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Financial Advisors

by Sophia

WHAT'S COVERED

In this lesson, you will explore how professionals can help you navigate your financial journey and be more productive. Specifically, this lesson will cover:

1. Overview of Financial Professionals

1a. Types of Financial Professionals

When it comes to financial help, you have several options. The table below provides a brief introduction to some of the financial professionals you are most likely to encounter during your lifetime financial journey.

Table: Types of Financial Help Providers

Financial planner	Provides guidance and advice on all aspects of your financial situation; sometimes thought of as your "financial quarterback."
Financial counselor	Provides advice designed to help you fix past financial problems.
Financial advisor	Provides advice on one or a few financial topics; tends to be product-focused.
Tax advisor	Provides specialized advice on tax and IRS questions; prepares tax returns.
Legal advisor	Provides legal advice and counsel; can draft legal documents.

- If you want comprehensive help with your financial situation, a**financial planner** may be the right choice. A financial planner can act as your "financial quarterback" by providing help and guidance on all aspects of your financial situation.
- A **financial counselor** helps people resolve past financial difficulties. Financial counselors also help those with fewer assets and lower incomes establish a plan for the future.
- **Financial advisors** represent a very broad category that encompasses a wide variety of help providers. Usually, financial advisors help their clients deal with one or just a few issues, such as insurance planning, investment management, or education planning.

HINT

Financial advisors may also be called investment advisors, investment consultants, insurance agents, insurance brokers, registered representatives, or stockbrokers.

- Tax advisors are specialists who deal with the Internal Revenue Service (IRS) and state tax issues. If you need help completing a tax return, a tax advisor can help.
- A legal advisor is usually a licensed attorney who is empowered to draft legal documents.

Regardless of whom you turn to for help, keep in mind that the financial professional should always have your best interests in mind when making recommendations.

TERMS TO KNOW

Financial Planner
Can act as your "financial quarterback" by providing help and guidance on all aspects of your financial situation. Generally results in a long-term client-planner relationship that usually focuses on helping clients achieve future goals.

Financial Counselor
Helps people resolve past financial difficulties, as well as helps those with fewer assets and lower incomes establish a plan for the future.

Financial Advisor
A professional engaged in the business of providing financial and investment advice for a fee.

1b. Determining Financial Professional Competency

Working with a licensed and credentialed professional is one way to ensure that you receive competent help. The following table lists the prominent licenses and certificates that you can look for to help judge a professional's competence.

Table: Financial Professionals: Credentials and Competence

Financial Professional	Certificates and Licenses	Regulating Body
Financial planner	Certified Financial Planner (CFP®); Chartered Financial Consultant (ChFC®); Personal Financial Specialist (PFS)	Certified Financial Planner Board of Standards, Inc.; The American College; American Institute of CPAs
Financial counselor	Accredited Financial Counselor (AFC®); NFCC-Certified Counselor; Certified Financial Therapist (CFT-I™)	Association for Financial Counseling and Planning Education (AFCPE); National Foundation for Credit Counseling (NFCC); Financial Therapy Association
Financial advisor	Registered Investment Adviser (RIA); Registered Representative (Series 7); Insurance Agent or Broker	U.S. Securities and Exchange Commission or state securities office; Financial Industry Regulatory Authority (FINRA); licensed at the state level
Tax advisor	Certified Public Accountant (CPA); Enrolled Agent	American Institute of CPAs; Internal Revenue Service
Legal advisor	Attorney	Licensed at the state level

Remember that having letters behind a professional's name does not eliminate the risk that he or she may not have your best interest in mind. The best policy is to always check to make sure any financial professional you work with:

- Is properly licensed with the appropriate government agency or nongovernmental regulatory body.
- Has a clean disciplinary record.

Productivity: Skill in Action

Matt has a lot on his plate. He works full time, goes to school part time, and is raising a daughter on his own. He wants to invest but he does not have time to focus on all of the details. To be the most productive with his time, he researches financial advisors and settles on a financial planner who can help him prepare for his future.

