

How to Check Out a Financial Advisor

By Chuck Jaffe

Article Highlights

- Ask a potential advisor for his registration form or license number.
- Check with state regulators, credentialing agencies and the Better Business Bureau.
- Qualify each advisor for the specific task you are seeking assistance with.

You would think figuring out who to turn to when you need financial help would be as simple as telling yourself, “I’m having trouble figuring out the tax code, so I need an accountant.”

It doesn’t work that way. That’s because financial advisors often wear a lot of hats and do a lot of different chores. There are tax attorneys and accountants who do financial planning, and stockbrokers who also sell insurance. Throw in confusing titles—where you need to discern between a “financial planner” and a “wealth advisor”—as well as mind-numbing professional credentials, and it’s hard to find the right mix of skills in a person you want to work with.

To find the right match, first come up with the financial chores and tasks you want help with, and then match your needs to an advisor. And if an advisor does more than one job—a financial planner who also is a lawyer doing estate planning, for example—qualify them for each task separately.

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Don’t assume that because an advisor is best for one task that he is great for all.

Here are some questions that will help you determine which advisors in each specialty are right for you.

Financial Planners

For most people, a financial planner is their quarterback and coach all rolled into one, calling the plays and designing the strategy that will help them reach their financial goals, and then executing the plan.

You are looking for a mix of technical expertise and skill with bedside manner and personality. Remember, a lot of what a good planner gives you is “emotional discipline,” the ability to stick to the plan at the times when doing the right things are most difficult. If you don’t like your financial planner, that’s not possible, no matter how much investment skill the planner has.

Here are questions to ask financial planner candidates.

What is your educational and professional background?

Look at a planner’s background to see if he has a stable employment history. You want an advisor who will be there for you in the years ahead, as well as one who does not have a history of bouncing from job to job because his work did not satisfy previous employers. If necessary, call the previous employer for a reference check.

What credentials do you have? Are there areas in which

you specialize?

Consumers (and advisors too) sometimes place too much emphasis on credentials and not enough on chemistry, but there's no denying that you want someone who has the expertise to handle your situation. Just as telling for the future of your relationship may be the credentials the planner doesn't have. A financial planner who lacks insurance credentials probably will pass you on to an insurance agent or consultant and will focus his efforts on your more liquid assets. That's a smart move, and it's the right thing to do, but it may disappoint you if your hope is to hire one advisor who can handle all of your current needs.

There are also some amazing specialties that may be worth asking about, depending on your personal situation. If you have what you think is a unique situation, you at least want to know if the advisor is prepared to handle it or willing to learn about it.

What continuing education classes have you taken? What certifications, if any, do you have?

Finding out what an advisor has been learning recently is a good way to know what is on his mind. It also shows where his practice is headed. If you hear that he has used his educational credits on some esoteric subject that will never come up in your finances, you should wonder about the scope of the practice and whether you're a great fit.

Can I have your Central Registration Depository (CRD) number or Investment Advisor Registration Depository (IARD) number?

When you do your background checks, you want to make sure you get the right person. By having the appropriate registration depository identification number, you are certain to get the right guy in the right place. Advisors may not know their CRD/IARD number—and it can be just one even if a financial planner is in both databases—off the top of their heads, but they can find it easily enough. If the financial planner sold securities in the past, separate from

being a registered investment advisor, get his CRD number so you can make sure disciplinary problems did not lead to the career change.

By asking this question, the advisor should know you are going to check him out; if he doesn't get you the numbers, he's trying to hide something.

Can I have a copy of your complete Form ADV?

Form ADV is an investment advisor's registration form. They're required by law to give you a copy, which you would think would make this question unnecessary, but it's not. Specifically, you are asking for a complete ADV, when the law only requires them to provide Part II.

Some advisors—mostly those who are brokers providing some measure of financial planning service—will not have an ADV, but instead will have a U-4 registration form for you to review.

Yes, you can get this form on your own, but you shouldn't have to. In fact, ask the advisor if there is anything he thinks you should discuss about the information in the form, anything he thinks will raise a red flag with you. If he tells you there are no red flags and your subsequent review of the document shows you otherwise, you know he tried to sweep trouble under the rug.

Brokers

Many stockbrokers act like financial planners, so the difference is not always obvious. That said, a broker typically is selling you investments, where the planner is selling advice and counsel. A broker is executing trades that are "suitable" for you, while a planner must provide counsel that is "in your best interest." There is a difference.

Here are a couple resources for checking out a broker's background.

