Choosing a Financial Advisor

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The MCPS defined contribution plans, 403(b) and 457(b), offer several companies to invest your retirement savings. While it is important to understand that you do not have to utilize a financial advisor to begin saving for retirement, many employees are more comfortable working with a financial professional to aid in making investment decisions. All of the companies that are part of the MCPS program offer investment counseling, either in a regional office, at your work location, or in the privacy of your home.

Choosing a financial advisor is a very personal decision. A financial advisor should provide more that an investment product; they should offer information and education to help you make the financial decisions that affect you and your family's lives.

An advisor should get to know you and your financial situation in detail, before they offer any advice about a specific investment. It is important to remember the financial advisor will be receiving compensation, either directly or indirectly, as a result of your investment.

Financial advisors should do the following:

Pay attention and act on your wishes.
A financial advisor should always listen to what you have to say and respect your stated degree of risk and objectives. If you feel as though you are not being treated with courtesy and respect, choose another investment company.

Explain all details until you completely understand.
A good financial advisor will provide any necessary information and take as much time as necessary to explain a proposed transaction. Remember, it is your investment. You have the right to ask questions until you understand.

Make you feel comfortable with your decisions.
It is to your advantage to be comfortable and willing to discuss your financial situation and goals, as this will allow your financial advisor to improve the level of service to your account. In interviewing a potential financial advisor, please keep in mind that they should be attempting to learn about you and your financial situation.

Questions a financial advisor should ask you:

- To understand your starting perspective:
    - What is your household income?
    - What is your current savings?
    - What percentage of your income are you willing to invest?
    - What is on your investment horizon?
- To determine the appropriate type of investments:
    - How much of a decline in your portfolio value are you willing to accept in a given year?

    - How many years are you from retirement?
    - What in is more important?
        - Preserving my original investment, or
        - Growing my account at a rate faster than inflation?

Questions you should ask a financial advisor:

- What is your educational background?
- What is your financial planning education?
- How did you become a financial advisor?
- How long have you been offering financial services?
- What state and/or national oversight agencies are you registered with?
- How many hours of continuing education do you take each year?
- How many clients do you currently serve?
- Will I work directly with you?
- How do you educate your clients about the investment process and their specific portfolio?
- How will you diversify my portfolio?
- What is your investment philosophy?
- Please detail all fees or commission involved, including all costs of mutual funds or variable annuity sub accounts.
- How will my plan be implemented?
- How often will we meet?
- Please include any fees related to closing an account (e.g. surrender or back-end fees).
- Can I have it in writing? (Ask the planner to provide you with a written agreement that details services that will be provided. Keep this document in your files for future reference.)
- How are you compensated? (normally this would be a taboo subject; however it is extremely important that you understand the financial advisor's incentive for making investment recommendation!)
    - Fee only: based on an hourly rate or percentage of assets under management
    - Commission: based on a percentage the advisor receives when selling a particular investment product to a client. An advisor should disclose any arrangement he has with a brokerage firm when recommending a product that would generate a commission.
    - Fee plus commission: when an advisor charges a fee for services rendered and then also collects a commission from the client's purchase of a recommended investment product.
    - Salary: a flat rate paid to the advisor, typically regardless of products purchased or assets under management.

All four compensation methods have advantages and disadvantages, and you should select the method you prefer. **Remember, the advisor has a legal responsibility to disclose the forms of compensation throughout your relationship**.

- What professional credentials do you hold? (ex. Chartered Financial Consultant –ChFC), Certified Financial Planner (CFP), and Certified Public Accountant (CPA).

    - Receiving these credentials require a combination of college course work, self-study in topics such as investment, retirement, tax and estate planning, and ethical conduct, followed by certification testing.
- Have you ever been cited by a professional or regulatory body for disciplinary reasons?
    - The Financial Industry Regulatory Authority (FINRA) maintains a computerized database that contains information about most brokers, their representatives, and the firms they work for. For instance, you can find out if brokers are properly licensed in your state, and if they have had any issues with regulators or received serious complaints from investors. Visit the website www.finra.org and click on the FINRA BrokerCheck link.

Remember, your financial advisor is working for you. It is your investment, and you cannot assume that everything he/she communicates to you is in your best interest. A common mistake is blindly following whatever advice your financial advisor provides. Ask questions so that you understand why he/she is making specific recommendation.