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So You Need a Financial Planner

They cost money—and you should be wary of conflicts of interest—but professional advice can go a long way in securing your future

by Ben Steverman

After years of just scraping by, you finally have some cash to invest. You certainly have plenty of choices. A few hours online will net thousands of stock tips, fund pitches, get-rich-quick schemes, investing gimmicks, and philosophies. Offline, everyone has their own advice, including friends and family who'd love some seed money for their (probably bad) business ideas.

There is no easy out. Even the big-name brokerage and mutual fund firms have their hands out, in the form of fees and commissions that can add up over the years (see BusinessWeek.com, 5/31/07, "Investing on the Cheap").

How about some guidance? In the last several decades, a whole profession has sprung up to help people decide where to put their money. But remember: These people, usually called financial advisers, planners, or counselors, don't work for free. Many receive incentives to sell expensive investment and insurance products you might not need.

Maybe, though, it's worth getting some objective advice to figure all this out.

FINANCIAL CROSSROADS

For one thing, a professional can get you on a path of saving and investing. "Some people do better, as with exercise and diet programs, when they're assisted by a professional," says Sharon Burns, executive director of the Association for Financial Counseling & Planning Education (AFCPE).

Advisers and planners spend the vast majority of their time helping older adults, including millions of high-net-worth baby boomers readying for retirement.

It's big events that inspire young adults to look for advice, planners say. A big bonus arrives, a baby is on the way, or a couple is planning marriage or to buy a home. Usually they want to talk about money, planning for children's educations, or early retirement. But planners say they often end up talking about all sorts of other financial issues.

"Most people come in, and they want to talk about investments," says financial planner Jorie Barnett Johnson, who specializes in clients under 50. "The unexpected issue is insurance. Nobody ever walks in and says: 'I need insurance.'"

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Many planners start by helping clients develop a comprehensive plan that includes not just investing advice but tax and estate planning, and home, life, and disability insurance.

Don't expect your adviser to be the next Warren Buffet, unlocking the mysteries of the market. According to someone like Michael Edesess, this is exactly the sort of adviser you should run away from.

It's nearly impossible for any adviser or mutual fund to beat the market consistently, says Edesess, author of *The Big Investment Lie: What Your Financial Advisor Doesn't Want You to Know*. Far better to invest in broad, diversified index funds with low fees and low turnover.

He's wary of advisers that take a percentage of their clients' assets every year. On top of fees, commissions, and taxes, these charges, added up year after year, can cut into gains. He's especially critical of big brokerage firms, whose advisers often receive commissions for the products they sell. "Their sales pitch is a disinformation campaign," Edesess said.

Edesess isn't a planner, but many within the planning and adviser industry make similar warnings about fees and commissions. Many planners disavow commissions. These fee-only planners, organized into groups like the National Association of Personal Financial Advisors, are paid often from a percentage of the assets they manage.

They say it enables them to offer unbiased advice. Thus, advisers love wealthy, older clients, from whom they can take a tiny slice of assets in exchange for their time. For younger people, with smaller nest eggs, this business model doesn't work as well.

Instead, many planners let clients pay an up-front or hourly fee for the development of a plan. Clients can then take that plan and either hire a planner to implement it or do it themselves.

Many financial counselors, as opposed to advisers or planners, give advice for free. Organized in groups like the AFCPE, they help lower- and middle-income people with all sorts of money questions. Often employed by credit unions, universities, or employers, they give investment classes and sometimes one-on-one advice. There are several thousand in the U.S., Burns says, and their numbers are growing. But so far they're harder to find than more typical fee- or commission-based financial planners.

PROCEED WITH CAUTION

Whoever you hire to help you with your money, there are plenty of reasons to be cautious. Regulators, experts, and planners have plenty of advice:

• You'll have to discuss some intimate financial details with your adviser, so take your time finding someone you like. Meet a few advisers before hiring one.

• Make sure your adviser is completely up front about how he or she is being paid, both by you and by others, such as mutual fund and insurance companies offering commissions.

• Check out your adviser. Regulators like the NASD, soon to be called the Securities Industry Regulatory Authority, keep track of complaints and charges against professionals. Advisers should advertise their certification with groups that require training and ethics guidelines, such as the Certified Financial Planner Board of Standards.

• Keep an eye on your accounts. The best way to avoid fraud is to watch your statements to see exactly where your money is going.

• Find an adviser who is close to your age because you will probably want to work with this person for decades.

• Finally, many say, find an adviser who handles other clients in your age bracket. "Financial planning at younger ages looks very different than it does at older ages," says Stephen Horan of the CFA Institute.

As one approaches retirement, there are lots of complicated issues to deal with. But twenty- and thirtysomethings can have equally big financial headaches.

Marnie Aznar, a 32-year-old financial planner, notes that her young clients experience "nonstop change." Buying homes, having babies, and changing jobs all require constant shifts in financial, estate, and insurance plans.

So far younger people make up only a tiny portion of financial planning clients. That may change as Generation Y, which is actually larger in number than the baby boom cohort, exits school and starts earning money, says Michael Kitces, 29, a financial planner based in Maryland. But Kitces wonders how many young people, used to getting information for free on the Web, will hire planners. "It seems to be a group that's less inclined to pay for financial advice," Kitces said.

There is hope that new sites can start offering affordable advice to all income levels. However, many warn that not all the information on the Web is accurate. Plus, some of the best sites were developed by financial companies that have an interest in selling their own products.

Whether online or in person, the same advice applies. "You want to make sure the advice you're getting is objective and that the person you're talking to isn't looking at you as a sale," says Mark Johannessen, a Virginia planner who is president-elect of the Financial Planning Assn.

Steverman is a reporter for BusinessWeek's Investing channel.