Newsweek

May 2002

It's Time for a Checkup

There are more than 600,000 investment advisers in the United States. How do you pick the one who's right for you?

By Linda Stern

Sheryl Garrett has gotten really, really popular, and she's not alone. After months of bad financial news, culminating in the spectacular collapse of Enron and its employee savings plans, investors are worried about the safety of everything from their children's' college funds to their own retirement portfolios. And they're turning to financial advisers like Garrett for comfort. The phones don't stop ringing at her Shawnee, Kans., firm, and there's a two-month waiting list for new clients. "It's been a very big boom for us," she says. "Everyone wants a checkup."

NOT A MOMENT TOO soon. The baby boomers are older but not always wiser about their money. And because they're wealthier, they need help. "As soon as you get between $150,000 and $250,000 of investable assets, there's a major shift toward using advice," said Louis Harvey, president of Dalbar Inc., a Boston financial-services research firm. With more than 600,000 investment advisers in the United States, though, how do you find the one that's right for you? Audition them. Here's what to look for.
Professionalism matters. More and more planners have some form of certification. The most selective credential is membership in the National Association of Personal Financial Advisers (napfa.org), whose 750 members have agreed not to take commissions on the investments they recommend. This avoids conflicts of interest: too many planners make their money by suggesting only investments that reward them for their recommendations. NAPFA members charge fees-some by the hour, some by the year-for broad and comprehensive advice on taxes, insurance, retirement and asset management. Their plans are subject to peer review by other NAPFA members. That's a genuine check.

The most widely held credential in the business is Certified Financial Planner (CFP). More than 38,000 planners have earned it by meeting requirements for coursework, practical experience and continuing-education requirements. Applicants for CFP certification must also pass a 10-hour test centered on complex hypothetical cases. It's a tough test. Only 56 percent of the people who take it pass, according to the board that administers the exam (accountants and stockbrokers typically do well; insurance agents tend to do the worst).
Still, the certification only goes so far. "A CFP is not a bad thing, but it's a de minimis standard," says New York adviser Gary Schatsky. His advice: use NAPFA members.
Another possibility: certified public accountants. They're branching out from traditional tax work. Despite the damage done to the profession by Arthur Andersen, the CPA credential still stands for professional and ethical commitments. Accountants have a good feel for how the various pieces of a financial plan should all work together, and they're undeniably good with numbers. But a CPA trained only in taxes would need extra experience and training to serve as a full financial adviser. Many CPAs are adding a new designation-Personal Finance

Specialist (PFS)-to their titles. They can do that by piling up advisory experience, taking continuing-education classes and passing a test.

Credentials go only so far. Ask about a prospective planner's track record. And be skeptical. Many planners selectively quote time periods in which their strategies did well: the dot-com run-up, for example. You might do better by picking someone who didn't make megabucks in 1999, when tech stocks were on fire. "That bubble made anyone who had a good diversified portfolio look like an idiot," says Norman Boone, a California adviser who took some criticism from clients for under weighting technology stock during the big bubble. Diversification looks good today. Your planner should endorse it.
Another approach: instead of looking at planners' returns, probe their thought processes. How do they choose investments? How do they monitor performance? Good planners plan for their own fallibility and mortality, says Mark Tibergien, a planner and industry consultant with Moss Adams, a Seattle CPA firm. He tells potential clients to ask "What's going to happen to me if something happens to you?" The planner should be able to tell you, for example, how he backs up your financial records and whether he has made arrangements with another planner to step in on your account in an emergency. If he hasn't thought about these things, red flags should fly.

And don't even think about going to a planner whose own business seems poorly run. Look for full-service advisers who keep the number of clients under 100 and who put money back into their business for new technology. Ask him how much he spends on technology such as asset-allocation software and an up-to-date mutual-funds database. Ask especially which information services he subscribes to, such as Morningstar's Principia, which analyzes mutual-fund data.
Finally, ask about fees. No-commission advice is a good idea, but it's possible to overpay a fee, too. Many planners charge 1 percent of the value of your assets a year: $5,000 a year on a $500,000 portfolio, for example. "If all you are getting is asset allocation, I think 1 percent is pretty darned pricey," says Schatsky, who says a fee like that should include a range of financial-planning services like tax and debt management and an insurance review. Garrett has formed a network of advisers who, like herself, charge an hourly fee (hers is $185) to do as much or as little financial planning as clients want. (You can find the network at garrettplanningnetwork.com.) Others have a flat fee that can run $2,000 or more to prepare a one-time complete financial plan offering advice on savings, investments, debt, taxes and estates.

Just remember: you're paying for more than just a reassuring voice on the other end of the line. It's your job to make sure you get it.