Check FINRA

Stockbrokers typically file a Form U-4 to register with the Financial Industry Regulatory Authority (FINRA), which covers the details on the advisor's past.

Because brokers, account executives, and whatever else you want to call a "registered representative" are regulated by FINRA, start your background check by using the agency's BrokerCheck service (www.finra.org/investors/toolscalculators/brokercheck). It provides information on an advisor's previous employers, disciplinary actions, and customer disputes filed against him, states he is licensed to do business in, industry exams he has passed, outside business affiliations (which may show conflicts of interest), and more.

The service is free and takes just minutes. If you can get the broker's Central Registration Depository (CRD) number, you can go directly to his record, which is helpful if the broker has a common name.

Your second background check stop should be your state securities commissioner's office, for which contact details are available at www.nasaa.org.

Check With Your State

If your broker candidate also functions as an investment advisor, he will be a registered investment advisor, meaning he files a Form ADV with either the state regulator or the Securities and Exchange Commission. To check out the Investment Advisor Registration Depository (IARD), which you can access through the SEC's Investment Advisor Public Disclosure program, go to www.investor.gov to find an easy link.

Some brokers also sell insurance products. If your candidate does, be sure to check the insurance license—and to look for disciplinary problems—with your state insurance commissioner. Find your state insurance commissioner's office by looking at the "states and jurisdictions map" on www.naic.org, the website of the National Association of Insurance Commissioners.

Insurance Agents

Most people think of insurance agents as the guy selling them home or auto insurance, but many agents go far beyond that, using insurance as an in-

vestment-, estate- and financial-planning tool. What's more, many consumers go to agents thinking they want basic protection, but quickly learn they want something more. While consumers can buy stripped-down insurance or keep it simple, a good agent is likely to offer solutions that the average customer would not come up with on their own.

Here are questions to ask insurance agents you are considering.

Can I have your insurance license number?

Ask this one early in the process and you could save some time. It's a deal-breaker.

Insurance agents are licensed by the state. Getting the license number speeds up your background check with the state insurance commissioner; it sends a clear message to the agent that you intend to do a background check.

You can laugh it off as being precautionary and being a waste of a phone call if that gets the agent to show you a license, but you should make it clear that you won't hire an agent who can't prove that he is currently licensed. Some states give agents a card to show, others a certificate for the wall. It doesn't matter; ask for proof, look at the document, check the names and dates.

An agent without the license on the wall may not remember the number and may not have it handy—you should be able to search for the records based on his name—but that person can look it up. Refusing to give you the license number is as good as an admission of trouble. Without a problem past, there is nothing to hide.

There is no substitute for checking in with your state insurance commissioner to see if there have been complaints, disciplinary problems, or licensing actions taken against an agent. You can find your state insurance commissioner's office by looking at the "states and jurisdictions map" on www.naic.org, the website of the National Association of Insurance Commissioners.

What credentials do you hold and what is your background?

If the agent's credentials impress you, make sure they are real. Contact the agency that awards the credential to make sure the advisor is in good standing and without any disciplinary actions.

And since many insurance agents come to the business from financial planning—or they practice in several specialties—be sure to check out their background in those areas too. There have been plenty of cases where someone wears out his welcome as a broker or planner and turns to insurance because it uses the same skill set but allows him to dodge his troubled past.

If the agent ever functioned as a broker, check his record by using the Financial Industry Regulatory Authority's BrokerCheck service (www.finra.org/investors/toolscalculators/brokercheck). If he acted as a financial planner, you can get his history from the Investment Advisor Registration Depository via www.investor.gov.

Finally, while insurance agents typically fall under the eye of the state insurance commissioner, it's not a bad idea to contact your state securities administrator, especially if the agent has a history of selling investments and not just insurance. You can get contact details for your state securities administrator from the North American Securities Administrators Association website, www.nasaa.org.

Lawyers

Your lawyer will make sure you have proper legal representation and that you have handled the nuts-and-bolts financial chores correctly. It's important to match your needs to the right skill set, because most lawyers have specialties, and you don't want your needs to fall outside of their area of expertise.

The Martindale-Hubbell Law Directory (www.martindale.com) is a complete listing of domestic and international lawyers by state and specialty. It is available in most public libraries and provides background information on how long a lawyer has been in practice and where and when he got degrees.

Unfortunately, it's still just a surface

measure of an attorney's background; you will not find out whether an advisor has had complaints and malpractice suits filed against him.

