely.
3. Rebalance, which means adjusting your portfolio to maintain your original desired mix of how you are invested (this fine-tuning is where the customization that comes with having an investment coach can really make a difference).

### **How do you think a good advisor adds the most value?**

- Allowing you to focus on those aspects of your life that matter most in the knowledge that your financial situation is under control and need not absorb your continual attention
- Helping you to understand how much you can spend each year without running out of money
- Helping you answer the question, "What investment return do I need to achieve my goals, and is that consistent with the risk I am willing and able to take?"
- Using a prudent approach, working together to discover for yourself what is going on

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- *Helping you determine when you will retire, if that is what you want to do*
- *Helping you simplify your finances and consequently reduce your stress*
- *Helping you discover ways to minimize your tax burden*
- *Helping you avoid unhappy financial surprises*
- *Creating an estate plan so you can leave your children enough to do something, but not enough to do nothing (estate planning issues that need to be addressed)*
- *Protecting you from investment "opportunities" which can sound fantastic on paper, but often contain unacceptable hidden risks*
- *Acting as an independent third-party sounding board to help you evaluate the good, the bad, and the ugly*

## **What's the best way to "vet" a financial advisor? What do you think of Qualifications and Credentials ?**

*A financial advisor can have any of the following credentials (there are other credentials – this is just a sample):*

- **Chartered Life Underwriter (CLU):** *This designation demonstrates a broad understanding of both investments and insurance.*
  - **Chartered Financial Consultant (ChFC):** *Another designation demonstrating expertise in investment management, financial planning, and estate planning.*
  - **Certified Financial Planner (CFP):** *An advisor with a CFP designation has passed rigorous exams and has met the ethical and experience requirements set by the CFP Board.*
- Chartered Financial Analyst (CFA):** *Advisors with a CFA designation have demonstrated expertise in investment management and financial analysis.*
- **Certified Public Accountant (CPA):** *If tax planning is a significant part of your financial planning needs, consider a CPA as well as your investment coach. They are equipped with advanced tax planning knowledge and can offer strategic advice on minimizing tax liabilities.*

## **How would you set and manage expectations ?**

*The first step in any successful advisory relationship is to define your financial goals. This involves a straightforward discussion about your current financial situation, future aspirations, and the milestones you wish to achieve. Whether it's saving for retirement, buying a home, funding education, or managing debt, an advisor can only assist effectively when your targets are clear. This stage sets the foundation for your financial strategy and allows your advisor to tailor their advice to your specific needs.*

*Despite the best efforts of both parties, there may be times when you disagree with your advisor's strategy or recommendations. In such instances, it's important to address your concerns directly and promptly. A professional advisor will welcome your questions and take the time to explain their rationale. If you're still not convinced, discuss alternative strategies that align more closely with your comfort level or financial outlook. Remember, a good advisor seeks to build a partnership based on trust, understanding, and mutual respect.*



## **What are the qualities that you think someone should look for?**

*Look for a fee-based investment coach who will ask you questions about your life situation and stay in close contact with you. A good investment coach can guide you to put together a portfolio that is appropriate for your situation today and helps you plan for your life ahead. A good advisor will focus on protecting and growing your legacy, and first and foremost on educating you by providing you with consistent updates, financial education, and tools to help you track what's going on with your finances. The best advisor will act as your financial coach and help you make prudent decisions regarding every opportunity that is put in front of you.*

*Any good advisor will also take very seriously their fiduciary responsibility to provide you with the highest standard of service, which sometimes includes having to tell you something you may not want to hear—like “No!” This includes helping to keep expenses within reasonable limits.*

## **What are the questions to ask a prospective financial advisor?**

### **1. Are You a Fiduciary?**

*Fiduciaries are financial advisors with a legal obligation to prioritize your interests as they manage your assets or money. Unlike a broker who may push you into insurance policies or investments to rack up fees and commissions, fiduciaries are bound to recommend options that benefit you, the customer. While conflicts of interest can still exist, any potential conflicts of interest must be disclosed.*

### **2. How Much Experience Do You Have?**

*In addition to asking about their professional certification, it can also be a good idea to ask a prospective financial advisor about their overall experience. Generally, the more experience they have the better, especially if your financial situation is complicated. You should consider asking about their education, previous employers and track record of success. You might also want to consider performing a background check to find out whether they've ever been convicted of a crime or been involved in a criminal investigation by a regulatory or trade group. Don't be afraid to ask for references from current or previous clients, and be wary of a financial advisor who seems reluctant to provide this information.*

