

# How to Choose a Financial Professional

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## Getting Started

Do you need the help of a qualified and honest financial professional, but don't know where to start? You're not alone. It's not easy to know who to trust with your hard-earned money.

### Here are six steps to help you choose the best financial professional for your needs

1. Determine your goals
2. Know your financial professionals
3. Understand how you'll pay
4. Know where to look
5. Ask the right questions
6. Check background and history

**For more information:**

[sec.gov/investor/alerts/ib\\_top\\_tips.pdf](https://sec.gov/investor/alerts/ib_top_tips.pdf)  
[sec.gov/investor/pubs/invadvisers.htm](https://sec.gov/investor/pubs/invadvisers.htm)

## 1. Determine your goals

Before you begin looking for a financial professional, you'll need to know what you expect to gain from the relationship. What advice do you want help with? Retirement planning? Investments? Estate planning? Financial professionals provide many types of services so it's important you determine your needs ahead of time. Start by writing down your short-term and long-term goals so you can begin to identify your needs.

Consider attending the CalSTRS Save for Your Future workshop to learn more about establishing short-term and long-term savings goals. You'll find our short-term and long-term savings goals worksheet available at [CalSTRS.com/general-information/worksheets](https://www.calstrs.com/general-information/worksheets).

## 2. Know your financial professionals

### Financial Planner

A financial planner typically prepares financial plans for his or her clients. The kinds of services financial planners offer can vary widely. Some will assess every aspect of your financial life—saving, investments, insurance, taxes, retirement and estate planning—and then help you develop a detailed plan for meeting all your financial goals. Other professionals may call themselves financial planners, but they may only be able to recommend that you invest in a narrow range of securities, including stocks and bonds, and sometimes products that aren't securities, such as insurance annuities.

#### Services

A financial planner can help with investments, insurance, estate planning, budgeting, retirement planning, saving for college, tax planning, and other money topics.

#### Certification/Registration

Some financial planners have credentials like a CFP, Certified Financial Planner. Financial planners working in California who give investment advice to their clients must also register with the Securities and Exchange Commission or the California Department of Business Oversight, and sometimes the California Department of Insurance.

### Investment Advisers

Investment adviser and financial consultant are generic titles that don't imply any particular investment education, industry credential or registration with any governing organization. When talking to an investment adviser, find out what professional designations they may hold and what rules and regulations apply to their practice before entrusting your investment business to them. Stock brokers are often called investment advisers or financial consultants.

#### Services

Investment advisers provide tailored investment advice and manage investment portfolios. Some also offer financial planning services or brokerage services if they are licensed to do so.

#### Certifications/Registration

Investment advisers working in California who manage \$100 million or more in assets must register with the Securities and Exchange Commission. Those who manage less are regulated by the California Department of Business Oversight. Because they primarily buy and sell securities, they typically don't have to register as investment advisers. But some do, which is why it's important to find out exactly which services they provide and what they charge.

Financial professionals working in California who offer or sell investments are required to register with, or be certified by, the California Department of Business Oversight, and may also be required to register with the Securities and Exchange Commission or California Department of Insurance.

## Brokers

Brokers, also called stock brokers or registered representatives, buy or sell securities as directed by their client.

### Services

The services brokers offer vary widely. Full-service brokerage firms usually charge more fees, but they tend to have large research operations their brokers can tap into when providing recommendations. These firms may also offer investment planning or other services. Discount brokerage firms are typically cheaper, but you may do your own research. Brokers and registered representatives are primarily salespeople. When they recommend you buy or sell a particular investment, they must have reason to believe that the recommendation is suitable for you based on factors like your income, portfolio and overall financial situation.

### Certifications/Registration

In general, brokers must register with the SEC and be members of FINRA. They also must pass a series of exams administered by the National Association of Securities Dealers, a self-regulatory organization.

## Insurance Agents

Insurance agents are sales people who can help you obtain life, health or property insurance policies and other insurance products, including annuities. Insurance agents described as "captive" work exclusively for one insurance company and can sell only the policies and products that company offers. Independent insurance agents can represent multiple companies and typically recommend insurance policies that offer the best coverage for your circumstances.

### Services

Insurance agents sell a variety of insurance and financial products, including property insurance, casualty insurance, life insurance, health insurance, disability insurance, long-term care insurance, mutual funds and annuities.

### Certifications/Registration

In California, insurance agents and companies must register with the California Department of Insurance. This agency has sales and marketing rules and requires agents and companies to file financial reports to determine their ability to honor claims. If insurance agents offer products that are considered securities, such as variable annuity contracts or variable life insurance policies, they must also be licensed as a registered representative with FINRA and comply with its rules.

**What's the difference between a CFP, ChFC, CPA, PFS or any of the other financial certifications? With all the acronyms out there, keeping them straight can be difficult. Here's a look at three popular designations:**

### Certified Financial Planner

Those with the Certified Financial Planner, or CFP, designation have met the standards of competency and ethics in financial planning as determined by the nonprofit Certified Financial Planner Board of Standards. In addition to passing the CFP certification exam, candidates must complete qualifying work experience and agree to adhere to the CFP board's code of ethics and professional responsibility and financial planning standards.

