Know Your Advisor

A Guide for Choosing a Financial Advisor

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Working with an advisor can be a big decision for many people. This relationship involves discussions around private personal and financial information, so it is **extremely important to know your advisor.**

This guide was built to give you additional information during your journey of hiring a financial advisor. It will walk you through important information including understanding the role of a fiduciary, key functions of a financial advisor, the process of financial planning, approaches to investment philosophies, and understanding how advisory fees work.

Regardless of which advisor you choose, it is important to do your research, spend time getting to know them, and establish your expectations - because this specific relationship should be built on complete trust and true, open communication.

Guide Sections:

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Advisor Functions, Titles & Designations

What are the key functions of a financial advisor?

You may ask yourself whether there is value in hiring a financial advisor. "Why can't I just do it myself?"

Every successful professional or business owner reaches a point of delegation - there comes a point at which you can no longer do it yourself. Indeed, it could be inefficient to try and keep track of every detail without help. The same goes for your finances - your taxes, your investments, your various accounts.

Good financial planning helps you stay on top of things, and a skilled financial advisor pays close attention to the financial details in your life for you, so you can free up your mind.

Questions to Ask:

- Do I have too many accounts/investments to manage on my own?
- Could I be missing a financial opportunity - should I get a second opinion?

Key Functions of a Financial Advisor

- Help define and understand your financial goals and objectives for the short and long-term
- Be a guide for financial decisions and challenges
- Make recommendations that are in your best interest
- Help to keep you on track with your financial goals and ensure you are making sound financial choices
- Provide consistent, clear communication

Professional Designations

Below is just a small sampling of the various designations available for financial advisors to obtain. While these are some of the more commonly seen designations, there are many more. Regardless if you see a designation or not, it is always
important to double check the background of your financial professional.

You can do this in two ways:
1.) FINRA Broker Check: **brokercheck.finra.org**
2.) SEC Adviser Search: **adviserinfo.sec.gov**

Designation	Qualifications	Education and Exam Requirements
Certified Financial Planner (CFP)	Must complete CFP-board registered program or hold one of the following: CPA, ChFC, CLU, CFA, Ph.D. in business or economics, Doctor of Business Administration, Attorney's License	Bachelor's degree or higher from an accredited college or university; and 3 yeaars of full-time personal financial planning experience *Final Exam Required*
Chartered Financial Consultant (ChFC)	3 years full time business experience within the five years preceding the awarding of the designation	Must complete seven core and two elective courses, equivalent of 27 semester credit hours *Final Exam Required*
Certified Investment Management Analyst (CIMA)	3 years financial services experience; and satisfactory record of ethical conduct, as determined by the Investments & Wealth Institute Admissions Committee	In-class program at Wharton School, University of Pennsylvania, or online through Yale School of Management *Final Exam Required*
Chartered Financial Analyst (CFA)	In final year of bachelor's degree program, OR have four years of professional work experience, OR have a combination of professional work and university experience totalling at least 4 years	Self-study program for 3-part exam (250 hours per exam) and four years processional work experience in the investment decieion making process (accrued before, during, or after participation in the CFA Program) *Three 6- Hour Exams Required*

For more detailed information on additional designations, their qualifications and requirements, visit **finra.org/investors/professional-designations**

Advisor Titles & Fiduciary Responsibilities

Investment advisor, financial advisor, wealth manager – **what do these titles really represent?** With so many types of financial advisors out there, it is important to understand their standards for practice rather than what their professional title means. For your search, the key is to remember that, regardless of what an advisor decides to call themselves, they must be comprehensive in their planning approach and always act in your best interest.

What Would a Fiduciary Do?

- Act in the best interest of the client.
- Manage a written investment process for the client.
- Disclose all material facts and any conflicts involved with a recommendation they may make to the client.

Fiduciary and Fiduciary Standards

Entrusting someone to manage your financial world is a big decision, and feeling confident in the recommendations they make is essential. When you hire a "financial advisor" you may believe they always have your best interest in mind – that they will always avoid personal motives and conflicts of interest. Or that they will disclose all pertinent information regarding your investments. Unfortunately, not all "financial advisors" are fiduciaries. Acting as a fiduciary requires an entirely different level of trust and loyalty to clients. Those who are fiduciaries are bound by a different standard of excellence. Legally, a fiduciary must always provide appropriate investment advice to you and act with your best interests in mind.

