THE 8 CRITICAL QUESTIONS YOU NEED ANSWERED TO FIND A FINANCIAL ADVISOR **YOU CAN TRUST**

And Protect Your Family's Life Savings

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1

WHAT LICENSES, CREDENTIALS OR OTHER CERTIFICATIONS DO YOU HAVE?

Not every person that that calls themselves a "financial advisor" or "financial planner" has equal education, responsibilities, or ethical requirements. In fact, there is no legal licensing requirement to call yourself a financial advisor or financial planner. Anyone can call themselves a financial advisor or financial planner, which means you should vet anyone who will be potentially guiding your financial future

To start, look for someone who has attained a designation of advanced training. The four designations that are the most highly regarded are: Certified Financial Planner, Chartered Financial Consultant, Certified Public Accountant and Personal Financial Specialist.

By having at least one of these designations, the advisor will have demonstrated some core competencies. To earn the Certified Financial Planner (CFP®) designation, the individual must pass a comprehensive board examination.

THIS IS A DIFFICULT TEST WITH A 24 YEAR HISTORICAL PASS RATE OF 57.3%.

The Chartered Financial Consultant program uses the same core curriculum, however, there is no board exam. This designation is mainly earned by those in the insurance industry.

A Certified Public Accountant (CPA) is someone who can offer you advanced tax planning. Some CPA's are now earning the Personal Financial Specialist (PFS) certification as they add financial planning services to their practices.

To earn the CFP® or ChFC designation, an individual must complete an extensive course of study and be tested on their knowledge in areas such as: tax management, employee benefits, retirement planning, estate planning, investment management, and insurance – areas all comprised within the financial planning process.

Individuals who work for stock brokerage firms are licensed as registered representatives. They must pass certain multiple choice tests that cover investments like stocks, bonds, options, and other investment products in order to sell these investments to the public. Often times, the registered representatives will have an insurance license so they can also sell insurance products. No financial planning exams or training is required.

2

ARE YOU REQUIRED BY LAW TO PUT MY INTERESTS AHEAD OF YOUR OWN?

This is a “gotcha” question. How the advisor you are interviewing answers this question will tell you a lot about him or her.

Fee-only advisors work for Registered Investment Advisory firms, not insurance companies, stock brokerage firms, or banks.

If the advisor you are speaking with tells you they have a legal obligation to put your interests ahead of their own and they work for a stock brokerage firm, bank or insurance company…well, they may not be telling you the truth.

OTHER ADVISORS MAY WORK UNDER A LOWER “SUITABILITY” STANDARD OF RESPONSIBILITY TO THE CUSTOMER. THIS INCLUDES INSURANCE AGENTS SELLING ANNUITY PRODUCTS, STOCK BROKERS, AND EVEN A CFP® WHO WORKS FOR BROKERAGE HOUSE.

Suitability offers some protection but it is not the gold standard. Suitability means that the advisor only has to reasonably believe that any recommendations made are suitable for clients, in terms of the client's financial needs, objectives, and unique circumstances. A key distinction in loyalty is also important because the first duty of advisors who work at stock brokerage firms, banks and insurance companies is to their employer not to their client.

So, a recommendation could be suitable and meet an “acceptable” level of legality, however, not necessarily be the the best solution for the consumer.

This is a very important point considering that so many people are calling themselves “financial advisors” and financial planners” these days. The fact that literally anyone from your local insurance agent to your postal worker can call themselves these terms has rendered them meaningless for anyone looking for unbiased advice.

So it begs the question, why would you work with anyone who didn’t legally have to put your interests above his own?

Perhaps it’s no wonder that the Bank Insurance Market Research Group in a study published by Investment News, found that over the past 10 years, the number of registered investment advisors in this country has risen by 8% while the number of advisors at brokerage firms, banks, and insurance companies have all declined.

3

WHAT SERVICES DO YOU/DOES YOUR FIRM PROVIDE?

Some advisors provide you advice on your investments or insurance while others offer comprehensive financial planning centered around retirement, insurance, estate planning, tax planning and charitable giving along with investment management.

4

WHAT IS YOUR INVESTMENT APPROACH?

Make sure the advisor has an investment philosophy that is compatible with your goals and risk tolerance.

Ask them how they determine what investments to use and how much risk you should take on in your particular situation.

If you don't understand what they are talking about then it might be best to find someone that can explain what they are doing in a language you can understand and that you are comfortable with.

5

HOW AND HOW MUCH DO YOU CHARGE FOR YOUR SERVICES?