### Chartered Financial Consultant

Individuals with the Chartered Financial Consultant, or ChFC, designation have demonstrated their knowledge of financial planning as determined by The American College, a nonprofit educator. In addition to successfully passing an exam, candidates must have at least three years of experience in a financial industry position. Like those with the CFP designation, ChFC professionals help individuals analyze their financial situations and goals.

### Certified Public Accountant and Personal Financial Specialist

Certified Public Accountants, or CPAs, have passed exams in accounting and tax preparation. CPAs with demonstrated additional training in financial planning can become certified as Personal Finance Specialists. The PFS credential is awarded by the American Institute of Certified Public Accountants to CPAs who have taken the additional training and have earned the CFP, ChFC or PFS designation.

### 3. Understand how you'll pay

Before you agree to work with a financial professional, whether it's a broker, financial planner or an investment adviser, make sure you understand how your financial adviser gets paid. Financial professionals generally are paid by commission, fee only or fee plus commission:

#### Commission

Advisers who are paid by commission receive a commission on the investment products you buy from them. They are required to disclose any arrangements they have with other firms when recommending products or services that could generate commissions.

If you work with an adviser who is paid on commission, ask yourself whether their advice is in your best interest, or is it the most profitable product for the adviser? You should also ask about the costs and fees for typical stock and bond funds they would recommend.

#### Fee Only

Fee-only financial professionals charge flat or hourly fees for the services or advice they deliver. They may also charge a percentage of the assets they manage for you.

#### Fee-Based Plus Commission

These professionals charge a flat or hourly fee and also receive commission on the sale of recommended products and services. Fee-based compensation may include an asset management fee linked to the performance of your account. If the financial plan implemented through the services of your adviser grows in value, their fee also grows, giving the adviser an incentive to grow your assets.

Regardless of what kind of adviser you hire to help you meet your financial goals, there's no "best" form of compensation. It's up to you to determine the type of compensation that is most appropriate for your needs and that you're comfortable with. You can ask your adviser for input. Start by asking the total amount of fees you'd pay under each compensation method in a given period.

### 4. Know where to look

A good place to start when shopping for an investment professional is your friends, family and colleagues. Ask them for the names of people they've used for financial planning services. Ideally, those you ask should have the same needs and values as you since your friends or family members will be making recommendations based on their own situation and risk tolerance, which may be very different from yours. You'll want to ask:

- How long they've done business with them
- What types of services were provided
- What drove them to choose that particular person or firm.
- Have they ever had any problem with the person and, if so, how well and quickly it was resolved.

You can also consider asking your tax specialist or attorney for their recommendations, and follow up with the same questions above.

Be sure not to say yes to the first financial professional you speak to or who speaks to you. Meet with all your potential candidates to learn more about them face to face before making your decision.

Here are some additional resources to help you find your financial professional:

**National Association of Personal Financial Advisors**  
[napfa.org/](http://napfa.org/)

**Financial Planning Association**  
[plannersearch.org/Pages/home.aspx](http://plannersearch.org/Pages/home.aspx)

**Certified Financial Planner Board of Standards**  
[cfp.net/utility/find-a-cfp-professional?utm\\_source=find-cfp&utm\\_medium=header&utm\\_content=homepage&utm\\_campaign=header](http://cfp.net/utility/find-a-cfp-professional?utm_source=find-cfp&utm_medium=header&utm_content=homepage&utm_campaign=header)

**Securities and Exchange Commission**  
[adviserinfo.sec.gov/IAPD/default.asp](http://adviserinfo.sec.gov/IAPD/default.asp)

## 5. Ask the right questions

Before you hire a financial professional to create a financial plan, manage your portfolio, or purchase investments or provide services, ask the following questions:

### **How do you charge for your services, and how much?**

Not only do you want to know if the financial professional is paid by commission or fees, you also want to find out their specific fees, so you can compare them with other candidates. Also ask about any fees or expenses associated with the investment products they may sell.

### **Why did you pursue your specific licenses, credentials, or other certifications?**

This question will give you better insight into their past, and why they chose the path they did.

### **Do you or your firm specialize in a certain type of client?**

Depending on your situation, a certain firm may target a niche of clients that could be beneficial to you. For example, if you are environment-friendly, you may want to work with an advisor or planner that specializes in sustainable or responsible investing. Or you may feel more comfortable working with an adviser in your age range.

### **Do you have a sample financial plan?**

Financial plans vary widely, from pages of graphs and charts that may be overwhelming to a simple snapshot of your financial situation. Keep in mind the samples you see may not represent their usual work.

### **What is your investing philosophy?**

You want an adviser or planner who has a similar tolerance to risk. Even though they say they can adjust their philosophy to meet your needs, you should be wary. Also, past successes do not guarantee future successes.

### **Will I be working only with you, and how often will we remain in contact?**

The success of a financial advisor or planner often hinges on interpersonal communication. It's important for the person who is managing your finances to know you on a personal level, and understand your ever-changing needs. Likewise, you should feel comfortable sharing your financial and personal goals with them.

