

10 BIGGEST MISTAKES TO AVOID

WHEN HIRING A FINANCIAL ADVISOR

If you want to build wealth and optimize your financial life, hiring a financial advisor can be a smart move. Unfortunately, not all financial advisors are equal – not by a long shot. And if you hire someone who isn't qualified, you could wind up worse off than when you started.

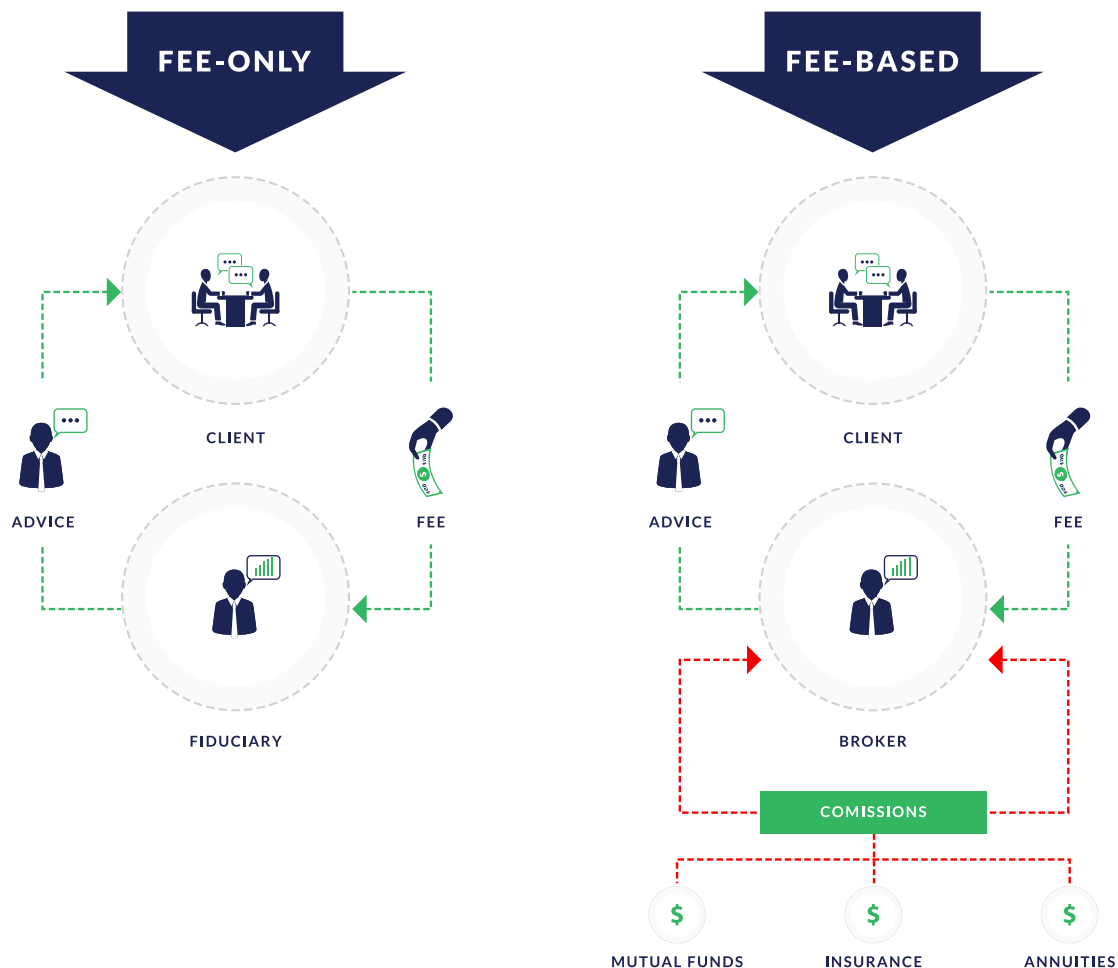


MISTAKE #1:

CONFUSING THE TERMS “FEE-BASED” AND “FEE-ONLY”

The financial planning industry didn't do consumers any favors when choosing names and designations to describe the different types of financial advisors. But if there's one key difference you should know and understand, this is it:

Fee-Only and Fee-Based are NOT the same thing.



