6 Steps to Finding a Great Financial Adviser

Do your due diligence to make sure you'll get financial advice you can trust.

By Elizabeth Leary, December 2010

1. Align your interests by working with a fee-only adviser, meaning one who does not accept commissions. All advisers have some conflicts of interest, but fee-only advisers have the fewest. (Note that "fee-based" advisers are different -- they receive a blend of commissions and other fees.) You can find a fee-only adviser through the National Association of Personal Financial Advisors. Some fee-only advisers, as well as some brokers, charge a percentage of your assets (say, 1% to 2% a year) to manage your money on an ongoing basis. Others charge a fee, generally $100 to $300 per hour, to help you set up a financial plan or for periodic advice. If you have a one-time need for advice or you just want to keep a tight rein on costs, the latter may be the better option for you. You can find an hourly adviser through the Garrett Planning Network.

2. Learn the alphabet soup. A Certified Financial Planner (CFP) is a generalist who should be able to help you with your whole financial picture. The Chartered Financial Analyst (CFA) designation indicates particular expertise in investing. A Certified Public Accountant (CPA) is a tax whiz. And a Chartered Financial Consultant (ChFC) has extensive training in insurance and estate planning.

3. Be picky. Get to know several candidates before settling on one. Personal chemistry matters, and there's no point spending your money on advice from someone with whom you don't feel at ease. Most advisers will give you a complimentary introductory session -- in order to go over your needs, their process and what you can expect their services to cost -- before you make a formal arrangement. Take advantage of these sessions. A good adviser should spend at least an hour learning about your full financial picture -- including, for example, your goals, income needs, tax status and health, as well as the quality of your insurance coverage -- before recommending any specific investments. It's a red flag if he or she gives you a breathy spiel about some hot investment within the first five minutes of meeting you.

4. Ask the tough questions. You want to get a complete picture of an adviser's background, specific expertise, fees and investment philosophy. Feel free to ask for references to other clients. Before you sign a formal agreement, make sure you and your adviser understand exactly what services he or she will be providing and how long you expect your relationship to last. And stipulate whether you can get a full or partial refund if your relationship ends early.

5. Avoid another Madoff. If you are looking for someone to manage your investments for you, invest with an adviser who uses a third-party custodian. Convicted swindler Bernard Madoff held client funds in his own custody, which is how he was able to drain clients' savings and fudge their account statements. If your adviser uses an independent custodian, such as Charles Schwab or Scottrade, those institutions will take possession of your money and your account statements will come from their offices (rather than from your adviser's).

6. Do a background check with regulators. An adviser's Form ADV will tell you if he or she has any closeted skeletons. If your adviser is also registered as a broker, you should check him or her out at www.finra.org/brokercheck. Finally, you can contact your state securities regulator and ask any professional organizations to which your adviser belongs (such as the CFP Board or the American Institute of CPAs) if he or she has a disciplinary history.