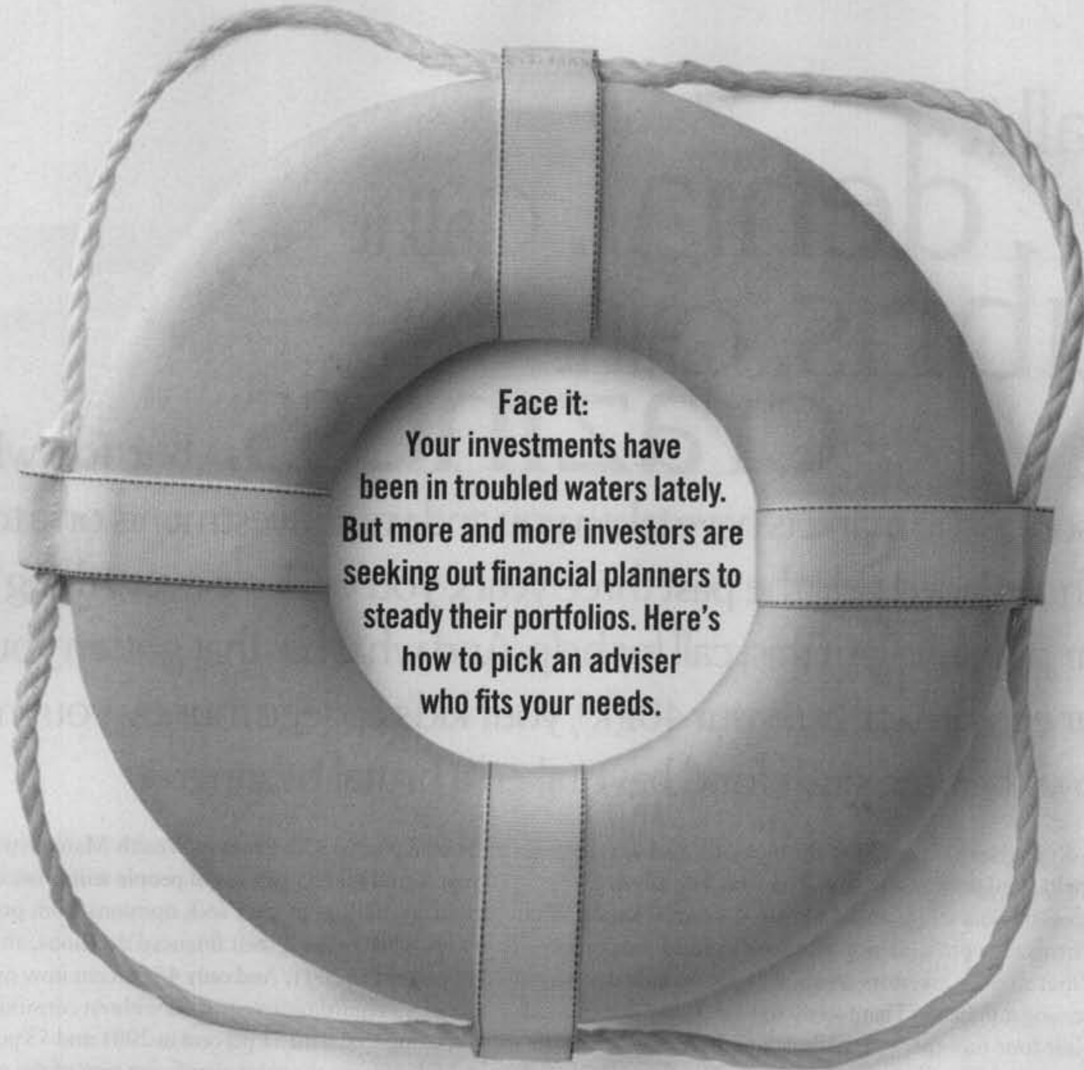


Face it: Your investments have been in troubled waters lately. But more and more investors are seeking out financial planners to steady their portfolios. Here's how to pick an adviser who fits your needs.

To the Rescue

BY GERRI WILLIS

Call it denial. Call it hubris. Call it craziness.