Fee-Based financial advisors wear two hats. Sometimes, they put on their “fiduciary hat” and charge a transparent fee (e.g. a percentage of the assets they are managing). Other times, they take the fiduciary hat off and sell you a product in return for a commission.

This commission-for-sales arrangement creates a massive conflict of interest, and you may likely never know which hat they’re wearing at any given time.

Fee-Only financial advisors are only allowed to charge a transparent fee, and they never sell products in return for a commission. Their fee could be a percentage of assets being managed, an annual retainer, or an hourly rate. Either way, you will always know exactly what you are paying and you will never have to worry about whether they are suggesting a financial product just to earn a commission.

When you work with a fee-only financial advisor, you eliminate more conflicts of interest.

MISTAKE #2:

CHOOSING A FINANCIAL ADVISOR THAT ISN'T A FIDUCIARY 100% OF THE TIME

To make matters more complex, fee-only financial advisors are also known as fiduciaries. This fancy word means that they are required by law to put your interests ahead of their own. A fiduciary puts your interests first.

Unfortunately, most financial advisors do NOT act as a fiduciary 100% of the time.

Sometimes they wear the fiduciary hat, and sometimes they don't. But if you ask them if they are a fiduciary, they will almost always say "yes." The thing is, their affirmative answer may only be *partly* true.

When they choose to take off the fiduciary hat, they operate under the "suitability standard." Suitability means they only need to prove that a product is suitable for you. They don't need to take into consideration fees, quality, or expected investment return of the recommendation.



Additionally, financial advisors working under the "suitability standard" are able to sell products in return for a commission. This should be disclosed to you, but the method of compensation can create massive conflicts of interest.

Just about every big brokerage firm you know by name operates under the "suitability standard." Sometimes they act as a fiduciary, but not all the time. Obviously, this creates a huge conflict of interest.

By working with a financial advisor who has pledged themselves as a fiduciary 100% of the time (and not sometimes), you get someone who always has your best interests in mind.



MISTAKE #3:

ASSUMING ALL FINANCIAL ADVISORS HAVE A COLLEGE DEGREE

There are over 300,000 financial advisors in the U.S. – and not all of them have a college degree. Despite what you may think, becoming a financial advisor is rather easy. All you really need is a big brokerage firm to hire you and take a securities exam (i.e. Series 7, Series 65, Series 66).

To help narrow down the field, search for financial advisors that have the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation.

Only 25% of financial advisors hold the CFP® designation (Source: CFP.net), and for good reason. [CFP® Board requirements](#) are much higher than simply passing a securities exam. A college degree is also a requirement for CFP® Professionals.

With more education and higher standards, CFP® Professionals are taught to take a holistic approach to wealth management. In addition to helping you with your investments, CFP® Professionals will also help with retirement planning, insurance planning, tax planning, charitable giving strategies, and more.

CFP® Professionals are trained to help you plan around every aspect of your financial life, whereas ordinary financial advisors likely have much less expertise.



MISTAKE #4:

