

FINANCE & BANKING

How to Avoid Hiring the Wrong Financial Advisor

By Neal Frankle, CFP®

Imagine this. You walk into your physician's office for a routine exam. You visit with the doctor for about 15 minutes and, thankfully, everything is okay. But then something strange happens: The doc gives you a prescription for a problem you don't even have, saying, "Just take it. You'll need it."

As you prepare to leave, you offer the clerk your insurance card, and the clerk stops you dead in your tracks. "Mrs. Johnson, good news! You don't need that anymore. In fact, all your visits are free! But from now on, you must buy all your medications from us. And, by the way, the pills the doctor just prescribed for you are \$215. Will that be check or charge?"

You probably wouldn't feel too comfortable seeing a doctor like this. Amazingly, though, these are the exact conditions under which most people work with a financial advisor. And the real shocker is most people don't even realize it.

For example, if your primary financial caregiver is an insurance agent, she'll always suggest you buy life insurance or an annuity, regardless of your financial needs. This happens because life insurance agents are licensed to sell only insurance-based products. Why would they recommend something that wouldn't earn them a commission? Don't hold your breath waiting for the insurance agent to suggest a no-load fund, for example. You could end up on a ventilator.

Consider now, if you will, the stockbroker. This person works on commissions, too. As long as you buy and sell, these people rake in the cash for themselves. Have you ever noticed that your stockbroker comes up with lots of buy and sell ideas around the holidays—along about the time all of us need a little more cash? I wish I was only kidding. Have you ever heard of a surgeon who

recommends an operation for every ailment? If you know a stockbroker, you have met that surgeon's financial professional equivalent.

Please understand that stockbrokers can also be insurance agents. They wear two hats, but the common denominator is payment by commissions. They are not compensated for giving you what you need most, which would be ongoing financial advice.



The alternative to commission-oriented advisers rests in fee-based and hour-based advisers—professionals who make their money by looking after your financial well-being, not by selling you products. Just as you want to see a doctor to provide ongoing

advice about your health, this is the kind of adviser you want if you're interested in protecting your financial health. Yet working with a fee- or hour-based adviser rather than a commission-based adviser is no guarantee that she's in it for more than the quick buck. To select the right adviser, you still must ask a few questions.

First, ask advisers how they are compensated. If the answer is commission, I suggest you move on. Ask what kind of investments they recommend to people in your situation. Ask if they ever recommend no-load mutual funds or no-load life insurance. If not, why not? Perhaps the most important question is, "What is your investment strategy?" Find out if the adviser uses some method to protect you from catastrophic loss in the market. As I've mentioned in this column before, the average bear market comes along every 3.3 years and the average loss is 27%. Any financial adviser worth her salt should have some strategy to protect against this very real threat to your financial well-being.

I must point out that, after 20 years in this business, I've met several insurance agents and commission-based stock brokers who work hard for their clients and are honest. But why play with bad medicine? Just as you wouldn't go to a doctor who works on commissions, I suggest you migrate toward advisers whose greatest interest is keeping you financially healthy.

Neal Frankle is the author of Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, to do the same thing for their clients. For more information, visit www.wealthresourcesgroup.com or email: Neal@WealthResourcesGroup.com.