 

Five Financial Must-Do's whether you use a Financial Advisor or Not

Ever wonder what it's *really* like to engage the services of a financial planner? Do you find yourself, for whatever reason, just too reluctant to set that appointment with a financial planner who will pour over your personal financial history? Will s/he use language that you'll be too embarrassed to admit you don't understand? Do you wish there was a short cut to the maze of investment decisions? Does investing for retirement *really* have to be so complicated?

If you've pondered any of these questions, you're not alone. In fact, you may consider yourself part of the majority. Millions of dollars are spent annually on television advertisements by investment firms and financial advisors enticing investors to hire them, while only twenty-five percent of adults actually seek the advice of a financial advisor.

So, what's the secret to obtaining knowledge and confidence without paying a financial planner? Or what can you do for yourself before meeting with a financial advisor for the first time? The secret is empowerment. That is, empower yourself. You *must* accept that there are certain responsibilities left to you and you alone in order to build a successful foundation to secure your financial future.

This article is written for the average investor with the objective to provide you with critical information gleaned from the experience that I've garnered over the past thirty-five years. Some of it through academia and the rest from the school of hard knocks. The headline could just as well read: If I only knew then what I know now.

In this paper, I'll provide you with five questions you can expect to hear from a financial planner, five rules that I think you must adhere to, and five red flags from planners that are sure-fire signals to walk away.

All five questions listed below are critical. Whether you decide to share your information with a financial planner or not, you *must* answer all of them as steps toward your own peace of mind.

Question #1. What is your financial cash flow? Translation: are you spending less than you are earning? S/he is thinking about how much you will be able to invest. The question is fair. Your task is to intimately know where every penny of your income is going. Answering this question requires you to add all of your recurring monthly expenses, your infrequent expenses, and your plans for future expenses (such as travel or the purchase of a new vehicle). The financial planner cannot do this for you, and you simply must know how much money you spend annually. It may not be fun, but do it you must. And completing this task will be rewarding.

Unfortunately, only a small percentage of financial advisors are going to be thorough during their initial meetings with you to lay the groundwork from which you can launch a sound understanding about investment language. Any financial planner I've ever met simply did not have the time to educate me about important terminology. This is another task for which you must shoulder some responsibility. To begin your education, you might want to go to local investment club meetings, check FINRA online which has an education section devoted to consumers, or head to your local library.

Rule #1: Care about your own financial future. Care about it deeply. Promise yourself to do one thing each week to make progress toward your own personal financial education. All financial planners will do their 'elevator' speech about what they can do for you. Wait: Not so fast. Slow down, Mr./Ms. Planner. Demand that they be specific and explain terms in plain language using examples.

Also, don't assume that a financial planner possesses professional training to listen or counsel. They are not in the counseling business; they are in the money-making business. If they had aspired to become social workers, they'd have a social work degree.

As a licensed clinical social worker, here's my best lifetime advice. If you engage the services of a financial planner, know this one thing over all else: It is up to him or her to give you their undivided attention and to clearly articulate to you what they are talking about. If you don't understand certain aspects of financial terminology; you owe it to yourself to ask them to explain it to you, and repeat it if necessary. Never, never back down, telling yourself that you're not smart enough to understand investment language. If your prospective financial planner cannot explain how they will manage your money clearly, using language so understandable that you leave the meeting feeling able to explain it to a third person, then the planner has failed you. Let me repeat this: It is their job to be clear. If s/he is not, then it is they who have failed you, not the other way around. Never, never forget this, because it's one of life's truths.

***Red Flag #1*:** As an experienced licensed clinical social worker, I've learned that listening is everything. If you find yourself in the company of a financial planner who behaves dismissively toward you, who interrupts you, or whom you feel steam-rolled by, it is not you. It may be their lack of people skills, his or her desire to make a sale, but my advice to you is to not be intimidated. Walk out of the room if you feel compelled to do so. Listen to your intuition. On your way home, treat yourself to a delicious treat for having stood up for yourself.

Question #2: I guarantee you that a financial planner will discuss your risk tolerance with you. This is an important topic and they're required to address it. Therefore, be prepared to give the advisor your thoughtful answer. Ascertain whether you like to take risks or are risk averse. Being twenty-five or sixty-five should affect your investment decisions. Those who are young can afford to take on greater risks. Check the Internet for risk tolerance questionnaires. Spend time with this one. Sleep on it, talk with friends and family about what steps they took in determining their risk tolerance. Consider the volatile times we are all currently dealing with. Do not let need or greed lead you down the path of picking a risky investment that you do not understand. In all cases, conduct due diligence on a stock or mutual fund before purchasing it.

Rule #2. You do not need a financial planner to walk you through this. In fact, if you seek out a financial planner, you should still be prepared ahead of time to provide your answer and engage in a thoughtful discussion about risk tolerance. I strongly recommend that you do not wait until your meeting with a 3rd party to think about this for the first time.

Red Flag #2. If you choose to meet with a financial planner, you may be disappointed to find that s/he only spends ten minutes on the topic of risk tolerance with you. The financial planner has several clients and is on the clock. That's why you must do this at home, where you can contemplate risk tolerance at your own pace. Depending on your answers to this all-important topic, your planner will—and should—make the rest of your investment decisions accordingly. If you've described yourself as conservative, and s/he wants to sell you a product or fund that is in the high-risk category, you have two choices: Challenge him/her or walk out the door.

