



## **Kiplinger Financial Services' COMMON CENTS MATTERS**

APRIL, 2004

### **WHAT EVERYONE NEEDS TO KNOW ABOUT FINANCIAL PLANNING (PART 3 OF 3)**

*What Everyone Needs To Know About Financial Planning, Part 1 of 3*, discussed what financial planning is and the top 10 mistakes people make related to financial planning. In Part 2 of 3 we discussed how to get started with your planning, how you are doing financially and how to start accumulating assets to meet your financial goals.

In Part 3 of 3, we will discuss making the decision to hire a financial planner, what to look for in a planner, how a trusted advisor is paid and things that a financial advisor should know about you.

#### **MAKING THE DECISION TO HIRE A FINANCIAL ADVISOR**

This is one of the most important financial decisions you will ever make. One of the major reasons people fail financially is because they do not have a plan. To build wealth you need three things:

1. Money to invest
2. A plan to follow
3. Advice on how to follow the plan

Can you do it alone? Do you have the time to be the best at what ever you do, and become an expert in financial matters? There are tens of thousands financial products to chose from. Do you feel competent to pick which ones would be best for you? Can you separate emotion from logic in making critical financial decisions? If you can honestly answer "yes" to these questions, then you can probably do it on your own.

A trusted financial expert can help you in all three areas. A financial expert is not someone who has done what they do for a certain amount

of time in one area such as insurance, banking or selling securities. A financial expert is someone with comprehensive financial knowledge, a well-qualified team behind him/her, and has obtained the Certified Financial Planner® (CFP®) certification, or is working toward it. To obtain the CFP® certification he/she must study diligently and pass a series of exams in all areas of finance including insurance, investments, taxes, estate planning, retirement planning, and education planning. Obtaining the CFP® certification indicates they are serious about being a 360 degree advisor.

#### **HOW IS A TRUSTED ADVISOR PAID?**

A trusted financial advisor can be paid four ways.

1. They charge you a fee to help you design a plan. This is the first test on both sides. The fact that you are willing to pay a fee and they are willing to step up and insist that is the only way they will work with you, indicates you both are serious.
2. They charge a commission for implementing your plan.
3. They charge an hourly fee ranging between \$50-\$300 per hour.
4. They charge a percentage of your money managed ranging between 1-3 percent.

#### **WHAT TO LOOK FOR IN A FINANCIAL ADVISOR**

1. A trusted financial advisor will always put your interests ahead of his own. Your advisor should be more relational than transactional.

## WHAT EVERYONE NEEDS TO KNOW ABOUT FINANCIAL PLANNING (PART 3 OF 3) CONTINUED

2. A trusted financial advisor focuses on helping you close the gaps between where you are and where you want to be in every area of your life. They understand the decisions and the synergistic impact that these decisions make on your financial life.
3. A trusted advisor will never do anything without requesting your permission or telling you first.
4. A trusted advisor will be proactive, not reactive.
5. A trusted advisor will know your life's core values and will help you get more out of what is important to you.
6. A trusted advisor will prepare quarterly and annual reports and will meet with you regularly to show you how you are doing and what changes you may need to make.
7. A trusted advisor will do extensive research for you before recommending a course of action.
8. A trusted advisor will be the liaison between you and the brokerage firm that holds your money.

### **THINGS THAT A FINANCIAL ADVISOR SHOULD KNOW ABOUT YOU.**

You need to make a commitment to spend anywhere between 4-8 hours of time, up front, responding to a thorough on-going questionnaire. Your advisor needs to know everything about you...no secrets. The questionnaire goes into the deep issues that will enable him to help you close the gap between where you are and where you want to be in all areas of your life. Whether this happens in one sitting or over a period of weeks is irrelevant. The important thing is that you and your advisor commit to the required unhurried time it takes to explore these issues:

1. Personal information (address, phone numbers, email addresses, date of birth, etc.)

2. Spouse information
3. Dependents information
4. Sources of income
5. Monthly expenses
6. Details on all assets (Checking accounts, savings, money markets, CD's, stocks, bonds, mutual funds, real estate, personal belongings, etc.)
7. Details on all loans, credit card obligations, and any other debts
8. Details on all insurance policies owned (life, health, disability, auto, homeowners, etc.)
9. Vision of your retirement goals
10. Vision of your real estate ownership goals
11. Vision of your education goals for your children
12. Your past money history (what you learned about money growing up usually impacts how you view it today)
13. The relationship between you and your parents on inheritances
14. Current status of wills and trusts
15. All anticipated changes which may impact your financial plan

If your financial advisor is not asking you a majority of these questions, you need to proceed cautiously. The more of these questions he asks you, the more convinced you can be that he has your best interest at heart.

As a final note on this issue, make sure you are committed to this process. Shape the relationship expectations by setting up times for regular communication where you can inform your advisor how you perceive things are going. Have fun with it and watch your money grow.