FIDUCIARY

Service

Fee-only financial services and planning

Financial advisors who work on a fee-only basis. These advisors do not generally sell financial products or investments that may provide them with commissions

NON- FIDUCIARY

Product

Single-product or multi-product financial services

Financial "Agents" who work for banks, broker dealers, or insurance agencies

Combination of portfolio management, financial planning, and financial products for comprehensive wealth management

Independent advisors who do not work directly for large investment, banking, insurance or brokerage institutions

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Process, Planning & Philosophy

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Is the advisor a good fit?

Far beyond the initial meet and greet, you will want to address a few important details of the advisor's practice focus, such as areas of expertise and investment philosophy.

Be sure to ask specific questions about the advisors qualifications and experience in working with a client like you. For example, do they have experience with other clients who may have a similar financial situation, level of assets, net-worth, etc?

Questions to Ask:

- Will the advisor act in my best interest?
- Does this advisor have the experience I need?
- Is this advisor used to working with clients like me?

Client Example	Servicing Example
New Investor	• Education on Long-Term Planning/ Investment Strategies • Smart Debt Reduction • Budget Planning
Newly Retired Couple	• Social Security Strategy • Medicare Guidance • Required Minimum Distribution Planning • Financial Planning for the Distribution Phase
Business Owner	• Personal Investment Advisory Support • Executive Compensation Planning Options • Re-Evaluation of Existing 401(k) Offering
High-Net-Worth Couple	• Investment/Tax Planning Options • Collaborative Approach with Current Attorney/CPA • Private Foundation Needs
What are my needs?	

What is the advisor's planning process?

The planning process is a way to see your overall financial strategy laid out in an easy to understand format. The plan should include reviews and periodic adjustments to your short and long-term goals. Over time, this plan will need to evolve, but regardless of what changes it should always be focused on your goals.

Questions to Ask:

- Is the plan documented and clear?
- Is the plan based on my goals, not products?
- Is this plan being monitored and adjusted periodically?

1 Establish Goals & Objectives

First, your advisor should ask you a series of open-ended questions about your short-term and long-term financial goals.

2 Gather Client Information

Next, your advisor and/or their team will gather the information needed to begin developing your plan.

3 Analyze Financial Situation

Your advisor will then analyze the data they have gathered to help them develop a customized strategy.

4 Develop & Present Financial Plan

Your written plan should include your advisor’s recommendations for financial solutions that are based on steps 1-3.

5 Implement the Plan

After developing your plan, the advisor will implement the recommendations they have made.

6 Monitor and Review the Financial Plan

Your advisor should periodically review your plan with you, staying in touch with you about any changes that may affect your goals.

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What is the advisor's investment philosophy?

Even the most seasoned investor can be prone to their own influence. This is why hiring a qualified financial advisor, is always an important consideration to make.

With this in mind, it is still important to understand the advisor's investment philosophy, as not all advisors have the same approach to investment management.

QUESTIONS TO ASK:

- What is your process to investment planning?
- Are you basing this plan on my risk levels and time horizon?
- How often will you be keeping in touch with me to monitor/adjust my investment program?

Investment Strategy

Fundamental to achieving your financial objectives is constructing an investment program that not only manages your wealth in conjunction with your life, but also adjusts over time to keep your plan on track. Your advisor should be actively involved in monitoring your portfolio to keep it in-line with your goals and look at your strategy in a three-part approach: Risk assessment and time horizon, diversified strategies, long-term approach.

Your advisor should also provide you with consistent communication and a clear understanding of your investment options as well as the associated costs. In addition, a professional advisor should be able to discuss complex financial concepts in terms that you are able to understand, giving you a chance to ask questions for additional clarity.

QUESTIONS TO ASK:

Investment Goals: What do you want your money to do for you? Are you seeking current income or are you accumulating funds to meet a future goal?