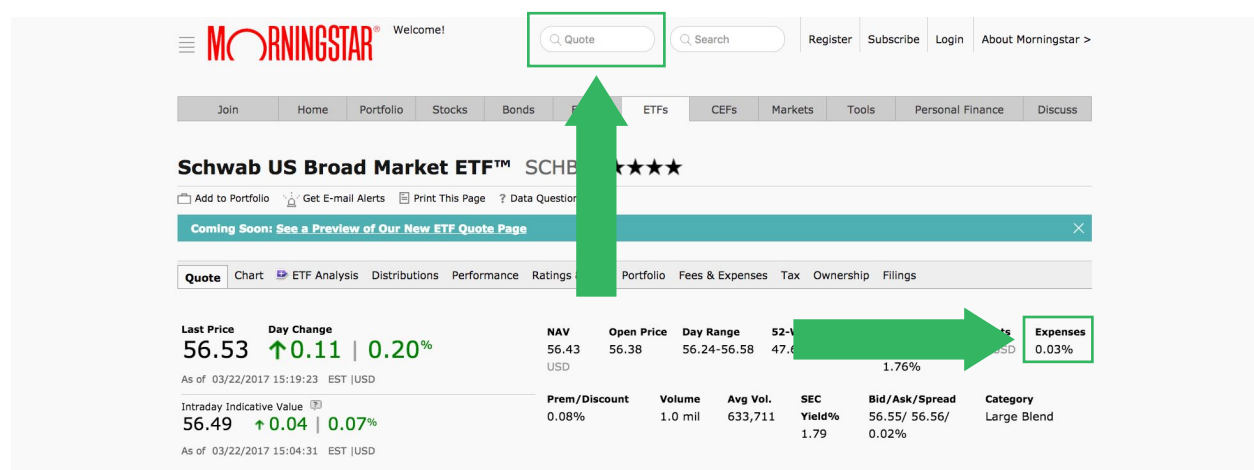
NOT INVESTIGATING THE UNDERLYING COSTS OF YOUR INVESTMENTS

The cost of an investment is the best predictor of future returns, [according to a study by Vanguard](#). In other words, lower-cost investments typically perform better than higher-cost investments over long periods of time.

If a financial advisor gives you an investment proposal, ask them what the underlying cost of the investments are.

If they are willing to provide you with the “tickers” for the investments they recommend, head over to Morningstar and enter them into the “Quote” field. At the top, you will see a number called an “expense ratio.”

This figure represents the percentage you are paying to own that investment on an annual basis.



Here's why this number (the "Expense Ratio") is important: If you put \$100,000 into a mutual fund with an expense ratio of 0.70%, the mutual fund company is charging you \$700/year. And that is on top of any fees the financial advisor is charging.

Believe it or not, many investors pay ridiculous fees like these all the time without ever realizing it. Why? Because they never ask about fees!

Obviously, you'll want investments with the lowest expense ratios you can find. For reference, an expense ratio of 0.03% is amazing, 0.70% or more is unacceptable, and everything in between should be questioned.

Keep in mind, there are mutual funds that cost upwards of 3% per year. That's almost 100 times more than similar low-cost funds. By keeping your investment costs low, you'll have a greater chance of reaching your financial goals over long periods of time.



MISTAKE #5: **LETTING YOUR FINANCIAL ADVISOR LEAD WITH INVESTMENTS**

Much like a doctor, financial advisors need to diagnose your issues before they start prescribing solutions. This usually involves asking tons of questions about your unique financial situation, your goals, and your income. If a financial advisor starts "prescribing" investment recommendations without asking enough questions to fully understand your situation, you should run – not walk – to the nearest exit.

Signs to watch out for include:

- » A financial advisor asks you to send your current investment statements ahead of the first meeting
- » Your meeting with a financial advisor starts with investment recommendations
- » Your financial advisor praises a handful of investment options right away without proposing any sort of underlying financial plan

Fee-only, CFP® Professionals who adhere to a fiduciary standard don't typically lead with investments – they lead with a financial plan. Fee-only, CFP® Professionals start the first meeting by asking a slew of questions about your financial health, including your future goals. Once they understand your current financial situation, the Fee-only CFP® Professional will recommend investment options that can help you get where you want to be.

It's important to note that a financial plan is a living and breathing document. That is why you want to be sure that there is an ongoing arrangement for the financial plan to be maintained and updated as your life changes.

A financial plan is not a one-time document. Your life is constantly changing (e.g. kids, marriage, buying a home, selling a home, changing jobs, death in the family...etc.), and your financial plan should change with it.

By creating your financial plan before constructing your investment portfolio, you'll ensure that your investments work to help you reach your goals.



MISTAKE #6:

CHOOSING A FINANCIAL FIRM BASED ON NAME RECOGNITION

More often than not, the size of a financial firm is directly proportional to their fees. In other words, larger firms (with big advertising budgets) tend to charge higher fees. Why? Big firms exist to enrich their shareholders, and usually do so at the expense of the big firm's clients.



Unfortunately, higher fees don't guarantee a better outcome for the investor. Usually the opposite is true. This is because the more you pay in fees, the less money you have to invest.

Also, remember that most major brokerage firms do not operate as a fiduciary 100% of the time. Instead, they use the fiduciary standard only when it suits them. So, you

might be paying higher fees and getting questionable advice to boot! Working with an independent fee-only financial planning firm means that the advice you receive comes from a professional who is dedicated to helping you reach your goals.