But for whatever reason, as the markets have taken you and your investments on a tortured, pothole-laced ride the past three years, you've done everything to right your portfolio but this: call for help. And what has that gotten you? Sure, your ego's intact, but your 401(k), your kid's college money, your nobody-knows-but-me slush fund have taken a brutal beating.

So do yourself a favor. Stop the bravado, and start getting some help. And understand this: You won't be alone.

Across the country, financial advisers—from brokers at Wall Street firms to mom-and-pop planners around the corner—report that anxious investors are showing up on their doorsteps in increasing numbers. "There seems to be a change in the mood in the last four months," says Christiane Delessert, a Boston-based certified financial planner (CFP). Her firm, Delessert Financial Services, which serves clients with portfolios of $1 million or more, saw inquiries jump 40 percent this fall over the same period a year ago. "People looked at their statements and saw horrible downfalls. Some have lost 40 or 50 percent. It has taken them time to realize what happened and start looking for options. People are realizing, 'I've got to do something.'"

Here are other indicators of the growing urge among investors to get a helping hand:

- The National Association of Personal Financial Advisors reports that 40,000 people logged on to its Web site to find a planner last year, double the number since 1999.
- A 2002 survey, conducted on behalf of the Consumer Federation of America and the Financial Planning Association, shows that 53 percent of Americans consider financial planning to be more important to them now than prior to the September 2001 terrorist attacks.
- The wealthy are increasingly likely to seek advice from financial planners. A Phoenix Wealth Management survey last year found that 53 percent of people with a net worth of more than $1 million say they seek opinions from professional advisers when making their financial decisions, an increase from 46 percent in 2001. And only 45 percent now make their own decisions regarding investments without consulting professionals, compared with 51 percent in 2001 and 53 percent in 2000.
- And perhaps the most significant sign of the growing popularity of financial advisers: If you're a fan of *The Sopranos,* you know that Tony has hired his own planner to help with the family budgeting. *Molto bene.*

Once a quaint sideline for attorneys and CPAs, financial planning has blossomed into an industry with a workforce of 650,000, up more than 25 times from a decade ago. Planners market services ranging from the traditional—advising clients on investments, taxes and insurance—to the more complex, such as analyzing estate plans, household budgets and college savings programs. Stockbrokers are financial advisers. Accountants are personal financial specialists. Online brokerages now have real-world advisers whom clients can consult. For their "high net worth accounts"—that is, portfolios of $1 million or more—the big mutual fund families provide experts. And you don't need a Tiger Woods–size bankroll to get help. Some independent planners will charge an hourly rate for people who simply want help picking out funds for their 401(k)s.

PHOTOGRAPH BY WARREN SALOWE

PEACE OF MIND: BILL HERMAN, WITH HIS WIFE, JUNE, NEEDED THE INTERVENTION OF A FINANCIAL ADVISER TO OVERCOME HIS MARKET ANXIETIES—AND REIGNITE HIS RETIREMENT SAVINGS PLANS.

But even as the financial-planning business comes of age, it's changing dramatically. Consolidation is sweeping the ranks of small and midsize firms. The number of registered investment advisory firms fell to 11,468 in 2001, the first decline since records started being kept a decade ago, according to Cerulli Associates. (See "Like Father, Like Daughter," opposite.)

To be sure, SmartMoney has long espoused a go-your-own-way philosophy. We've valued self-reliance rather than blind dependence on advisers, many of whom push big-commission products as part of their service. And we still feel that way. But that doesn't mean you can't complement your homework with some experienced help. You can choose from plenty of diligent, reasonably priced planners who can guide you through the nettles of putting your portfolio back together after three years of pain. Rick Fisher knows that.

Three years ago Fisher, 54, an Atlanta resident, was preparing for an early retirement from Compaq. At the time, he and his wife, Ginny, 60, weren't worried about their retirement portfolio. Then, one summer day in 2000, he decided to examine the top 10 holdings in his seven mutual funds—and found each had the same short list of big-cap, high-tech stocks. What's worse, he also owned many of the stocks independently of the funds, including WorldCom and Cisco. That's when Fisher hired Rob Moody, an Atlanta CFP.

