How to Pick a Financial Advisor

This guide decodes the wide variety of certifications and services—along with a checklist of what to ask before you choose

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Updated September 13, 2024, 1:54 PM EDT

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Unless you're a financial whiz with time to spend managing your money and assets, you might want some guidance on saving for a down payment or investing for your kid's college education or your own retirement. That's where a financial advisor can help.

Finding the right advisor to fit your needs, however, is not so easy. There are about 200,000 to choose from. Their certifications, fees, minimums and services can vary widely and not all of them act as fiduciaries, putting clients' needs above their own. Before you engage an advisor it helps to have some basic knowledge about your options, and, most important, what you hope to get out of it.

"The first question for consumers is: Why are you hiring an advisor?" says Micah Hauptman, director of investor protection at the nonprofit Consumer Federation of America. Figuring out whether you need help budgeting, investing or hitting long-term financial goals will help you decide what kind of advisor to hire.

Read on to get started:

Types of financial advisors

Many financial professionals, including financial planners, securities brokers, investment managers, and insurance brokers call themselves financial advisors so it's important to know exactly what services an advisor provides before hiring one.

- **Securities and insurance brokers**, for example, sell financial assets and are paid commissions for the products they sell, which can create conflicts of interests.
- **Registered investment advisors** create financial plans and invest client assets based on those plans. They don't have that conflict of interest unless they also sell commission-paid products, but they may set an asset minimum that is greater than the assets you have to invest.
- **Wealth managers** are usually a financial advisor who works exclusively for high net worth clients, with at least several million dollars in assets.
- **Robo advisors** are also digital-only advisory services producing computer-generated portfolios based solely on the information that the investor provides online. They charge less than human advisors but some provide access to human advisors for an additional fee.

Financial advisor designations

There are myriad designations for financial advisors but only a handful that indicate the expertise most consumers need. Those designations, listed below, require that advisors pass an extensive test or series of tests, have thousands of hours of work experience in financial planning or a related field and maintain their credentials through continuing education courses or events.

CFP, or Certified Financial Planner, a designation awarded by the Certified Financial Planning Board of Standards, is considered the most prestigious, requiring knowledge on more than 100 financial topics, including stocks, bonds, taxes, retirement and estate planning.

CFA, or Chartered Financial Analyst, a designation from the CFA Institute, focuses on the knowledge of investments and usually takes four years to complete.

CPAs, or Certified Public Accountants, can be certified with a Personal Financial Specialist credential, which combines their tax expertise with personal financial planning knowledge.

The CFP, CFA and CPA are "the big three in terms of being the most rigorous," says Knut Rostad, president of the nonprofit Institute for the Fiduciary Standard.

Other advisor certifications are the:

ChFC, or Chartered Financial Consultant, from the American College of Financial Services, is similar to the CFP designation

CIMA, or Certified Investment Management Analyst, from the Investments and Wealth Institute, like the CFA designation, is focused on investments

CLU, or Chartered Life Underwriter, also from the American College of Financial Services, but is focused on life insurance and other insurance-related products, including annuities and estate planning.

Advisor fees and minimums

How a financial advisor gets paid can be as important as how much you pay them because you want an advisor whose paramount consideration is your best interest, not their own, and whether or not that is the case is largely determined by how you pay them.

There are three basic models for financial advisors' compensation:

- **Commissions,** linked to the products in which they invest clients' money
- **Fee-only,** with no commissions
- **Fee-based,** which combines commissions and fees

Most consumer advocates recommend investors stick with fee-only financial advisors, because these are fiduciaries, and must act in your best interest. By contrast, advisors who receive commissions on products they sell may not always be acting in their client's best interest.

It can get confusing, however: Under the **SEC's Best Interest rule**, advisors can say they are putting their client's interest first so long as they disclose how they're paid, any disciplinary history and incentives to sell certain products. That's why many consumer advocates recommend sticking with fee-only advisors."With fee-only you can be confident that you are dealing with a real fiduciary," says Rostad.

How fee-only financial advisors work

Fee-only advisors can be paid in multiple ways, each with its own advantages and disadvantages. While annual fees are common and require little upfront outlay, an hourly rate may end up being cheaper if your needs are straightforward. "I think it's fair to say that virtually anybody can access professional financial advice with one of these alternative payment plans," said Rostad.

Annual percentage of your assets

The most popular is payment as a percentage of assets under management, or AUM, with annual fees typically around 1%. Most, but not all, such fee-only advisors usually require a minimum of assets ranging from $250,000 to several million dollars. An investor with $500,000 in assets, for example, would pay around $5,000 a year, deducted from their account balance, usually quarterly. They might also be charged separately for the creation of a financial plan, which tends to run around several thousand dollars.

Hourly rates and other options

Other fee-only advisors charge monthly subscriptions, flat fees, hourly rates or by the project. Members of the Garrett Planning Network, charge an hourly rate, which is usually a few hundred dollars. Advisors at Facet Wealth, who interact with clients only virtually, charge a flat annual fee based on the complexities of a client's financial situation. Fee-for-service advisors who are part of the XY Planning Network, have a flexible payment model that includes payment as a percentage of AUM, flat fee, retainer or hourly rate.