Now that you have a sense of where to turn to for help and how to make sure that the person is well qualified, let's see next how using a financial professional might work in practice.

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2. Financial Help: Two Approaches

When it comes to seeking help about your general financial situation, you have two broad categories of professionals to choose from: a financial counselor or a financial planner (if you need product, tax, or legal advice, you will want to turn to a financial advisor, tax advisor, or an attorney, respectively).

- As shown in the illustration below, the primary difference between a financial counselor and a financial planner is the way these professionals view their clients' situations.
- Financial counseling is most effective in helping people respond to short-term crises and challenges.
- Financial planning is a proactive process that seeks to address long-term issues and challenges long before they become an immediate issue.

2a. Financial Counseling

Consider Jack, who a few years ago started his own small business out of his parent's house. The business did not do well, so Jack decided to get another full-time job plus take college classes. Jack is now in the position of trying to work full-time, get good grades, and repay the debts that he incurred while trying to make his business a success (he owes money on four different credit cards). Jack needs immediate help. Jack should meet with a financial counselor. Financial counselors help their clients establish spending plans and get out of debt more quickly. Here is how Jack received help.

1. Jack decided to contact a credit counseling agency, which provides individual assistance when

negotiating with creditors and simplifying payments to creditors.

2. Jack went online to the **Council on Accreditation's website** to find out if the credit agency he was planning to call was legitimate and in good standing. He also checked to see if the agency was part of the **National Foundation for Credit Counseling network (NFCC)** and which of the staff were either NFCC-certified counselors or Accredited Financial Counselors®.
3. Once he was sure the counseling firm was legitimate, Jack contacted the credit counseling company and spoke with a financial counselor.
4. The financial counselor was able to help Jack negotiate with his creditors and develop an effective spending plan (sometimes called a debt repayment plan).
5. The financial counselor recommended some additional resources to Jack that he could use as a student to help with his current financial situation.
6. After five meetings, the financial counselor decided that Jack was well on his way to managing his finances without any additional guidance.

2b. Financial Planning

Whereas financial counseling helps people fix current or past problems, financial planning usually focuses on helping individuals, families, and small business owners achieve future goals. Additionally, instead of a short-term process, financial planning generally results in a long-term client-planner relationship.

HINT

It is not uncommon for someone to work with a financial planner for two or more decades.

Let's look at Sarah's situation. Sarah just graduated from college and is starting a full-time job. She wants to begin saving for her long-term financial goals and is looking for some help. Here is what she did.

1. Sarah decided to call a financial planner.
2. Sarah used the free online financial planner search tools offered by the **Certified Financial Planner Board of Standards, Inc.** She also used the **Financial Planning Association website** to search for a local financial planner.
3. Sarah located a Certified Financial Planning (CFP®) professional, who meets regularly with her to talk about investing, taxes, retirement, insurance, estate issues, and other topics.
4. The CFP® professional also manages a portion of Sarah's retirement account for a fee.
5. Their ongoing relationship adds value to Sarah's life by helping Sarah make financial decisions and by providing peace of mind.

In Jack's and Sarah's cases, both were able to find the financial professional help they needed. However, to make sure they received the best help for their money, Jack and Sarah needed to check two other things: compensation method and possible conflicts of interest.

3. Navigating the Financial Advice Marketplace

3a. Compensation Options

Before calling a financial professional, you need to know how financial professionals are compensated. Rarely are valuable services free. There are three primary ways in which financial professionals are compensated.