In fact, that kind of crucial information about lawyers is lacking almost everywhere you turn. Few states make all complaints available to the public from the time allegations were filed. Most states will reveal grievance filings, but only around the time when the state bar association's grievance committee has decided to issue charges against the attorney. Those committees can take ages to make a decision, and those charges can end in "admonitions" or "private reprimands," where only the lawyer and the aggrieved client know what happened.

Regardless of those shortcomings, call your state or local bar association's grievance committee for any records it can provide pertaining to your prospective attorney. In addition, check with your local Better Business Bureau (www.bbb.org) to see if there are complaints filed there.

Many lawyers offer a free initial consultation, although some charge a nominal fee for their time; find this out before you set up the interview. If you plan to interview several candidates, anyone who charges for that first consultation should be scheduled last.

As with every other type of financial advisor, you are shopping for trust, integrity, and ability, all of which are hard to judge in an initial interview.

Here are the questions that will help you get a sense of the lawyers you interview.

How long have you been practicing and in what areas of the law do you specialize?

In all financial relationships, you don't want to be a guinea pig. That's particularly true of law, where one misstep could put you on the wrong side of a judgment. Find out the scope of the practice, whether your current needs are a good fit either for the individual lawyer or the firm. It's not that a patent attorney can't write up a good will, but you might have regrets when someday

What All Those Letters Stand For

Here, in alphabetical order, is a list of the 20 marks and designations you are most likely to run into during your search for financial advisors.

- **AEP:** The Accredited Estate Planner designation requires the recipient to have five years of estate planning experience. The person must be an attorney or financial planner with appropriate credentials in that field. Given by the National Association of Estate Planners & Councils, the credential requires just two graduate level courses, but then needs 30 hours of coursework every two years to stay in good standing.
- **ATA or ATP:** An Accredited Tax Advisor or Accredited Tax Preparer has completed the College for Financial Planning's Accredited Tax Preparer Program and passed an exam administered by the Accreditation Council for Accountancy on Taxation.
- **CAA:** A Certified Annuity Advisor must be a lawyer, insurance agent, or financial planner, who completes classwork (either self-study or in a classroom) developed by Advisor Certification Services.
- **CAS:** The Certified Annuity Specialist designation competes with the CAA. It requires a bachelor's degree or one year of experience in financial services and completion of a self-study course and passing an examination administered by the Institute of Business & Finance.
- **CDP or CDFIA:** One growing sub-specialty among financial advisors is dealing with divorce cases. A Certified Divorce Planner is an experienced advisor who has completed coursework from The Institute for Certified Divorce Planners, while a Certified Divorce Financial Analyst is an experienced advisor who chose instead to study with the Institute for Divorce Financial Analysts.
- **CFA:** Chartered Financial Analysts pass a rigorous, three-level test on investment analysis, economics, portfolio theory, accounting, corporate finance, and more, administered by the CFA Institute (formerly the Association for Investment Management and Research). CFAs also must demonstrate expertise in a specialized area of investments.
- **CFP:** Certified Financial Planners must meet experience and education requirements and pass a 10-hour exam given by the Certified Financial Planner Board of Standards. To remain in good standing, they must take at least 30 hours of continuing education classes every two years.
- **CFS:** Certified Fund Specialists need only have a bachelor's degree or one year of experience in financial services to take the self-study course and pass an examination administered by the Institute of Business & Finance.
- **ChFC:** Chartered Financial Consultants are typically insurance agents with several years of experience, who have passed courses in financial planning from The American College. It is a credential for an insurance agent who wants to branch into other types of financial planning; many agents get this in conjunction with the CLU credential, since some of the academic requirements are the same.
- **CIMA:** The Investment Management Consultants Association (IMCA)—a trade group for advisors who specialize in high-net-worth clients and institutional investors—gives the Certified Investment Management Analyst credential to experienced consultants who complete a five-month study program at the University of Pennsylvania, the University of Chicago, or the University of California—Berkeley. Candidates cannot have any history of criminal or regulatory violations, civil judicial actions, or warranted customer complaints. IMCA has also started awarding the Certified Private Wealth Advisor (**CPWA**) credential for expertise in “the

you discover what years of practicing intellectual property law have done to his skills as an estate-planning attorney.

If a lawyer has several specialties, ask how his workload is divided between those areas of the law. A lawyer might do real estate contracts and estate planning, for example, but his business may be heavily weighted toward the former; if you come in with a complex estate situation, he may not have the depth of experience you want, even though estate planning is supposed to be one

of his specialties.

Be sure to find out how long a lawyer has had each specialty. Make sure he passes muster in your area of need.

