

Seven Things You Must Know Before Hiring a Financial Planner

Introduction

Money is important. Sure it can't buy happiness, but the lack of money can sure buy a lot of unhappiness, stress and problems. It goes without saying that many people's idea of security and peace of mind is a well-padded bank account. That's because money is the number one lubricant in life. It opens doors and quiets squeaky ones. It is the voice of opportunity and provides the lift that allows dreams to fly. It allows every necessity, except happiness, to be purchased and enjoyed. It is a way of bridging the years, allowing for the security of the next generation to be acquired today. Yes, money is important.

Yet, despite holding such a place of importance, money is usually poorly understood. Many people have trouble articulating basic monetary concepts. Many more find the entire subject boring, as long the money is flowing through the door. Nearly everyone has difficulty grasping the principles of investing. It's an odd state of affairs and one that greatly impacts on the cash flow of the majority of the population.

At its core, money is an asset that is also capable of storing value. This means that its present value can be stored away with assurance that this value will be retained or appreciate in the future. Money is also an exchange medium, allowing a free market to exist through accepted compensation. Originally however there was no money per se. Very early mankind utilized the principles of barter, gift and debt. Barter involved the direct exchange of one or more items for another type of item or items. Gifting involved giving items to other individuals, thus socially obligating you to return the favor. You gifted in times of personal plenty to secure items you needed in times of personal scarcity. Debt was similar to gifting, but usually involved labor instead of items.

Gradually, as our technology grew, so did our economy. Agricultural advancements led to food surplus. An individual's share of this surplus required storage until future need arose. The owners of the grain silos that stored the surplus began issuing chits that were representative of an individual share. The practice arose of trading of trading these chits for other items. Eventually, the chits themselves developed a value of their own, as people saw they represented more than a share of surplus grain. In this way, the concept of money was born.

Everything we see around us today is either a direct result of that development or depends upon it for continued viability. This is not the place to discuss all those developments. Suffice to say, that without the concept of money, the concept of investment would not exist. This is yet another reason why money is important.

One of the best ways to secure your future, as well as the future of your family, is through the process of investment. Investments are designed to allow you to grow your money in a controlled and regulated manner. When you make wise investment decisions, you guarantee that the present value of your assets is protected and that the value of these assets will grow. This, in turn, guarantees you the ability to continue to live the lifestyle you've chosen for many years to come.

A reputable financial planner can easily take a look at your particular situation and recommend investment choices based on your goals and financial situation. Given the importance of having a properly secured flow of money, it's key to choose a financial planner that is the right fit for your needs. Here are seven things that you must know before hiring a financial planner. Keep these things in mind when selecting a planner and you will go a long way towards insuring that both your future and your bottom line will both be secure.

1. How To Choose The Right Financial Planner For Your Particular Situation

It's important that you choose a financial planner that specializes in the type of investments that will give you the greatest help in reaching your goals. Remember, your money is power. A financial planner will work with you to increase that power. This, in turn, will get you to where you want to go.

The first step in choosing the right financial planner is deciding on your goal. It should be specific as possible. Acquiring more money is an admirable aspiration, but it is not the type of concrete goal that will allow a financial planner to give you the best advice. Perhaps, you want help in saving for a house. Maybe you need advice on the best retirement strategy. Maybe you want to live on a beach in Thailand. It doesn't matter what the goal is, only that you have one clearly in your mind when you approach the planner in question.

Once you have a specific goal in mind, there are a couple of things to look for when choosing a financial planner that's right for that goal. First, look for a planner who is familiar with your particular financial situation. Have they worked with other clients of your income level and liquidity? It's important to match the planner to your finances. You don't want to hire someone who works with clients far above your income level. At the same time, you don't want to hire a planner who works exclusively with clients below your income level. Also, look for a planner who has experience with your particular goal. If your goal is more short term in nature, you don't want someone who specializes in long term yield investments. Likewise, if your goal is to live overseas, you do want someone who specializes in expat investments.

2. Why It's Vital To Learn Who Is Actually Managing Your Investments

You've worked hard for your money. It represents the sum total of your labor. It also represents your future security, as well as the security of your loved ones. Given how important your money is to you, why would you hand it over to someone who wasn't directly responsible for managing it on a day to day basis?

You want to ensure that the financial planner you select is, in fact, directly responsible for the day to day management of your funds. You do not want to hire a planner who will abrogate that responsibility to someone else, behind the scenes, who you've never met. Your needs and goals are unique and particular to you. How can someone you've never met ever begin to appreciate this fact?