Robo advisors

Another cheaper option for investors is to engage a digital, automated advisor service. These so-called **robo advisors** usually charge a relatively low annual fee—closer to 0.25% of the assets you invest—but about twice that if they also offer access to human advisors. Some robos, like **Fidelity Go**, charge flat fees and Schwab's Intelligent Portfolios Premium, which provides access to human advisors, charges a $30 monthly subscription rate after an initial $300 fee.

Don't forget the separate fund fees

In all cases, investors will pay a fee for the advisor plus additional fees for the investments they use whether they be mutual funds or exchange-traded funds, also known as ETFs or individual stocks or bonds.

Is a financial advisor really worth the costs?

As you've probably grasped, financial advisor fees are substantial, often running into the thousands or tens of thousands of dollars a year. Before you decide to work with an advisor, you want to know exactly what you will pay and make sure the advice you get in return addresses your needs.

The first step, according Micah Hauptman, director of investor protection at the Consumer Federation of America, is to always translate the fees advisors quote from annual percentages into dollar terms. For instance, don't just think of a fee as 1% if your $1 million in retirement savings. Remember it's $10,000 a year. Thinking about dollars and cents will make the cost much more concrete.

Next you need to figure out what you really need assistance with. Financial advisors can help you navigate major life changes with big financial implications like retirement, the birth of a child or divorce.

But if what you really need is budgeting discipline or help getting started with the basics of investing, there are **more-cost effective options like robo advisors**.

(If you want more detail about when and when not to hire an advisor, check out **Buy Side from WSJ's full guide to this topic**.)

How to find a financial advisor

Finding a financial advisor is not so different from finding any other specialized service you're in the market for. You can ask a friend, relative or colleague for a referral, which is how most financial advisors connect with clients, or you can research advisors online by googling or visiting specific websites.

These major trade groups have websites where you can search advisors by location:

- **National Association of Personal Financial Advisors (NAPFA)**,
- **Financial Planning Association (FPA)**
- **Certified Financial Planner Board of Standards**

There are also smaller networks that are highly reputable and whose members do not collect commissions:

- **Garrett Planning Network** has advisors who work for hourly fees (as opposed to an annual percentage of your assets)
- **XY Planning Network** has advisors who are paid based on the services they provide and in a variety of ways: via retainer, subscription, hourly, flat fee and AUM

You can also check out the directory of advisors at our sister website:

- **Barron's financial advisor network**

Once you've narrowed your search to two or three providers, "you should interview them because ideally you'd like to stay with a provider for a long time [and] have a really good relationship with them," said Skip Schweiss, chief executive of Sierra Investment Management and board chair of the Financial Planning Association. "Part of that is human chemistry."

Here are some questions you should ask:

- What type of financial advisor are you and what professional designations do you hold?
- Are you a fiduciary?
- What services do you provide?
- How do you get paid?
- Do you invest client funds in commissioned products or proprietary products, participate in any revenue sharing arrangements or engage in principal trading (taking the other side of the trade with an investor)?
- If I gave you $1,000 to invest how much would go to fees and costs and how much would be invested on my behalf?
- What investments do you focus on—individual stocks and bonds or investment funds? Within funds, do you favor active or passive funds, exchange-traded funds or mutual funds, and what is the range of their fees?
- What would be my all-in costs for your services? And do those costs mean you will actively manage my investments throughout the year? (The latter is especially important for those advisors who charge a percentage of assets.)
- What is the minimum asset level required, if any?
- Have you or your firm been subject to any disciplinary actions by regulators or others, and if so, what are they?
- How long have you been an advisor?
- Will you be my primary contact or who will serve that role?

Many of these questions are included in NAPFA's **Comprehensive Financial Advisor Diagnostic** questionnaire and answered in Form CRS, or Customer Relationship Summary, which financial advisors and brokers are required to provide to prospective retail clients. Form CRS is the third part of advisors' registration form with the SEC known as Form ADV, which can be found at the SEC's **Investment Adviser Public Disclosure** website.

Consumers can also access any disciplinary history of brokers at the **BrokerCheck website** maintained by the Financial Industry Regulatory Authority, the self-regulatory organization for the brokerage industry. They can also check the background and disciplinary history of a CFP-designated advisor at the **CFP's verification website**.

Investor.gov is another website from the SEC which provides access to information about advisors as well as general investing information for consumers.

Remember you are in charge

A good financial advisor should be able to answer all your questions clearly, without industry jargon, and you should feel empowered to circle back with follow up questions if you aren't completely clear on their services. There are plenty of resources to help and potentially a big payoff at the end. The right financial advisor can help navigate your financial life, from budgeting everyday spending to fulfilling long-term financial goals over a lifetime including the purchase of a home and a comfortable retirement.

Meet the writer

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