Moody took one look at the couple's holdings and urged them to unload the tech stocks and growth funds, and pick up some bargain-bin value funds. But the Fishers weren't eager to make wholesale changes. In fact, Fisher considered firing Moody because of the radical moves he demanded. What stopped him? A note from the planner. "For a couple of self-described worriers, your portfolio provides plenty to worry about!" Moody wrote the Fishers. "Your portfolio might be appropriate for a single 22-year-old with a gambling streak, but not for a couple who are only a few years from retirement and will need to begin making large withdrawals soon."

Moody had more in mind with his missive than retaining a client. "I was trying to get their attention," he says. "They were in a dangerous situation; their asset allocation was totally inappropriate." The Fishers fell in line, sold off much of their holdings—and avoided the tech collapse of late 2000. In fact, a few months ago Fisher sat down and figured out that he would have lost a stunning 60 percent of his savings in the bear market if he hadn't taken Moody's advice that first year (which came at a price of $11,000). "My friends have lost all kinds of money on paper—they've been frozen in fear," he says. "Rob has built a whole lot of credibility with me."

But finding your own Rob Moody can be harder than it seems. Despite legions of well-meaning planners, you could hook up with one who wants to take your money, not manage it. In the following pages we'll help answer the questions you need to consider when hiring a qualified investment adviser. Remember this: As with picking a stock or finding the ideal mortgage rate, choosing a planner has both short- and long-term implications. Your job? Sort out the options, vet the contenders, then choose the one who'll help you get back on track.

1 When is it time to find an adviser?

Ask any broker or financial planner when the right time is to search out and hire an adviser and, without hesitation, he'll tell you, "Yesterday!"

But let's be real. If you're 22 and working your first job, finding a girlfriend is probably more important than finding a money planner. Similarly, young families will be stretched to do much more than fully fund their 401(k) and set aside a little for a 529 college fund. Plus, most planners won't touch your account until you have $100,000 or more to play with.

And yet some indicators can help you decide it's time to look for help. For instance, if your portfolio has shrunk by more than 34 percent over the past two years, V. Raymond Ferrara, a CFP in Clearwater, Fla., suggests you need a professional checkup. (That would mean you've lost more than the market itself.) Or perhaps you're a baby boomer who wants to determine at what age you'll be able to retire and be financially set. An adviser's help could prove beneficial. Similarly, investors who suddenly find themselves in a higher tax bracket may need the tax strategies a qualified planner can provide. And have you come into a large chunk of cash lately—say, more than 25 percent of your net worth? Consider getting some investing advice. In fact, a Certified Financial Planner Board of Standards survey last year said that receiving an inheritance or sudden windfall is the top reason people hire a financial planner.

But for many people, there's no quantifiable point at which it becomes clear they need help. Rather, it's a realization, brought on by growing frustration and dissatisfaction with their savings, that they can't do it alone anymore. They set aside the ego, let the stubborn streak wilt and look for someone who can talk some sense into them. That's what James R. Laird *finally* did.

In the late 1990s, Laird, 72, who lives in Rockford, Ill., sank much of his retirement money into new-media and technology stocks and mutual funds. "We were soaring pretty high in 2000," he recalls. "Every day you were making thousands of dollars not doing anything." But with the bear market, Laird's

Financial planning must be taking off. Even Tony Soprano has an adviser to help with the family budget.

How to Fire a Lousy Financial Adviser

Crummy advice. Poor performance. Theft. They all sound like good reasons to boot a financial adviser. But before you do, consider the following:

■ **Don't fire your adviser—or let on that you're considering it—until you get a copy of your most recent account statement.** That way, you'll know exactly what is in your account. Regulators say too many investors who bring complaints against advisers don't know what they own. Also, make sure to grab the investment-policy statement, which essentially summarizes what you were thinking back when you stocked up on Lucent shares.

■ **Conduct an "exit" interview.** This is best done, again, before you give your adviser the shove. Sit down and discuss his line of reasoning in managing your money. "If you have questions or there are errors, now is the time to air them," says Susan Wyderko, director of investor education at the Securities and Exchange Commission.

