8 things your financial planner won't tell you

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Literally anyone can claim to be a financial adviser. Even those with top credentials may not divulge everything you should know. Here's how to dig up the facts on the person you're paying for financial advice.

More people are flocking to financial planners these days, convinced they need professionals to help them navigate the market's stormy seas.

Surveys by the Financial Planning Association show the average planner is adding clients, and 55% of Americans polled by the association say they believe financial planning is more important now than it was a year ago.

Unfortunately, not all planners are created equal. Some are thinly-disguised investment salespeople, and many don't have the background or inclination to offer true, comprehensive financial advice.

So before you sign on with a planner, or implement the advice offered, make sure you know these secrets the planner may be keeping. Such as:

1. I have no qualifications for this job.
Anyone can claim to be a financial planner. There are no education, experience or ethical requirements and no government agency that regulates planners as planners.

Out of the estimated 250,000 people calling themselves financial planners, only about 40,000 have earned the Certified Financial Planner mark -- the best-known financial planning designation. Fewer still are Chartered Financial Consultants (ChFCs) or Personal Financial Specialists (PFS's), the financial planning designations offered by the insurance and accounting industries, respectively.

Even if your planner has one of these designations, you're not home free. It generally takes years of experience and ongoing education -- not to mention integrity and ethics -- to become a truly good planner.

Your best bet: Make sure that, at a minimum, your financial planner has one of the three leading designations. You can check on CFP status by consulting the Certified Financial Planner Board of Standards. For a PFS title, contact the American Institute of Certified Public Accountants' Personal Financial Planning Division. And to look into a ChFC designation, visit the Society of Financial Services Professionals. All links are listed at left under 'Related sites'.

2. I have no obligation to put your interests ahead of my own.
Real financial planners take seriously their duties as fiduciaries -- professionals

who are trusted to think of their clients' needs first and foremost.

Most of those who call themselves planners, though, are really in the business of selling investments. As such, they may face scrutiny from various government agencies over their sales tactics. But instead of being obligated to create the best financial plan for you, they're only required by law not to sell you something that's utterly unsuitable.

Your best bet: Ask for, and read, a copy of any code of ethics with which your planner is required to comply (usually as part of his professional designation). It may be slow reading, but you'll get an idea of the standard by which your planner operates. The word "fiduciary," for example, does not appear in the Society of Financial Services Professionals' code of professional responsibility, but members of the fee-only National Association of Personal Financial Advisors are required to take a fiduciary oath promising "to act in good faith and in the best interests of the client."

3. I'm not being paid the way you think.
"Commissions" became a dirty word in the 1990s, when even the big brokerage houses like Merrill Lynch decided that people would rather pay fees than have advisers compensated by commissions for the investments they sold.

True fee-only financial planners are still a rare breed, however. The leading association for fee-only planners, NAPFA, has fewer than 800 members.

Most financial advisers still get some or most of their income from commissions, according to FPA. Many finesse the situation by calling themselves "fee-based" planners, or by simply avoiding the issue of how they get compensated.

Commissions aren't bad, per se. But they do create a built-in conflict of interest. Your planner should volunteer information about how she gets paid. If you have to ask, you should at least get a straight answer.

Your best bet: Ask -- and then do more research. If your planner is a registered investment adviser (RIA), ask for a copy of his form ADV, Parts I and II. This document, which must be filed with the Securities and Exchange Commission, outlines whether the adviser accepts fees, commissions or both. If the adviser's practice is too small to be regulated by the SEC, ask for the state equivalent of this form.

4. I'm looking at only one small portion of your overall finances.
A good financial planner looks at every aspect of their clients' financial situations, from their budgets to their estate plans. That's the only way to give truly customized, comprehensive planning advice.

Many of those calling themselves financial planners, however, focus on one narrow aspect of a client's monetary condition -- usually the area that corresponds with whatever financial training they've received.