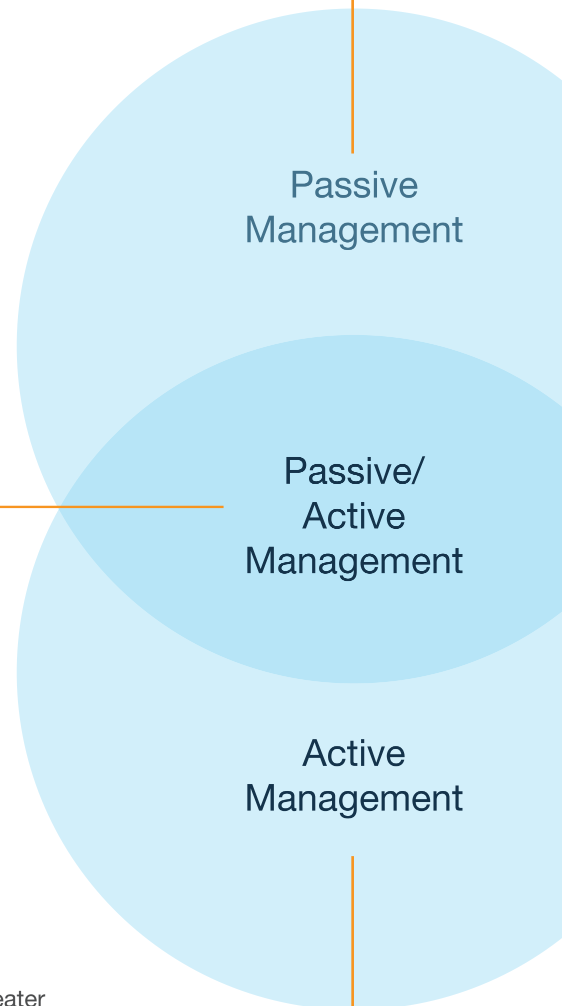
Risk Tolerance: Investing does involve risk, including possible loss of principal. In general, risk is related to expected return - the higher the risk, the higher the potential return; the lower the risk, the lower the potential return. Can you afford to lose a portion, or even all, of your investments, without it affecting how you live?

Time Horizon: In general, the longer the time horizon, the more aggressive and risky a portfolio can be. However, if the time horizon is much shorter, a portfolio may tend to be more conservative and less risky. How much time do you have before you will need to begin withdrawing money from your investment accounts?

TYPES OF INVESTMENT MANAGEMENT PHILOSOPHIES

Passive Management is based on the concept that an advisor would invest your portfolio in a broader selection of stocks and other securities, rather than trying to pick single stocks. This is done by using index funds such as mutual funds or ETFs (exchange-traded funds), as examples, with the focus on tracking the returns of a particular benchmark or market index as closely as possible. In general, the advisor is replicating a market index rather than actively managing the portfolio through research, tracking market trends, economic changes, etc.

- Lower portfolio turnover (less buying/ selling of stocks) - lowers expense ratios, can be more tax-efficient thanactively managed funds
- Broader, more diversified portfolio
- Not generally a proactive investment approach
- Fund managers will make investment decisions



Active-Passive Management is based on the same principles of classic passive management however, the portfolio of indexed funds and ETFs are actively managed on a regular basis, rather than periodically rebalanced. This hybrid method of management allows for better control of the portfolio risk and return, adjusting allocations to potentially maximize returns when possible, while also minimizing necessary risk.

- Lower portfolio turnover (less buying/ selling of stocks) - lowers expense ratios, can be more tax-efficient than actively managed funds
- Broader, more diversified portfolio
- Proactive approach where the advisor and their investment team remain closely engaged with in-depth research and market forecasting, while also paying close attention to economic trends, company-specific changes, and shifts within the political landscape

Active Management, in comparison, is based on the view that you could achieve a greater return than that provided by the overall market by actively buying and selling selected stocks or other securities. In effect, advisors who are actively managing client's portfolios are trying to "outguess" the market and focus on specific stocks or securities that they believe will change in value. The upside is that there could be potential for greater reward, however with that potential does come much more investment risk.