If your broker can't answer your questions or refuses to fix errors, your next stop is the firm's compliance officer. Explain the problem, and ask for a written response. There's a chance that you could resolve the issue right away; if not, at least you have documentation that can be useful for later legal action. If you don't get such a response, contact your state securities regulator or the SEC and ask for help.

■ **Getting even.** All right, you've fired the planner, but your relationship isn't over yet. If you feel you've been so wronged by your adviser—he negligently put you into an inappropriate investment or ignored your account—that you deserve restitution, you'll most likely resolve your dispute via arbitration. This process, handled outside of a court, is usually faster and cheaper than a lawsuit.

If you're using a broker, file a "Statement of Claim" with the NASD, detailing what went wrong with your adviser. With other planners check your contract to see how disputes should be resolved. For a detailed description of what you'll need in an arbitration, go to *www.nasdadr.com.* Arbitration won't be fun, but it is your only chance of recovering any money. **—G.W.**

luck turned—especially his investment in the tech fund Munder Net Net. And yet even as the fund was dropping daily, Laird figured a turnaround was on the horizon. So he kept buying more shares. Only when he had lost $35,000 in Munder did he decide to hire a planner.

Tom Muldowney, a CFP, spent several hours helping Laird understand what a long road his Munder holdings faced to get back to their previous highs. In fact, they needed to grow nearly 350 percent. "We told him it could take decades for it to return to levels he bought it at," says Muldowney, who has learned that until you make investors face up to a harsh reality, they're reluctant to take action. "There is often a disconnect between what your emotions tell you and what your intellect tells you," he adds. In Laird's case, "the intellect was in denial, and the emotions told him, 'Hey, it went up before.'" Ultimately, Laird decided to take Muldowney's advice, unloading most of his tech holdings and then buying index funds that would diversify his risk.

Some investors, like Laird, need an adviser to rein them in. Others, by contrast, require one to nudge them into more aggressive outlets. In 2001 Bill Herman cashed out most of his stocks following a ferocious two-year ride that had cost him close to 50 percent of his online options portfolio. He ended up putting the bulk of the cash into an FDIC-insured money-market account at his local bank. "I got so scared. I went from one extreme to another," he says.

But Herman, a marketing executive for Shula's Steak House who lives in a suburb of Fort Lauderdale, Fla., also knew that at age 40 playing too safe would hardly bankroll a comfortable retirement. His solution: Elizabeth Barrett. The financial adviser tried to convince Herman and his wife, June, that their goals, including buying a beach home in South Florida, would be unobtainable unless they put more risk in their investments. She analyzed their spending patterns, getting them to dine out less and encouraging them to get back into the market.

"Had I hired her two years ago, I would have saved thousands of dollars," he says. "Elizabeth gave me handouts to show that there was never any five-year period where the market didn't come back. The biggest thing is peace of mind. I don't even look to see whether the market is up or down now."

What kind of adviser should I hire?

Sure, anybody can hang out a shingle and call himself a financial planner. Lots of so-called planners have résumés that reveal either no experience, no training or no accreditation.

Or none of the above.

If you go with someone like that, look what can happen to you. Greg Morgan, a 45-year-old home remodeler in Columbus, Ohio, didn't know what to do when he inherited $50,000 from his grandmother a couple of years ago. That's why he felt inclined to listen to Essam Mikhail, an old schoolmate from Ohio University, who had contacted him and offered his investing services. Mikhail told Morgan that he had plenty of experience investing for others, having managed his brother's million-dollar portfolio, as well as several of his father's friends' accounts. "I didn't know who to call to check up on him," says Morgan, "so I asked him how much money was in his brokerage account. I thought that would be a good indicator." Impressed when Mikhail replied that his own holdings topped $700,000, Morgan hired him.

Just months later, though, Morgan discovered that Mikhail had taken his money and used it to buy stock in his own name. Plus, he learned Mikhail's license was bogus. Morgan complained to state regulators, who charged Mikhail with being an unlicensed investment adviser. He was sentenced last year to four years in prison and ordered to pay $29,123 in restitution.

