Financial Advisors

3 *things you need to know about...*

1.

What are the main types of financial advisors?

The first is a fee-based financial advisor. These advisors charge a fixed percentage based on the value of the assets under management (AUM). For example, 1% annually on a $500,000 account, or $5000 a year. Some firms will lower the rate as the value of the account(s) goes up. The second is commission-based financial planning. These advisors get paid a commission based on the products they sell to you. For example, they could sell Class A mutual funds, which charge an average 5% load to buy in; they could sell annuities, or insurance, etc.

2.

Who does the financial advisor work for?

Fee-based financial advisors have a fiduciary responsibility to their clients. Because they get paid directly from the client, that is who they work for. The commission-based advisors work for the companies whose product they sell, not the client. That means it is their job to make money for the company, not necessarily doing what is best for the client.

3.

What types of credentials might financial advisors have?

Probably the main designation someone might have is the CFP (Certified Financial Planner). To become a CFP, one must pass a series of 5 classes and a 2-day comprehensive exam. Once those are completed, several hours a year of continuing education are required to maintain the certificate.

More information can be checked out on their website, **http://www.cfp.net/**. Another designation one might see is the CFA (Chartered Financial Analyst). While the CFP is a more broad designation covering everything from investments to insurance to estate planning, the CFA is a very detailed, in-depth study of the markets and portfolio creation. The majority of mutual fund managers are CFA's. More information can be checked out on their website **http://www.cfainstitute.org/**. Some financial planners may also be CPA's, or have JD's. This allows them to give tax advice and do estate planning work.