Beyond a law degree, what professional credentials do you have?

Law is not an area where you must see specific credentials to feel comfortable with a practitioner. The law degree and license speak volumes about someone having achieved the minimum standards for competency.

Still, there are some legal specialties, such as a “certified tax lawyer” or “certified civil trial lawyer.” While there are major trade groups like the American Trial Lawyers Association that have developed credentials, most national specialty law groups are membership organizations, rather than education/credentialing institutions. Thus, you need to distinguish between whether the lawyer is a member or a certificate holder.

You are looking for someone who is experienced in the kind of matters you

life cycle of wealth.”

- **CLTC:** The Certified in Long-Term Care program is run by the CLTC Board of Standards and is one of the few standards that look at the vexing issue of long-term care insurance. That said, the credential has no prerequisites or required experience; it is given for the completion of a correspondence course or a two-day in-person class, plus an exam.
- **CLU:** Chartered Life Underwriter is generally considered the highest professional designation for life insurance agents, who must meet extensive experience and education requirements, with the courses coming from The American College.
- **CMFC:** Chartered Mutual Fund Consultants have completed a 72-hour self-study course on mutual funds. The program is administered by the College for Financial Planning and overseen by the Investment Company Institute, which is the trade association for the mutual fund industry.
- **CPA:** Certified Public Accountants are tax specialists who must have a college degree, pass a strict national exam, and keep current on changes in tax law.
- **CRPC, CRC, CRFA, or CRP:** These are four separate-but-similar designations for advisors who want a credential that shows their ability to assist retirees and pre-retirees. Chartered Retirement Planning Counselor, given by the College for Financial Planning, seems to be most popular, but not significantly different from a Certified Retirement Counselor (bestowed by the International Foundation for Retirement Education), a Certified Retirement Financial Advisor (given by the Society of Certified Retirement Financial Advisors), or a Certified Retirement Planner (from Retirement Planners LLC). There is also a **PRPS**—Personal Retirement Planning Specialist—credential, given mostly to insurance professionals looking to broaden their expertise, especially as it comes to selling annuity/lifetime income products.
- **CSA, CSC or CSFP:** Certified Senior Advisors have taken classes on working with senior citizens that go beyond the finances to help them understand the health, insurance, and other issues that could come into play. The same applies to the Certified Senior Consultant and Chartered Senior Financial Planner credentials.
- **CWM:** Chartered Wealth Managers have at least three years’ experience and typically have an advanced degree. They complete coursework with the American Academy of Financial Management. A similar, competing credential is the **CWC**, or Certified Wealth Consultant, run by The Heritage Institute.
- **EA:** Enrolled Agents are tax preparers who either worked for the IRS for at least five years or passed a test on federal tax law.
- **JD:** The Juris Doctor is a law degree, not an actual financial-planning credential. That said, there are plenty of lawyers who wind up in financial planning and services, whether that is through estate planning, tax law, or getting an additional financial-planning credential. When that happens, you can expect that the JD mark will be prominent among their credentials.
- **PFS:** Personal Financial Specialists are CPAs who have met education and experience requirements and passed a comprehensive exam on financial planning. Because this credential is always linked to the CPA—designees typically list it as CPA/PFS—the person who has it is typically qualified to help a client with both investment and tax issues. That said, many PFS advisors no longer do tax work and focus more on tax-efficient financial planning.
- **RIA:** Not really a credential at all; when someone tells you he’s a “registered investment advisor,” it simply means that he has registered with the U.S. Securities & Exchange Commission and has paid a registration fee.

need help with; if you are presented with a credential, find out the educational and experience requirements and ask to see a code of ethics, if there is one.

Conclusion

In the end, you are looking for the right mix of expertise, skill and person-

ality. Rules, regulations and investment products are constantly changing; while your advisor might have a great-looking diploma on the wall, it’s important to make sure they are staying current, taking continuing education seriously so that you get the best, most current counsel.

Remember that many of Bernie Madoff’s victims thought they were

getting a great money manager, and they took the word of others rather than doing any background checks or questioning on their own.

By qualifying an advisor yourself, you can develop the personal and professional comfort to feel safe and secure that you are getting your money’s worth in a financial advisor. ▲

Chuck Jaffe is a senior columnist with MarketWatch. Through syndication in newspapers, his *Your Funds* column is the most widely read feature on mutual fund investing in America. Chuck has authored three personal financial books, including “Getting Started in Finding a Financial Advisor” (John Wiley & Sons, 2010). Find out more at www.aaii.com/authors/chuck-jaffe.