Obviously, you'd like to avoid a fate such as Morgan's. Doing so is the tricky part. One way is to seek out a referral from a friend or relative when first starting to look for a financial adviser. That way you'll at least feel comfortable knowing the planner has impressed someone you trust with his or her expertise. You should also go with an adviser who has a professional imprimatur. In recent years a handful of trade groups have stepped up to award designations and give credibility to their bearers. That's the good news. The bad news? There are so many designations—the BCE, the CFS, the PFS, the MSFS, the RFC—they've made picking a planner, in some cases, more confusing rather than less.

What's more, all certifications are not equal. The primary requirements for becoming a Registered Financial Consultant are passing a 150-question multiple-choice exam and showing proof of industry experience, which can include anything from selling securities to inputting data into a PC. Meanwhile, a Chartered Investment Counselor is well trained to run a professional portfolio, but may not be the best choice to advise you on the intricacies of estate planning.

"Financial adviser designations were created to provide cachet to the holder," says Gary Schatsky, spokesman for the National Association of Personal Financial Advisers (NAPFA), the largest professional association of fee-only financial planners

Doling It Out

Quick, what do the following have in common? Viagra, Pepsi and retirement planning. Give up? Try Bob Dole.

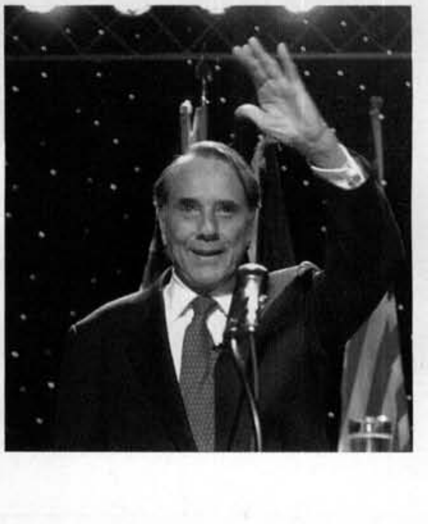
The retired senator has been a pitchman for all three, his newest employer being the National Retirement Planning Coalition. The group is composed of six financial trade groups (including the American Savings Education Council and the National Association for Variable Annuities), which launched a campaign in November to promote education on retirement planning.

Dole's celebrity is helping to get the coalition's message out. He's chatted with Matt Lauer on the *Today* show and appeared on CNBC's *Power Lunch*. His message? Similar to the one posted on the coalition's Web site Retireonyourterms.org: "Now, more than ever, you are responsible for your own retirement," Dole tells visitors to the site. "People are living longer than ever before. We all want to enjoy a robust lifestyle during retirement. To achieve that financially, you need the right advice."

Sounds on target—but unless you're listening closely, you'll likely end up at Retireonyourterms.*com*, not *.org*. That's the site of the National Association for Variable Annuities, where only one product, annuities, is promoted as a retirement-planning vehicle. The home page, featuring a link to Dole's message on the .org site, encourages investors to "Learn All About Annuities!" defining the product as "a personal retirement account that brings together the best features of mutual funds and insurance. Variable annuities provide security by helping your money grow faster." The promotion includes case studies of individuals at varying ages and income levels, all desiring a secure retirement. Despite the differing circumstances, the best solution offered for each case study: yes, an annuity. (The site links directly to annuity vendors.)

The NAVA site, however, never warns investors that variable annuities—tax-deferred hybrids of insurance and mutual funds—charge fat fees and big penalties for early withdrawal. Nor does it offer investors any other retirement-investing advice, such as investing in a diversified stock and bond portfolio.

Mark Mackey, president of NAVA, admits Web visitors may be confused by the two sites, but still maintains that on his organization's Web pages, "We're trying to focus on retirement planning, not products." Neither Dole nor his spokesman returned our calls for comment. ***—G.W.***



in the country. He contends that holders of many certifications earned them by paying a few hundred dollars a year and meeting some nominal standards. A designation, as Schatsky puts it, "shouldn't earn the public trust."