If you didn't see this information on the advisor's web site, make sure you ask how you would be charged. Ask for a copy of any agreement that you will need to sign.

Not only should you know how much the service will cost you, but it can help you determine whether they have an incentive to sell you certain products or investments.

THERE ARE SEVERAL COMMONLY ACCEPTED COMPENSATION METHODS:

Fee-only: The advisor is compensated entirely from fees for purposes of consultation, plan development, or investment management. These fees may be charged on an hourly or project basis depending on your needs, or on a percentage of assets under management.

Fee-based: The advisor could be compensated from fees or from commissions or both. Commission-only: There is no charge for the advisor's advice or preparation of a financial plan. Compensation is received from the sale of financial products which you agree to purchase in order to implement financial planning recommendations.

Fee-offset: Compensation received in the form of commissions from the sale of financial products are offset against fees charged for the planning process.

Combination Fee/Commission: A fee is charged for consultation, advice, and financial plan preparation on an hourly, project, or percentage basis. If you choose to implement your plan through this type of planner, he or she may receive commissions from recommended products targeted to achieve goals and objectives. Salary: Some planners work on a salary basis for financial services institutions such as banks, credit unions, and other related organizations.

Hourly fee: An hourly fee is charged much like an attorney would charge for work done. In all of the above categories of compensation, you should request information on any real or potential conflicts of interest. Besides commissions received from financial product sales, you should ask whether there are outside incentives or bonuses to be gained by the advisor for certain recommendations. In the case of some products sales, the advisor may be eligible to win a trip or earn a bonus for selling a particular product.

Be careful, if someone says there is no cost to you. That should be an immediate red flag. You have probably been around long enough to know that nothing in life is free especially when it comes to investments and insurance products.

So if someone gives you that line, ask them, "Does that mean I can get all my money back at any time? If not, why not?" The answer will most likely be no and the reason is because a commission has been paid out of your investment to pay the salesman.

6

WHAT IS THE DIFFERENCE BETWEEN FEE-BASED COMPENSATION AND FEE-ONLY COMPENSATION?

This gets confusing. Because they sound similar, consumers tend to think they are the same thing. In fact, they couldn't be more different.

Fee-only compensation is the most straightforward form of compensation. Fee-only advisors are only paid based on a percentage of their clients' assets and/or on an hourly basis. Fee-only advisors receive no other compensation from any other source. This allows the advisors to review each alternative solution, and then provide their clients with an unbiased opinion as to the pros and cons of each.

Fee-based compensation means the advisor can be paid either a percentage of the clients assets (like the fee-only advisor) or a commission or both.

What gets confusing for the consumer is that when they are working with a fee-based advisor, the consumer needs to be aware that in some instances the advisor has a legal obligation to put their best interest first and in other instances they do not. For example, the advisor may be making recommendations in which he would be compensated under a percentage under assets structure and in the same conversation start talking about an insurance product in which he gets paid a commission.

In this example, the advisor had moved from having to put his client's best interests first to not having to put his client's best interests first. Shouldn't the number one question when dealing with your family's finances be, "Do you have a legal requirement to put my family's best interests first when giving me your recommendations?"

7

WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?

Membership and involvement in industry organizations indicates that the advisor commits to spending a portion of his/her time keeping up-to-date on the current trends, legislation, and planning strategies.

The National Association of Personal Financial Advisors (NAPFA) is the country's leading professional organization for Fee-only advisors. It has 2,400 members. The Financial Planning Association is the largest membership organization for Certified Financial Planner® professionals with over 100 chapters nationwide.

8

HAVE YOU EVER BEEN DISCIPLINED BY THE SEC OR FINRA?

The Securities Exchange Commission (SEC) regulates Registered Investment Advisory (RIA) firms while the Financial Industry Regulatory Association (FINRA) regulates the stock brokerage industry and is overseen by the SEC.

You can check out advisors that work for Registered Investment Advisory (RIA) firms by going to the Securities and Exchange Commission website: sec.gov/investor/brokers.htm.

To research advisors that work for stock brokerage firms, go to BrokerCheck.com.

WorthPointe is the new frontier of financial planning for generations to come. As a fee-only financial planning firm, we stay at the forefront of the industry, testing out new technology to streamline processes internally and for our clients. We are the trusted partner supporting our clients as they continue along their path of success growing into tomorrow's millionaires. Our team of CERTIFIED FINANCIAL PLANNER™ professionals customize their services to our clients and their budgets, helping them protect and build their financial future so they can focus on doing what they love.

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