

Tips on Choosing an Advisor

How to Choose the Right Financial Advisor for You

The Babson Funds interviewed Sheryl Garrett for their quarterly Babson Report (distributed to Babson fund shareholders, September 2001)

BABSON REPORT: Given the market's extreme volatility in 2000 and 2001, many individual investors are turning to professionals for advice. But how do you go about finding the right financial advisor from the thousands out there? We asked Sheryl Garrett, CFP™, founder of The Garrett Planning Network, Inc. (GPN), for some tips.

QUESTION: How would you suggest people start their search for the right financial advisor?

SHERYL GARRETT: Anyone can call themselves a financial planner. Unfortunately, there's no minimum amount of experience or education required. Furthermore, even financial planners that, on paper, have lots of credentials and an impressive educational background may have conflicts of interest that pull them in two different directions. For example, your best interests may not be the only or first priority for financial planners who work on a commission basis for an investment management firm or broker/dealer.

That's why I am a big proponent of as-needed fee-only financial planning, where you pay a flat fee based on the amount of time you meet with a financial planner. Among other things, this structure eliminates many of the conflicts of interest you're likely to run into with a financial planner working on commission. I also believe that most Americans don't need a full-time financial planner but should rather have the option of meeting with them on an hourly, as-needed basis.

One place to begin your search for a fee-only financial planner in your area is the Web site of the National Association of Personal Financial Advisors (NAPFA) at www.napfa.org. Another resource you might consider is www.garrettplanningnetwork.com. I started this network last year to give self-directed individual investors a way to locate professionals nationwide who focus exclusively on hourly, as-needed, fee-only planning.

QUESTION: What about credentials?

SHERYL GARRETT: Provided that you don't have a very complicated situation—one that would involve, for example, estate planning or advice about stock options—the most important criterion, in my opinion, is not necessarily a financial planner's credentials but their background and integrity. And unfortunately, no one has those things tattooed on their forehead.

It might seem a bit counterintuitive, but a financial planner with the most impressive credentials and education may not be the right one for you if he or she can't or won't give you the attention you deserve. If you don't have a great deal of money to invest, they may see you as a small fish in their ocean. In that case, you'd probably be better off with someone else.

QUESTION: How should an investor go about narrowing down the list of possible planners?

SHERYL GARRETT: A good way to start is by visiting their Web sites or asking them to mail you an informational packet. Both offer you a way to evaluate financial planners without actually having to go and meet them at this early stage. The information can tell you an awful lot about their substance-such as what services they offer-as well as their style.

If, after reviewing this information, you'd like to find out more about a specific financial planner, give them a call to schedule what's known as a "get-acquainted meeting" or initial consultation. Most financial planners offer free initial consultations at no charge.

QUESTION: What would you ask a financial advisor to determine if he/she is right for you?

SHERYL GARRETT: First, I strongly suggest that you find out how the financial planner views their fiduciary relationship to their clients. Will they be working exclusively for you, or as an employee of a company?

The next question goes hand-in-hand with that: How are they being compensated, and by whom? A front-end commission is only one inducement that financial advisors have to move your money here rather than there. If the financial planner stands to gain by pushing one fund or family, their interests probably won't be aligned with yours. And if he or she won't level with you about how they are compensated in the first place, that's an answer in itself.

QUESTION: What about personality?

SHERYL GARRETT: Actually, I think that's probably the most important consideration when choosing a financial advisor. Naturally, it's harder to quantify or check off on a list. Ask yourself whether you would enjoy working with this person for the rest of your life. Do you feel like they listen to you? Do they answer your questions in a forthright manner?

How do they define success when working with their clients? Is it a certain rate of return? Does it mean saving or making them money? Or does it mean giving them peace of mind?

The bottom line is: Feel free to ask tough questions of a financial planner, because that's what they're going to do to you next. In the end, their job is to find out what you want in life-and then help you gain the financial security to achieve those goals.

Sheryl Garrett, CFP, is founding principal of Garrett Financial Planning, Inc., a financial planning and Registered Investment Advisory firm headquartered in Kansas City. The firm specializes in providing "fee-only financial planning and advice for everyday life." She is also the founder of The Garrett Planning Network, Inc. (GPN), a nationwide network of fee-only planners dedicated to serving people from all walks of life.