- Depends on advisor's ability to remain closely engaged with changes to financial, economic and political landscapes.
- Advisor must have the experience and knowledge with market trends, research and forecasting.
- Higher portfolio turnover (more buying/ selling of stocks) - can result in short and long term gains and losses, which can complicate tax planning
- Limited number of securities/sectors provides less diversification and thus increased risk

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Servicing & Client Experience

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Is the advisor's service model consistent?

The relationship you build with your advisor will depend on your comfort level with the advisor, their team, and the experience they provide for you - their service model. This model should be streamlined and focused. You should know the team you will be working with, the systems you may have access to, and who to contact when you have questions.

If your advisor is working with a large institution you may work with a larger team. If you work with an independent advisor, they may or may not have a team. In this case, they may be a solo practitioner. Many solo advisors have implemented back office support and systems to streamline their service model so well, they may not need a team.

Is the model consistent?

Above all, is the advisor's servicing consistent? If the model and experience isn't consistent, you won't know what to expect. If you choose to start working with a particular advisor, revisit your experience a few weeks after you initially onboard with them. Ask yourself some key questions about their client servicing to determine if you believe their servicing model has been consistent:

- Are you able to reach the advisor or their team by phone/email with relatively quick response times?
- Do you have regular meetings to review your financial/investment strategies?
- If you have been given online access to account portals to review your accounts/reports, have you received adequate training to access them?

Questions to Ask:

- What type of service model am I looking for?
- Do I want my advisor to have a team?
- Can I work with a highly efficient solo practitioner?
- Is this advisor's servicing consistent?

Chemistry is Key

Beyond the designation and the title, is the chemistry. If you aren't comfortable with the advisor, no matter how much you try, you may never be able to be open and honest about your financial matters with them.

If you feel the communication is not quite right, they are not transparent about their recommendations, and they aren't open to feedback - it might not be the right fit.

What types of deliverables could I expect to see?

While each comprehensive financial or investment plan will be very different, the following chart will help identify just a few pieces of information you could see during the process.

Item	Description
Net Worth Statement	In-depth look at your personal balance sheet. This will essentially show where you stand financially.
Cash Flow and Savings Plan	This plan will assess the inflow and outflow of cash in addition to what you are saving in the bank. Cash awareness is often the first step to identifying a good savings plan.
Investment Policy Statement (IPS)	If you will be working with the advisor on an investment strategy you may sign an IPS. This document identifies the investment goals and objectives, including the strategies your advisor will employ to meet these objectives.
Retirement Plan	This plan addresses how to best manage assets and risk during the retirement years. You and the advisor will be able to discuss budget and lifestyle expectations, as well as income planning which involves comparing your projected retirement income to your projected retirement expenses.
Insurance Analysis	If you are working with an advisor who may sell product as a fiduciary, they may want to do an review of your current insurance strategy. The review process will determine if you have enough coverage, the right coverage, and if your coverage is properly structured.

What should I expect to pay an advisor?

What is a relationship with a financial advisor worth to an investor?

Financial advisors can use their insight to guide clients away from poor financial decisions, such as panic selling or accepting excessive risk in a portfolio. Indeed, the greatest value of a financial advisor may be in helping individuals adhere to an agreed-upon financial and investment strategy.[1] While at the same time, advisors can become trusted resources for family members, sometimes acting as guides through non-financial situations or just simply being there to listen to challenges you may be facing.

The most important thing consider is if you feel you will be getting benefit from the value the advisor is providing. With this said, what are the “average” fees an advisor charges? This is a difficult question to answer simply because each financial strategy requires very different components. In addition, fees can range depending on types of services. Advisors may charge on a percentage basis, hourly, a fixed price, or they may only sell a financial product to you. In this case, you may not pay a fee directly to the advisor, as the advisor receives their compensation via commissions directly from the product carrier.

1 – advisors.vanguard.com/iwe/pdf/ISGQVAA.pdf [2/19]

Questions to Ask:

- Has this advisor been clear with their fees, specific to my financial plan/strategy?
- Do I feel I am getting a benefit from this value?

Ways an Advisor Can Be Compensated for Their Services

Percentage of assets under management: This is generally applied based on the total assets in your investment management account. This can vary with each advisor, but typically ranges between 1% and 2%.