One reader told me her adviser, who mostly prepares tax returns for a living, insisted she get a home-equity line of credit to pay off her credit card bills. His reasoning was that she would be better off paying a tax-deductible interest rate on a home loan rather than paying nondeductible credit card interest.

The problem was that this reader was so deeply in debt that she couldn't qualify for a reasonable rate. An adviser with a broader background in financial planning would have recognized that a home-equity line would do nothing to curb her real problem, which was overspending. Meanwhile, she had cash sitting in low-interest accounts that could have been used to pay off her debt.

Your best bet: If your adviser has a narrow focus, get a second opinion -- or, better yet, look for a real financial planner who can evaluate your entire financial picture.

5. The only products I understand are the ones I'm selling.
The old saw goes like this: When all you have is a hammer, everything looks like a nail.

Advisers who lack training in comprehensive financial planning often know only what their companies tell them about the various investments they're told to sell. An insurance agent, for example, might sing the praises of variable annuities -- not realizing that annuities should only be considered after tax-favored retirement options, such as 401(k)s and IRAs, have been exhausted and less expensive alternatives, such as index funds or tax-efficient mutual funds, have been considered.

I still remember a conversation a few years ago in which an insurance agent launched into a passionate defense of variable annuities, only to confess -- after much probing -- that he had never heard of alternatives like tax-efficient mutual funds and didn't know how much could be invested in a 401(k) or Roth IRA.

Likewise, a stockbroker might push individual stocks or mutual funds, when the best use for your money might be increasing your emergency fund or paying down your mortgage.

Your best bet: Same as above. Your planner should be able to converse intelligently about alternatives to his recommendations. If he can't, or insists his approach is the only way, look elsewhere for advice.

6. I can't beat the market.
Many people believe a financial planner can help them supercharge their investment returns. Many of the best financial planners, however, believe they're

doing well if their clients' portfolios simply match the market averages. They don't even try for more, convinced that such efforts are a waste of their time and effort -- and of their clients' money.

Those that do try often fall woefully short. The more they trade, the more money they spend in commissions and fees, and the farther they fall behind the market benchmarks.

Good financial planners concentrate on making sure their clients are well-diversified and that other aspects of their finances -- their budgets, credit ratings, insurance coverage, tax situations, estate plans and retirement accounts -- are in the best shape possible. In contrast to the adviser who's trying to keep secrets, however, these good planners are upfront about the fact that they're not trying to beat the market.

Your best bet: Understand that good, comprehensive financial planning doesn't ensure outsized returns. A plan should, however, allow you to improve your credit, minimize your taxes, protect your assets, take care of your heirs and grow your wealth over time.

7. I won't save you from yourself.
The best financial planners didn't let their clients overdose on technology stocks during the 1990s and insisted they stay invested during the roller-coaster ride of the past three years. The worst encouraged their clients to chase every hot trend, whether it was dot-coms, last year's hot mutual fund or this year's fad of excessive investments in real estate.

Many planners fall somewhere in between -- trying to make the case for diversification and common sense, but lacking the confidence and experience to insist their clients not make suicidal moves.

Your best bet: Avoid planners who don't have a consistent philosophy or who are constantly talking about the next hot trend. And take some responsibility for your actions: Don't be a trend-chaser or insist on wild swings in course, especially if your credentialed, experienced planner advises otherwise.

8. I have a checkered past.
Sooner or later, most financial planners will have a run-in with an unhappy client. If those disputes regularly escalate to lawsuits, however, or your adviser has been disciplined by a regulatory board, that's a red flag. The worst offenders skip from job to job or industry to industry, hoping their past never catches up with them.

Your best bet: Do your homework. Read the ADV form, which includes disciplinary histories. Stop in at your local courthouse to see what lawsuits may have been filed against your adviser. Contact your state's insurance department and securities regulator (the North American Securities Administrators Association, link at left, can help you find them) to see if your adviser has any disciplinary history there. If your adviser has a financial planning designation, check with the groups listed earlier for any disciplinary history. Then check with the National Association of Securities Dealers and the SEC.

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