1. **Commission**, which is an amount paid to the financial professional *from a financial firm*, such as a mutual fund or insurance company, based on the percentage of the sales price of a product, such as an investment product, mutual fund, or insurance policy. Nearly all insurance agents and stockbrokers (sometimes called *registered representatives*) earn a large portion of their income from commissions. Typically, financial professionals who are compensated on this basis receive a sizable upfront commission in the year that you purchase a product. In subsequent years, they receive smaller commissions, referred to as trailing commissions, if you continue to pay for the product.
2. **Fee**, which is typically paid to the financial professional from the client. Fees can be based on an hourly charge or, more typically, based on the amount of investment assets managed by the financial professional. Fee-only financial planners are the most likely to charge only a fee for advice.
3. Combination of commissions and fees, so that the total costs paid tend to be the same as for a commission-based advisor, but consumers are given a choice when paying for advice. These compensation structures are sometimes known as fee-based and fee-offset approaches.

This table compares these compensation approaches to commission and fee methods.
Table: Types of Compensation Methods Compared

Commission	Fee	Commission and Fee
Professional paid by investment company or insurance company	Professional paid by client	Professional paid by firm and client
Pay based on value of sale	Hourly or asset fee	Fees typically offset by commissions
Typical cost for a $10,000 portfolio is $250 to $700 (one time)	Typical cost for a $10,000 portfolio is $100 to $300 (ongoing)	Typical cost for a $10,000 portfolio is $250 to $700 (one time and ongoing)

When thinking about compensation issues, there is no one “best” way to pay for financial advice. Although most consumer-affairs experts argue that a fee structure is best because it aligns your financial professional with your interests, what is most important is that the financial professional, however paid, discloses and avoids conflicts of interest.

TERM TO KNOW

Commission
Payment based on the sale of a product or service.

3b. Conflicts of Interest

The world of financial advice is filled with conflicts of interest. A **conflict of interest** occurs when a financial professional benefits financially to an extent that exceeds the value provided to the client. Stated another way, a conflict of interest exists any time an advisor makes money based on a recommendation that is not in the best interest of his or her client.

Stockbrokers, for instance, face conflicts of interest on a daily basis. Brokers who provide non-retirement planning advice are only required – by law – to provide their clients with a suitable product, not necessarily the best product. This is known as the **suitability standard of advice**. There are reasons to be cautious when working with someone who follows only a suitability standard of advice.

HINT

As long as an advisor fully discloses all conflicts of interest, then purchasing a suitable product should be just fine.

- As a consumer, it is never fully possible to know if a product or service recommendation is being made in your best interest or if the advisor stands to unduly gain financially from the transaction.
- This means that consumers who work with advisors who earn commissions must take precautions to ensure that they fully understand how their advisor is paid.
- If an advisor is unwilling to disclose how he or she is paid, this is a warning sign. You should seek help from someone else.

Some financial professionals follow a **fiduciary standard of advice**, which requires a financial professional to act in the best interest of the client at all times and fully disclose any and all conflicts of interest.

TERMS TO KNOW

Conflict of Interest

When a financial professional benefits financially to an extent that exceeds the value provided to the client; exists any time an advisor makes money based on a recommendation that is not in the best interest of his or her client.

Suitability Standard of Advice

A requirement that brokers and agents provide advice and recommendations to customers that is suitable to the needs of the customers; this is a lower standard of care compared to the fiduciary standard.

Fiduciary Standard of Advice

Requires financial professionals to act in the best interest of the client at all times and fully disclose any and all conflicts of interest.

SUMMARY

In this lesson, you studied an **overview of financial professionals**. There are several **types of financial professionals** which include planners and counselors. Whichever you choose, be sure to determine their **financial professional competency**. This means the professional must be licensed, accredited through a government agency, and have a clean record.

There are **two approaches to getting financial help: counseling** and **planning**. Both approaches can help you increase your productivity. Counselors tend to solve short-term challenges while planners look long-term and prevent issues before they crop up. Before you decide which advisor is right for you, you must **navigate the financial advice marketplace**. This means looking at the **compensation options** of the advisor, or how they make their money. They usually charge a fee, commission, or a combination. But be cautious! You don't want your situation to turn into a **conflict of interest** where your advisor makes money from recommendations that are not in your best financial interest.

TERMS TO KNOW

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