Hourly rates: For specific cases, an advisor may charge an hourly rate. This is typically for special projects or consulting. Hourly rates can range from $100-$300, depending on the complexity of the project.

Fixed Fees: These types of fees would apply to services such as a financial or retirement plan, in which a one-time fee is given in exchange for a fixed service. If the plan requires on-going maintenance, this is generally where management fees will begin to apply. Fixed fees can range from $1,000-$10,000 depending on the complexity of your financial situation.

Commissions: The advisor may receive additional compensation based on the financial products they sell. This compensation comes directly from the product carrier or company, not the client.

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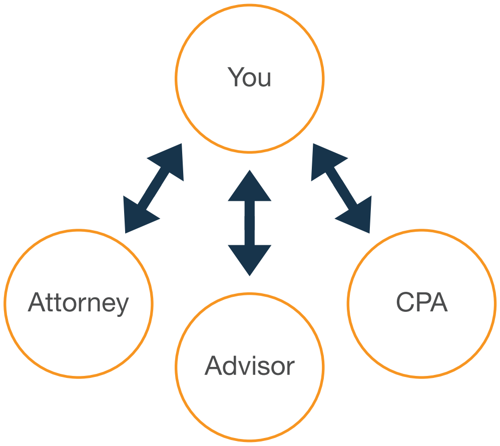
Can my advisor collaborate with my team?

For individuals who may have other professionals that consult on financial and legal matters, including a CPA and/or attorney, it is important to find a financial advisor that can effectively collaborate with your existing advisory team. This approach makes the communication not only more streamlined and clear, but also reduces the risk of gaps in comprehensive financial planning.

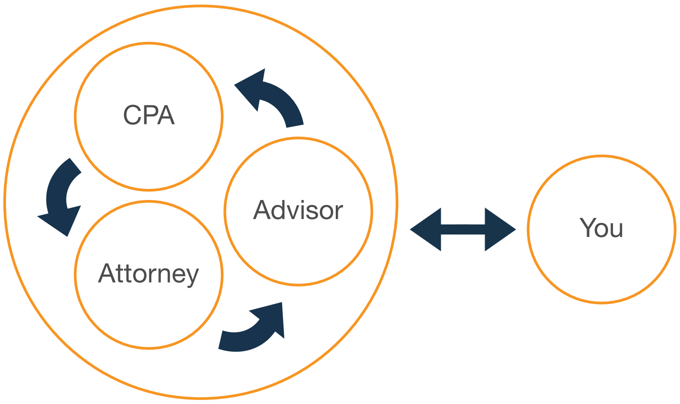
Questions to Ask:

- Has this advisor worked with advisory teams before?
- Do they have the experience to work with individuals who have more complex financial situations, like myself?

Ineffective Collaboration Model



Effective Collaboration Model



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Questions to Ask

Questions to Ask

Advisor Functions, Titles & Designations

What are the advisor's designations?

Does the advisor have any proprietary affiliations? Are they employed by a large investment or insurance institution? If so, do you feel this association could pose a conflict of interest in their financial recommendations?

What experience do they have in the financial services industry? (ex: banking, product sales, investments, etc)

Do you feel the advisor will act as a true fiduciary? Will they make recommendations that are always in my best interest?

Process, Planning & Philosophy

What types of clients does this advisor generally work with? Are those clients' financial situations similar to mine? (Consider net worth, assets, financial goals)

How often will this advisor review my plan/strategy with me? Who will be involved in those meetings?

How does this advisor approach portfolio management? Do I agree with this approach?

Do I feel this advisor can explain complex financial concepts in an easy-to-understand way?

Servicing & Client Experience

Does the advisor have a team or are they a solo practitioner? If they are solo, do I feel their servicing is streamlined enough to meet my expectations and needs?

Has the advisor explained in some detail the deliverables I should receive as a client?

Do I feel this advisor can be transparent about their recommendations?

Do I feel this advisor is open to feedback?

Has the advisor been clear with their fees specific to my financial plan/strategy?

Do I feel I am getting benefit from the value of this professional relationship?