Independent fee-only financial planning firms don't exist to sell their parent company's mutual funds, or anything else. Financial planners at independent fee-only financial planning firms give the best possible conflict-free advice.

MISTAKE #7: **BLINDLY HIRING A FINANCIAL ADVISOR WITH AN INSURANCE LICENSE**

If a financial advisor has an insurance license, you should think twice about hiring them. It doesn't necessarily mean the licensed person has bad intentions. However, their insurance license can create a conflict of interest.

The thing is, insurance commissions pay big bucks. No matter how hard your advisor tries to remain objective, it's difficult to give good advice when huge commissions are being waved in front of their face.



You don't have to choose a financial advisor with an insurance license to get advice on insurance. A financial advisor does not need an insurance license to analyze your needs and make specific recommendations.

Further, it could be argued that an advisor without an insurance license is less inclined to recommend the wrong type of insurance for you because they aren't incentivized to do so.

A fee-only CFP® Professional adhering to the fiduciary standard will analyze your financial profile and help determine if you need insurance. If you do need insurance, it's the fee-only CFP® Professional's job to find the best solution at the best price.

And since they aren't getting a commission, the fee-only CFP® Professional can easily remain objective throughout the financial planning process.



MISTAKE #8: **WORKING WITH A FRIEND OR FAMILY MEMBER**

While working with a family member or friend doesn't always spell doom, there are times when it's a bad idea. For example, you might be more concerned with the friendship than you are with your finances.

Perhaps you'll take your friend's advice and trust them when you shouldn't – even when they don't have your best interests at heart. Working with a friend or family member is a personal decision.

There's no right or wrong answer here. If you do decide to work with someone close to you, you should:

- » Set expectations upfront to ensure you're getting the professional advice you need.
- » Put guardrails in place to prevent the friendship from getting in the way of your finances.
- » Ask them what precautions they take to ensure the friendship doesn't impact the business relationship

Also, if we haven't made it clear enough already, make sure your friend is a fee-only CFP® Professional who is a fiduciary 100% of the time.



MISTAKE #9:

BELIEVING ADVISORS WHO WANT TO HELP YOU “BEAT THE MARKET”

Beware of the financial advisor who tells you he or she can “beat the market.” It's just about impossible for anyone to consistently outperform the broad stock market indexes. Further, most actively-managed mutual funds fail to beat their benchmark after fees.

Keep in mind, it's far too easy for financial advisors to create a “back test” to show you what their portfolio could have done in the past. They can cherry-pick the best mutual

funds and say, “Hey, look what we would have done for you if you hired us ten years ago!” Unfortunately, past performance doesn’t guarantee future results. It’s also highly possible the financial advisor just looked up the best-performing investments for that time to provide their example.

The bottom line: You should be very skeptical of any financial advisor who promises huge returns. Instead of trying to beat the market, you want an advisor who helps you focus on the things you can control: fees, asset allocation, asset location, tax efficiency, risk tolerance, risk capacity, etc.



MISTAKE #10: **NOT CALLING DEFINE FINANCIAL!**

Every mistake on this list is avoidable, and that’s especially true if you choose a financial advisor who puts your needs first.

READY TO GROW WEALTH THE RIGHT WAY?

Schedule a free, 30-minute phone
consultation with us today.

SCHEDULE A CALL



Here's why you should consider our firm:

- » We are a fee-only financial planning firm adhering to the fiduciary standard 100% of the time.
- » We have invested in industry-leading technology to help put our clients in the best possible position to succeed.
- » We are required by law to put your interests first.
- » We hold the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation.
- » We will create a comprehensive financial plan that will help you save money and grow wealthier over time.

Don't let a misunderstanding stand between you and the financial advisor you deserve. [Call Define Financial](#) today, and let us create a holistic wealth management plan that works.




TAYLOR R. SCHULTE, CFP®
FOUNDER & CEO

A handwritten signature in black ink that reads "Taylor R. Schulte".



JON LUSKIN, CFP®
LEAD FINANCIAL PLANNER

A handwritten signature in black ink that reads "Jon Luskin".



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Diversification does not protect against loss in a declining market.

Clients should contact adviser directly if they believe that there may be an error in their statement. We urge our clients to carefully compare the information provided on our statements to statements provided by their custodian in order to ensure that all account transactions, holdings and values are correct and current.