Two designations with merit: Certified Financial Planner and membership in the NAPFA. CFPs take a rigorous two-day exam, administered by the nonprofit CFP Board of Standards. Unlike the Series 7 exam required of securities brokers, the CFP test is broader, covering more than 100 topics in seven such areas as estate planning, taxes and investments. Only half of the exam takers pass—but nearly 70 percent of CFPs hold either a securities or insurance license.

"It didn't hurt that he held an MBA from Northwestern."

Sure, the MBA was impressive, but the Taylors neglected to ask the broker about his tax expertise, a costly mistake when it came time to deal with their $1.726 million in Cisco options. That following May, Dan learned from a friend with a similar Cisco option package that his Cisco stake was subject to the alternative minimum tax, an income-tax category in which the top rate is 28 percent but few deductions are allowed. Instead of owing a few thousand dollars, the Taylors were on the hook for $438,000 because, under the AMT, options gains are taxed when the options are exercised, not when the underlying shares are sold. They took their case to arbitration, charging that their broker had engaged in deceptive business practices and breach of contract. But their settlement of $230,000 didn't cover their liabilities. "You work hard so you don't have to worry about security," says Vicki, 47. "With the right advice the Cisco options could have been that reward."

Sure, 650,000 people say they're financial planners—but only 40,000 have earned the CFP title.

NAPFA members, on the other hand, pledge that they will accept pay only from their customer—for instance, a percentage of assets (1 percent is reasonable) or an hourly rate for specific tasks, such as writing a financial plan or picking 401(k) funds. With fee-only planners you don't have to worry their advice is being driven by the additional compensation that they can earn by promoting the financial products of mutual fund companies or brokerage firms. For example, the back-end and front-end loads on mutual funds generate commission revenue for financial advisers who recommend them. Annuities and variable life insurance offer advisers lush commissions too. As Michael Dubis, a fee-only planner based in Madison, Wis., puts it, "Some of these products are made to be sold, not bought." In fact, the Securities and Exchange Commission reports that last year complaints about commissions, fees and administrative costs rose 40 percent over the previous year. (The SEC regulates brokers.)

3 How can I determine a planner's expertise—or lack of one?

One thing to know about CFPs and NAPFA members: There aren't a whole lot of them. CFPs number just 40,000, and NAPFA members are even scarcer, fewer than 900. Does that mean you should forget about using a financial planner if you can't find one of these two types in your neighborhood? Of course not. Just be extremely thorough when interviewing prospective help. Make sure that the person you're going to hire is not only qualified, but qualified for your particular needs.

Dan and Vicki Taylor found out the hard way that isn't always the case. In 2000 the Taylors, looking to open their first brokerage account, had their eye on hiring a broker primarily because they liked his educational background. "We met him through church, got to know him, and we thought he would be someone who would be like-minded," says Dan, 50, a software salesman who lives in the Chicago suburb of Flossmor.

As the Taylors discovered, it's critical to determine what your prospective planner does best. Chances are your planner was trained in one of a handful of industries: banking, brokerages, insurance, accounting or law. Once you figure out where your planner got his primary training, you'll be able to better predict his approach and even the products he'll sell. For example, individuals trained at brokerages will likely focus more on your investment vehicles, such as stocks and bonds. Insurers will be hip to risk products and annuities. Attorneys are likely to be strong in estate planning, while accountants' long suit should be tax planning. That's not to say that these individuals won't have other areas of expertise, but you'll certainly be disappointed—as the Taylors were—if they can't solve your most pressing needs.

Once you understand an adviser's general approach, get some more nitty-gritty details. Ask for a copy of a financial plan devised for another client. That way, you'll see if the adviser tends to conceive a plan specific to an individual or manufactures it via a generic software program. If it's the latter, heads up. As Dubis puts it, "There are planners who don't plan"—they merely rely on software programs. He says these plans are pretty easy to spot: Watch for pages where it looks as if the client's name has been dropped into a sea of type. Or be wary of plans with a lot of boilerplate language that could fit any client. "Nine times out of ten, they are too aggressive or not appropriate—and the client isn't getting a customized plan."

What you want is a financial plan tailored to your unique circumstances, whether that involves buying long-term-care insurance for parents or saving for your second dream house.