A reputable financial planner will take a "hands on" approach to your investment dollars. They will accept full responsibility for the personal management of these funds. A way to insure that this is indeed the case is to look for the word "fiduciary" in any contractual language between you and the planner. A fiduciary is someone who legally accepts a position of trust in a relationship between two parties of unequal knowledge. When you make sure that your financial planner is your fiduciary, you are guaranteeing that he or she will personally manage your investments.

3. Researching The Background And Reputation Of A Financial Planner

You want to make sure that the background and reputation of your financial planner is rock solid. One of the best ways to accomplish this is to look for a planner who is certified. A certified financial planner will usually have the letters "CFP" after their name. These letters will also appear in their advertising and on their stationary.

CFP stands for "certified financial planner". It means that your planner has been certified by the Certified Financial Planner Board Of Standards. A planner so certified has successfully completed a difficult examination process designed to prove investment acumen. It also means that the planner voluntarily participates in continuing education programs as a prerequisite to maintaining their certification. When you hire a certified financial planner you not only get the best financial plan for your needs, you also obtain peace of mind about that planner's background and qualifications.

4. What You Should Expect To Pay Your Financial Planner

Obviously, your financial planner does not work for free, nor would you expect them to do so. A good planner is worth their weight in gold. Good investment advice and sharp management skills are worth every penny you pay for them. Still, it is helpful to know how your planner gets compensated for that advice and those skills.

Financial planners are compensated in three general ways. First, they may earn commissions from larger investment firms and mutual funds in return for steering your money in that direction. These commissions, while legal, may tend to influence some planner's decisions when it comes to your money. Ask questions if your planner is working on a commission basis regarding these commissions and make sure that you're satisfied with the answers.

Alternatively, a planner may take a fee based on the annual value of the assets you've invested. This fee is typically about 1%. A fee based planner may have a built-in incentive to keep your funds locked up in the investments he or she recommends, because the higher that amount of those investments, the higher the fee they earn. Again, ask questions about the investments a fee based planner recommends and make sure the answers you receive are satisfactory.

A planner may also work on an hourly basis. Over all, a planner who charges an hourly fee for their services may be your best choice. There is none of the potential confusion and complications that come with commission or fee based compensation. Your planner works on your portfolio and submits a bill for the hours worked. If satisfied, you pay the bill. There's less mess and you get what you pay for.

5. Understanding The Difference Between An Adviser And A Broker

There is a big difference between a financial adviser and a broker, both in terms of function and compensation. Because of this, it is important that you know the difference between the two when selecting a financial planner.

A broker is someone who is trying to sell you something. As the name implies, they broker a deal between you, the customer, and an entity that wishes to sell you something. If the broker completes the deal between you and this entity, they get paid. There is nothing inherently wrong with the process of

brokerage or anyone who acts as a broker. However, when you are seeking financial advice, you do not, generally, go to a broker, since their function is mercantile, not advisory.

A financial planner is in the business of providing financial advice. This is specifically what they do. Their function is advisory, not mercantile. This is almost the exact opposite of a broker's function. So, when you seek investment advice go to a professional trained to give the best advice possible - a certified financial planner.

6. How To Ensure The Claimed Credentials Of A Financial Planner Are Correct

As was mentioned earlier, a financial planner who has been certified by the Certified Financial Planner Board Of Standards is entitled to advertise this fact by using the letters CFP after their name. So how do you know that their credentials are correct and true? A good financial planner will have their certificate of certification prominently displayed in their office, just as a doctor or lawyer would. This is a good sign that the planner's credentials are legitimate. If you still have questions, you may contact the Board Of Standards directly and inquire about the planner's standing with that organization.

7. Other Important Questions To Ask Before Hiring A Financial Planner

You trust your hard earned money, as well as the success of your financial goals, to the financial planner you choose. Could anything be more important? Therefore, when selecting a financial planner, make sure you ask the tough, but necessary, questions that will insure the investment advice you receive is right for you. Any financial planner worth their salt will be more than willing to provide forthright answers to these questions.

First off, ask the planner for references. A professional financial planner will be able to provide you with the contact information for previous satisfied clients. Get in touch with these people. Ask them about the planner's performance. Ask them whether they would recommend the planner to others. If previous clients have good things to say about the financial planner, you can be more confident in choosing that planner to meet your investment needs.

Also ask the planner about their business. How long have they been in business? Are they a full-time investment planner? If you have questions about your investments, will they be there to assist you?

Why and how did they get involved in financial planning? Again, the answers to these questions will help you select a financial planner that is the best fit for your investment needs.

Conclusion

In conclusion, obtaining the right investment advice not only helps to secure your financial future, it also helps you to enjoy the present by giving your peace of mind. It makes sense, when considering investing, to choose an financial planner that's right for you, your needs and your budget. The time and money you save by making the right choice will provide you with a brighter future.