### **Could I have three clients' names as references?**

It's important to call or email these references. Ask how they found the adviser, the length of time they worked with the adviser, what kind of help they get, what they believe are the adviser's strong and weak points and whether they would recommend that adviser to someone in your situation.

### **What are your services?**

Services could include retirement planning, securities management, estate planning, tax planning, insurance, long-term-care advice and more.

### **How often do you evaluate my situation and provide an up-to-date forecast?**

A yearly evaluation should be expected. You may want more frequent updates, so be sure to ask if you do.

### **What makes your client experience unique?**

Ask why you would want to work with them. The adviser's answers will also give you a good idea of their strengths and if they are ones you seek in a planner.

### **What happens to my account if something happens to you?**

This is a fear for many clients, especially those who rely on phone calls to stay in touch. It's important to understand who the next point of contact is and how liquid your assets are.

### **How long have you been a financial adviser?**

It's valuable to learn how long the financial adviser has been in the industry. If they are working for a firm, it's also important to know how long they have been working with that firm. Also ask if they have any professional certifications, licenses or designations.

## 6. Check their background and disciplinary history

While most financial advisers and firms are honest, just like other professions, there are those firms and individuals who are not. Besides checking references from clients, you can do your own background checks into criminal, regulatory or ethical violations. State and federal laws require brokers, advisers and firms to be registered or licensed:

- In general, investment advisers working in California who manage \$100 million or more in assets must register with the Securities and Exchange Commission. Those who manage less than \$100 million must register with the California Department of Business Oversight. In addition, some advisers are required to register with the California Department of Insurance.
- Form ADV is the form investment advisers must complete to register with both the SEC and the state. Part 2 of the form, a brochure written by the adviser, includes services offered, fee schedule, disciplinary information, conflicts of interest, and the educational and business backgrounds of personnel. Form ADV, including the informational brochures, are available at [adviserinfo.sec.gov](http://adviserinfo.sec.gov).

### Your Resources:

#### Complaints, California Department of Business Oversight

[dbo.ca.gov](http://dbo.ca.gov)

#### Broker check, FINRA

<http://brokercheck.finra.org>

#### Form ADV

Before you hire someone to be your investment adviser, always carefully read the adviser's Form ADV. You can find a copy of an investment adviser's most recent Form ADV at

[adviserinfo.sec.gov/](http://adviserinfo.sec.gov/)

#### Certified Financial Planner Board of Standards

[letsmakeaplan.org/choose-a-cfp-professional/verify-a-cfp-professional](http://letsmakeaplan.org/choose-a-cfp-professional/verify-a-cfp-professional)

## New rule extends the fiduciary standard to all financial professionals who give retirement advice

A new rule from the U.S. Department of Labor extends the fiduciary standard to all financial professionals who give retirement advice, even if they aren't required to be held to that high standard by the laws that regulate their business. This means these advisers must put your interests ahead of their own when it comes to overseeing your retirement accounts, including 403(b)s and 457(b)s.

### The new rule places you and your adviser on the same side of the table.

#### What is a fiduciary?

**The fiduciary standard.** A fiduciary is a financial professional who is required by laws that govern their titles to put your interests ahead of his or her own. Fiduciaries must also disclose their fees, how they're paid and any conflicts or potential conflicts of interest that might influence your decision to use their services.

Fiduciaries may still work for a fund that allows them to sell only the fund's proprietary products. As long as they disclose that to you, they are still a fiduciary, even if there are investments outside of the fund that are better for you. The Certified Financial Planner Board of Standards issues Rules of Conduct for fiduciaries. Among them is a rule that requires CFPs to define what services they will provide and only offer advice in areas in which they are competent.

**The suitability standard.** All other financial professionals are held to the lower "suitability" standard, meaning they must consider your financial situation, investment experience and investment objectives, but they don't have to put your interests ahead of theirs—and they aren't required to tell you how they've profited from the sale.

Those who fall under the suitability standard are just required to reasonably believe that a recommended investment or strategy is suitable for you, based on information obtained through reasonable diligence. Stock brokers, who may also be called financial advisers or wealth managers, are subject to this lower legal standard (if they don't provide retirement advice). They include financial advisors working at large brokerage firms. These financial professionals are regulated under the Securities Exchange Act of 1934.

### **How to find out if an adviser is a fiduciary**

Often, you can't tell whether your adviser is a fiduciary based on their title or the services they offer. When it comes to advice with other accounts or services, however, always ask if your financial professional is a fiduciary.

You'll find tips on how to tell if your adviser is working in your best interest at:

[dol.gov/ebsa/newsroom/fsfiduciaryoutreachconsumers.html](https://dol.gov/ebsa/newsroom/fsfiduciaryoutreachconsumers.html).

You can also ask to see a fiduciary agreement in writing.

The U.S. Department of Labor anticipates investor costs to decrease over time, and trust in advisers should increase due to more transparency in the disclosure of compensation.



#### **TIP**

**You'll find fact sheets on the new fiduciary rule at:**

[dol.gov/ebsa/regs/conflictsofinterest.html](https://dol.gov/ebsa/regs/conflictsofinterest.html)