### **3. What Type of Services Do You Offer?**

*For example, some advisors may only handle investments, while others take a more comprehensive approach, including retirement, estate planning and tax planning, along with other services. Ideally, you should look for an advisor whose range of services most closely fit your current and future needs.*

*Some financial advisors offer a range of services, while others specialize in niche aspects of financial management. It's also helpful to ask whether they specialize in a specific type of client. Some financial advisors may cater to retirees while others may prefer to work with families or divorcees. Some advisors cater to high-net-worth clients. Choosing an advisor who works exclusively with clients whose situations are similar to yours means they could be better equipped to offer the type of guidance and advice you may be seeking.*

#### **4. What's Your Fee Structure?**

*Before you sign on the dotted line, you need to know how much your prospective financial planner will charge for their services. Depending on the type of professional you're working with, they may receive a flat or hourly fee, be paid on commissions, or a combination of both. Fee-based advisers, for example, charge an up-front fee, but may also get a commission for selling financial products.*

*Fee-only advisors make money from the fees they charge their clients. Some fee-only advisors charge a flat rate while others charge by the hour. Advisors who cater to high-net-worth clients may calculate their fees based on a percentage of the assets under management.*

#### **5. What's Your Investment Approach?**

*You should also consider asking prospective advisors about their investing approach. If you're not comfortable taking on a lot of risk, you could consider a financial advisor who advocates a more conservative strategy. Knowing whether or not their investment style matches your personal investing philosophy beforehand could potentially save you complications in the long run.*

#### **Would you interview your candidates?**

*Once you've found several financial advisors in your area who seem promising, see if you can set up initial phone introductions or consultations. Your advisor will be working for you, so treat this step similarly to a job interview by asking these important questions:*

*What's your educational background? How long have you been in this line of work? What's your fee structure, and how will you get paid? How do you stay up to date with changes in markets and financial regulations? What investments do you typically recommend? Have you ever been sued or had disciplinary action taken against you? How often will you evaluate my financial situation and goals? Can I contact three of your previous clients for references? Why would you be a good advisor for me?*

#### **What Is an RIA Advisor?**

*A Registered Investment Advisor (RIA) is registered with the government to give investing advice. They stand apart from other types of finance advisors because of their fiduciary duty to their clients, which means the law requires them to act in your best interest. On the other hand, a regular investment broker may also give financial advice, but they can leave out options that may be better for you. RIAs can also help provide financial advice beyond investing. While they won't tell you how to spend your money, they can make recommendations on planning for your future.*

*The person you will speak to is an Investment Advisor Representative that works at an RIA. There is a bit of confusion by some that an RIA is a person, but it is actually the place where an IAR works. You will still hear people referred to as RIAs, but it helps to understand that the person is technically an IAR. To become an IAR, the advisor must have passed the Series 65 or Series 66 exams, & maybe the Series 7. These tests allow advisors to give you financial advice and sell you stocks and bonds.*



## Would an advisor that is an RIA be better?

*There is a common misconception that investment advisors are only for people who have lots of money to invest. However, this is far from the truth. An advisor can still be beneficial to someone with less money. For instance, starting your investing small at a younger age can compound into a comfortable cushion by the time you are ready to retire. The main reason people meet with an RIA is to discuss investment options they can help out with. This includes purchasing stocks, bonds and savings. But, they can also help people plan for the future and provide invaluable investment education.*

*Nearly 50% of adults have no retirement savings and are left to hope that their pension, 401(k) or Social Security payments will be enough to live on. Unfortunately, this does not work out for many people, and they end up struggling in retirement. But RIAs can also do more than help prepare for retirement. Looking at investing options or planning for your child's college fund can all be achieved through an RIA. They can even help determine how much you should be investing versus saving and just how those investments should be made.*

*Another one of the many benefits of working with an RIA is that they are registered with the Securities and Exchange Commission. In doing so, all formal complaints are tracked, and you can easily view them. Even though advisors go through a rigorous process to become an advisor, it is still a good idea to check for any complaints.*

## Final thoughts for going through this process?

*Our aim is clear and simple: to provide you with the knowledge and tools necessary to make an informed decision. This is a personal journey, and the advisor-client relationship is at its heart a partnership built on trust, communication, and a shared vision for your financial future. We wish you the best of luck as you navigate through the critical steps of identifying an advisor who not only possesses the requisite knowledge and skills but also the integrity and commitment to put your interests first. Making the right choice in selecting a financial advisor is crucial for your financial health. It's a decision that impacts not just your current financial status, but your future stability and peace of mind.*

*This document is the personal opinion of Bonita K Bell-Andersen, CLU, ChFC*