



## Tips for Selecting High Quality Advisors



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This guide is a free public service from Paladin Registry. It contains information that will help you select a high quality financial planner or advisor.

*This guide is for information purposes only. It is not intended to be any type of financial, tax, or legal advice. We strongly suggest you contact a qualified professional before you make any decisions that impact your financial future.*



## What should I be looking for when I select a financial planner or advisor?

- High levels of financial expertise.
- Impeccable ethics that cause the advisor to put your interests ahead of his or her own.
- Investor-friendly business practices.
- Sophisticated wealth management services that increase the probability you will achieve your financial goals.

## Are all planners and advisors the same?

- Absolutely not. There is a huge range in quality and that range creates a major financial risk for you.

## Why is it so difficult to determine the quality of financial professionals?

- Wall Street companies don't want you to know the quality of advisors. That way lower quality advisors can sell you investment products.
- Wall Street lobbyists make sure there are no mandatory disclosure requirements for financial representatives.
- Because there are no disclosure requirements, you have to know the right questions to ask. If you are like most investors, you don't know those questions.

## What are the key differences between planners and advisors?

- Planners provide strategic planning services, for example: financial, retirement, and estate plans. Their job is to develop roadmaps for your financial future.
- Advisors provide investment services, for example, strategy development, asset allocation, manager selection, and performance reports. Their job is to help you invest your assets and achieve your financial goals.
- There is only a small amount of overlap between their services.

## Should I use a different process for selecting a planner versus an advisor?

- You can use the same selection process because most of the issues in regard to credentials, ethics, and business practices are the same.
- Their primary difference is the types of professional services that they provide.

## What percentage of professionals provides planning and investment advisory services?

- More than 85% of the professionals who provide planning also provide investment advisory services.
- By providing both services they are able to deliver integrated solutions.
- There are a limited number of planning-only professionals.
- There are a higher number of investment-only professionals.

## Who can call themselves planners or advisors?

- Anyone can call him or herself a planner or advisor. There are no regulations for titles.
- For example, 270,000 representatives call themselves planners, but only 60,000 are certified planners.
- A lot of representatives call themselves planners because the title sells better than stock broker or insurance agent.
- Titles can be very deceptive so you have to check advisor credentials and services.

## What are the minimum education and experience requirements to be a financial planner or advisor?

- Planners and advisors have no minimum education or experience requirements – not even a high school diploma or one day of experience.
- No minimum standards is one more reason why selecting advisors can be very risky.

## Can convicted criminals obtain securities licenses?

- Yes, as long as their crimes weren't securities related.

## Do securities licenses mean an advisor is a financial expert?

- Absolutely not. Most licenses can be obtained with a few hours of study. It takes thousands of hours of study and years of experience to be a real expert.



## What are the top four characteristics that will help me determine advisor quality?

- **Credentials:** experience, education, certifications
- **Ethics:** compliance record, RIA status, fiduciary status, voluntary disclosure, conflicts of interest
- **Business Practices:** method of compensation, personal services
- **Wealth Management Services:** planning, investment advice, asset allocation, reporting

## What are the two biggest mistakes investors make when they select financial advisors?

- They are influenced by the advisors' personalities and sales skills. They fail to recognize that a friendly personality and saying the right things have nothing to do with competence and integrity.
- They don't know the right questions to ask advisors to determine their quality.

## How important is the independence of financial professionals?

- Independence can be critical.
- You want the advisor working for you and not a company that may put its interests ahead of yours.
- The company could be the advisor's employer or a product company that pays commissions to the advisor.

## Is compensation a key difference between sales representatives and financial advisors?

- Compensation is a very important criterion when you evaluate advisors.
- Representatives earn commissions and advisors charge fees.

## Why would an advisor refuse to document his or her credentials and ethics?

- They know you won't hire them if they document their credentials.
- They hide this information and hope you don't know the right questions to ask, especially if you ask for their responses in writing.

## Why is RIA/IAR status important?

- Registered Investment Advisors (RIAs) and Investment Advisor Representatives (IARs) are held to higher ethical standards than advisors who don't hold these registrations.
- There is a high probability that advisors who don't hold these registrations are sales representatives.
- You should only hire advisors who are RIAs or IARs.

## Why is acknowledged fiduciary status so important?

- Fiduciaries are held to higher ethical standards, have increased disclosure requirements, and they have more liability for the quality of their services.
- High quality advisors acknowledge they are fiduciaries.
- You should only hire advisors who are acknowledged fiduciaries.

## How important are certifications?

- Certifications are important because they are a way for planners and advisors to obtain specialized knowledge. However, you should be aware that there are two types of certifications:
  - High quality certification programs have significant course work and comprehensive examinations (CFA®, CFP®, CIMA®)
  - Low quality programs produce certifications for little or no work and a fee (like a diploma mill for college degrees)
- If certifications are an important selection criterion for you, and they should be, then you should check them out on the Internet.