You'll help your own cause if you can determine that the adviser shares some of your experiences. For instance, your soon-to-be-college-age kids will benefit if your planner has had to navigate the maze of college-savings options himself.

4 How can I make sure the adviser isn't a crook?

Remember Greg Morgan? He may have recovered some of his grandmother's inheritance from rogue planner Essam Mikhail, but that hasn't eased his suffering. "I've been in counseling dealing with my anger. It has taken a lot of my time," he says.

Unfortunately, time is one thing many people forget to invest when they are in search of a planner. And that lagging effort will later haunt them. "People spend more time figuring out what toaster to buy than which financial adviser to hire," says Melanie Lubin, Maryland securities commissioner. "They need to do the financial equivalent of kicking the tires."

Burned by a crooked adviser, Greg Morgan says, 'I've been in counseling dealing with my anger.'

Okay, but how? Regulators have set up a couple of routes for checking out your adviser, depending on whether he's a broker or an independent planner. For planners, get his Form ADV. The document, required by regulators, will provide information on the adviser's educational background, experience and such details as assets managed and his number of clients. More important, you can learn about any customer complaints, regulatory violations or lawsuits he has been involved in. Advisers are required to share the ADV with you, but you're better off obtaining it by going online at *www.adviserinfo.sec.gov*; the electronic version has more details on advisers who work at larger firms. With brokers, state securities administrators have the most complete information available for public viewing. Find out how to contact state regulators at the North American Securities Administrators Association site, *www.nasaa.org*.

But that's not all you need to do. If your adviser is a CFP, go to that organization's Board of Standards' Web site (*cfp-board.org*). There you can check on whether he's violated the board's strict ethics requirements, which are not necessarily violations of the law. Although the CFP doesn't have the power to punish planners (it can only revoke certification), it can provide an early warning about problem advisers.

5 Ultimately, what should I expect from my adviser?

Okay, you've probed your prospective planner, asked him about everything from his high school math grades to his ability to size up overseas tax codes. You like him; you hire him. Great, but guess what? If you've done your job right, it's now your turn to get interrogated. The best planners will spend a good amount of time getting to know you and your habits. Are you ready to share with a relative stranger how much you spend on hair care each month? Or how about your personal lunch allowance or laundry bill? Well, those are just the types of questions a good planner will put to you once you hire him.

Candace G. Kaplan, a CFP in Bethesda, Md., gives clients a list of documents she needs to get started in putting a plan together. The list includes 21 forms, including credit card statements and deferred-compensation agreements a client has with an employer. She also expects clients to share spending information on everything from haircuts to holidays. "Most people have no idea how they spend money," she says.

The payoff for all this digging out of old receipts and documents is a map of your financial past and your future: a net worth statement (a list of assets and liabilities), a cash flow analysis, an income-tax analysis (and recommendations), a review of your investment program with a recommended asset allocation, a plan for paying for your kids' education, an estate plan, a review of your insurance needs and, yes, a comprehensive plan that ties all of these elements together.

After you have your plan in place, you'll want to meet once or twice a year to tweak it (you are, after all, planning for the long haul). Just keep in mind, says CFP Raymond Ferrara, that you should alert your planner to any life changes—from having a child to dealing with a severe illness in the family—that could affect your plan. How micro are some planners? If you're trying to decide between leasing or buying a car, some will want you to call before making a choice.

In the two years since Rick and Ginny Fisher hired Rob Moody as their adviser, the couple have gone through dramatic life changes, including retiring from their jobs. In light of such developments, Moody has rethought the couple's financial strategy. "The focus has moved from how much should you save each year," Moody says, "to how much should you spend."

Rick says he and Moody talk every two to three weeks and are currently figuring out the best method for refinancing the couple's homes. They also rebalance the portfolio each quarter, especially lately, since the bond funds in the Fishers' portfolio have been showing gains. "If I hadn't found Rob Moody, [my finances] would have been a disaster," says Rick. "I've been really lucky." SM

SmartMoney.com

Special Report for Financial Planners: Visit SmartMoney.com/fp for profiles of top advisers, ideas on how to launch a successful financial-planning business, and much more.