Question #3: What are your financial goals? This is the real crux of the matter. This is why Question #1 is the all-important question for securing your future. S/he may ask you how much money you need to retire and at what age you want to retire. Given your answers to #1 and #2, a financial planner may be able to run several computer iterations based on your income and goals. It's often referred to as a Monte Carlo simulation. However, computer software programs are available online to help you calculate this yourself. A financial planner is not the only person in the world who can give you this information. A word of caution: Even if your financial planner runs a Monte Carlo simulation for you, there are so many variables that must be entered into the software, that you are assured only of one thing: It is an educated guess at best.

Rule #3. Can the financial planner deliver? Are his/her fees worth what they are charging you? If you require 10% annualized return in today's environment, you may be living in a wish-world. If greed is your motivation, put this in check, starting with smarter money management. One UNIVERSAL RULE: There simply is no possible way to get an extreme return without taking on extreme risk. If you put all of your money into a single stock, you are as far out on the risk limb as you can get. If your financial planner promised he/she can deliver 10% return each and every year (as mine did), because he is a genius at picking only the best mutual funds, well, my friend, this would be one of those times to gallop out the door. Do not be intimidated into staying. If your intuition tells you to leave; then leave.

Financial planners typically talk in terms of percentages. Whoa. Wait a cotton-pickin' minute. Ask this person to provide examples using dollars. Ask them to talk YOUR language. You're the paying customer, remember? I refer you back to my earlier advice. Demand, yes demand, that s/he explains their fees thoroughly and simply. Ask this question of the advisor: "Please provide, in writing, what I can expect my annual out of pocket fees will be to you."

Once again, this is part of your journey that you can begin in the comfort of your own home. Financial planner's fees schedules often vary widely. Spend time on the internet learning about the following terms: Commission only, fee-based, and the combination. The combination part of this is where it gets confusing. Here're a few websites to guide you through this maze: www.Bogleheads.org, www.fidelity.com, www.vanguard.com, www.Finra.org, www.schwab.com, www.morningstar.com, and your state's financial authority.

***Red Flag #3*.** Here's another counter-question for the financial planner: Are you going to act as a fiduciary in all of your investment recommendations to me? Acting as a financial fiduciary has not been required in the industry. The definition of this term is that they recommend only those investments that are in YOUR best interests. Some financial professionals are not held to a fiduciary standard, which means that they are only required to provide **advice that is suitable for their clients, but not necessarily in their best interests**. If the planner says he or she is a fiduciary, I suggest you get this promise in writing. This should rule out conflict of interest decisions that aren't necessarily the best choice for you, but will render a sizeable commission for the planner.

Question #4. What asset allocation are you seeking? Do your research on this. It is the MOST important decision you will make during your financial life. In fact, this decision will have more impact on your portfolio return than any individual fund suggestion that your planner can recommend. Extensive writing has been done on this topic that is available free on the Internet that you can review in the comfort of your own home. Sixty percent equity and forty percent bonds (some % to cash) recommendation is an age-old allocation that has been exhaustively researched and written about. Recently, some experts have written a challenge to this allocation. This decision is where your age, risk-tolerance, and money management practices all come into play.

Rule #4. There are some investment terms you really must educate yourself about when it comes to mutual funds: Expense ratios, active vs. index funds, portfolio managers, sales loads, turnover rate, tax efficiency and dividends. All financial institutions and financial advisors recommend that you read each fund's prospectus and shareholder report before buying. Take their advice to heart, and review these two important documents.

***Red Flag #4*:** If your financial planner only sells actively managed funds, your decision has just become very easy. Stand, walk out the door. Good-bye; end of story.

Question #5. When you hear these famous three words: YOU NEED ME; beware. If you've ever attended a lecture, at some point during the presentation, the planner will speak these famous three words. Admittedly, this is not really a question, but it is definitely the hook. You'll be told investing is complicated. I am writing this document to inform you that it does not need to be. In fact, the dirtiest little secret in the financial planning industry is in convincing clients that investing is complicated. An efficient and successful portfolio can be easily compiled with a minimum of funds requiring a minimum of trades. The most complicated part of investing in your future is the saving part, yes, the discipline to save consistently takes real determination. Promising yourself to save ten percent of each paycheck is your key to success. Investing in a no load, index fund will take you along that path toward success.

Rule #5. Buying index mutual funds and holding them for the long term is a perfectly sound choice. A blend of both index funds and actively managed funds is also reasonable. If you agree to an actively managed fund, be very clear why and how the fund fits into your overall financial plan. Ask the planner to provide you with a 10-yr performance of the actively managed fund. Then compare the costs of that fund to an index fund. Also be sure to ask the financial planner whether he or she receives any additional payment for the active fund they're recommending.

Red Flag #5. If the financial planner requests that you sign a document authorizing him or her to make trades in your portfolio without consulting you first (as mine did), you have only one choice: Get up and run out of his or her office (as I did).

The bad news is that there is no way to avoid taking responsibility for how and where you invest your precious dollars. No financial planner can do it all for you, nor should you expect them to. The good news is that you have options and are firmly in charge of your future. If you decide you need the assistance of a financial planner, and if you've done all of your homework in answering these five questions, you should be well prepared for your first meeting in interviewing potential candidates who hopefully will be a great fit for your needs. If you've done your homework as I've listed above, you'll be able to articulate your questions in detail in your first meeting and know quickly if the financial planner is the best fit for you.

My hope is that you review this article carefully and use it to set your financial goals for 2024 and beyond.

Investors who are prepared will see fireworks as a mark of celebration in future years. If unprepared, those explosives will instead blow up in your face. Best of luck.

I hope you all have a happy and prosperous New Year.

Bio on author:

Colleen MacFarlane holds a M.A. degree in Counseling and Psychological Services and an MBA in Personal Financial Planning. Her 35-year career spans work in both fields, including ten years as a financial counselor for a national employee assistance agency.