## How should I compensate planners and advisors?

- You pay professionals for knowledge that will help you complete work, achieve goals, and solve problems.
- Financial professionals should be compensated the same as other professionals (CPA, attorney) – with a fee.
- Do not be deceived by unscrupulous advisors who tell you their services are free because they are paid with commissions or that commissions cost you less than fees. There are no free services and commissions are more expensive. They are using deceptive sales practices.



## Why is fee compensation so important?

- Fees are the only way you can directly compensate financial professionals for their knowledge and services.
- Fees eliminate several potential conflicts of interest.
- Fees are paid quarterly and they stop if advisors fail to meet expectations and you terminate their services.
- The ongoing fee is the advisor's economic incentive to meet your expectations.

## Why are commissions a risky way to compensate advisors?

- You introduce an avoidable risk when you pay advisors with commissions.
- Advisors are paid commissions at the time of the sale. Since they are paid in advance, they have no economic interest in the achievement of your financial goals.
- Commissions are paid by product companies. You don't want a third party paying advisors who influence or control your financial decisions.
- A 5% commission is the same as paying five years of a 1% fee in advance.
- How comfortable would you be if your doctor earned higher or lower commissions based on the drugs he or she recommended to you?

## What if an advisor talks fees then sells me commission products?

- You have experienced an unethical sales practice and you should avoid that advisor.
- This sales tactic is called bait and switch.

## Does it matter who the planners and advisors work for?

- It matters a lot. Financial professionals who are employees may represent their companies' interests and not yours.
- For example, they may sell you company products versus third party products that produce better results for lower expenses.

## How do I evaluate the ethical backgrounds of planners and advisors?

- Ask them for their CRD and insurance license numbers then check their records with the appropriate regulatory agencies.
- For securities licenses check with [www.nasd.org](http://www.nasd.org) and/or your state's securities commissioner.
- For insurance licenses check with your state's insurance commissioner.

## What are credentials?

- Credentials are very important advisor facts that help you evaluate their knowledge. For example:
  - Years of experience
  - Education and degrees
  - Certifications
- Credentials help you compare advisors to each other.
- All credentials should be documented in writing so you have a permanent record of what was said to you.

## What are ethics?

- Facts about ethics help you evaluate the trustworthiness of advisors.
  - Trust is just as important as advisor knowledge.
  - Is the advisor willing to provide full disclosure for: credentials, ethics, services, and business practices?
  - Does the advisor have clean compliance and criminal records?
  - Is the advisor an RIA or IAR?
  - Does the advisor acknowledge his or her fiduciary status?

## What are business practices?

- Knowing the advisors' business practices will help you evaluate how advisors conduct their businesses.
- For example, methods of compensation and service meeting policies.



## What are the top seven characteristics that describe high quality financial professionals?

- **Experience:** At least five years and the more the better
- **Education:** College degrees and certifications
- **Independence:** They provide advice that is not influenced or controlled by companies
- **RIA/IAR Status:** They are Registered Investment Advisors (RIAs) or Independent Advisor Representatives (IARs)
- **Fiduciary Status:** They acknowledge their fiduciary status
- **Fees:** They are compensated with fees for their knowledge and services
- **Documentation:** They provide voluntary disclosure for their credentials, ethics, and business practices

## What are the top seven characteristics that describe low quality financial representatives?

- **Experience:** they have little or no experience
- **Education:** they have limited education and no certifications that have meaningful requirements
- **Licenses:** they have securities licenses that allow them to sell, but not advise – for example, a Series 6
- **Fiduciary Status:** they are sales representatives and not fiduciaries
- **Commissions:** their sole method of compensation is commissions
- **Documentation:** they provide no documentation for credentials, ethics, and business practices.
- **Skills:** their principal skill is sales and not financial planning or investment advice

## Should I be concerned when I ask advisors about their credentials, ethics, and business practices?

Absolutely not. Advisors will ask you several personal questions when they are in the process of getting to know you and your goals. You have every right to ask any question that will help you select the right advisor and protect your financial interests from bad advice.

## What are the top five questions I should ask planners and advisors?

- You claim to be a financial expert. Describe your sources of expertise: experience, education, and certifications.
- You say I can trust your advice. Describe your compliance history, licensing, fiduciary status, and RIA/IAR status.
- What services do you provide that will help me achieve my financial goals?
- How are you compensated? Are you willing to disclose all of your compensation to me in writing?
- Are you willing to disclose any potential conflicts of interest to me in writing?

## Where can I go to obtain additional information about protecting my financial interests from bad advice?

You can go to [www.paladinregistry.com](http://www.paladinregistry.com) / Tips-4-Investors for more information (on the home page). The tips are free and no registration is required.

## Where can I go to find high quality, trustworthy professionals who can help me achieve my financial goals?

You can go to [www.paladinregistry.com](http://www.paladinregistry.com) / We Find Advisors for You (on the home page). The search services are free and there is no obligation.

## About Paladin Registry

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