

what to look for in a Financial Professional

Debra Pankow • NDSU Extension Family Economics Specialist

No matter what your family situation, your income or your expenditures, you can benefit from having a financial plan. Some individuals need little help in developing and implementing a plan, but with the increasing complexity and number of financial products available to help in reaching financial goals, most families need some sort of professional advice.

Often individuals and families make the mistake of not consulting a professional adviser and try to plan their financial destiny alone, based on their own research and on hearsay from others. They feel they are saving fees, but they may be losing many times what they save, incurring unnecessary costs from such mistakes as drafting an invalid will, investing in products that do not match their needs or buying unneeded or duplicate insurance coverage.

Just as finding a good doctor can take time, locating the right people to handle your financial affairs often requires effort. This guide is intended to introduce you to the various types of financial services available, and the professionals who can provide them.

■ How to Select Financial Advisers

One way to select the financial adviser that best meets your own needs is to ask relatives, friends or colleagues to recommend someone. On the other hand, don't hire a professional just because he or she happens to be a friend or relative.

Once you've narrowed your list down to three professionals who have clean records and who are backed by financially sound firms (see the chart CHECK IT OUT IN NORTH DAKOTA), make an appointment to spend an hour with each and interview the person for the position you have to offer: your financial adviser. It's a good idea to interview more than one person to be sure you find the right adviser for you. Questions that may be useful are included in the section of this publication entitled "What to Ask."

Arm yourself with as much knowledge of the subject as possible before you talk with these experts. Then, you'll be able to ask more detailed questions and make the most of their advice.

Ask each candidate for credentials and references. Pay attention to credentials, but also become aware of what is required to receive credentials. Ask how and how much the adviser will be compensated.

Finally, once you've found a qualified adviser who meets your needs, keep informed and keep an eye on what is happening with your financial affairs. You have much more at stake in the process than anyone else.

■ Types of Financial Professionals Available

Financial or Credit Counselor

If you need help with routine budgeting or assistance in determining how you may be able to afford a major purchase such as a new home, or if you have a problem making ends meet and dealing with creditors, you may need the services of a financial counselor. Often run by not-for-profit agencies, counselors can help set up a repayment plan and determine a budget to help you get back on your feet. Check with other financial professionals to determine the reputation of the agency with which you choose to work.

In North Dakota, the Village Family Service Center operates several consumer credit counseling services across the state. For the location of the nearest CCCS or other financial management agency, look in the yellow pages under "Credit and Debt Counseling."

Banking

Bankers

Today's bankers want to take an overall look at the customer's financial picture before offering advice. In addition to the traditional services of credit, savings and checking, banks (as well as savings and loans) now offer products in the areas of insurance, annuities and securities. Mutual funds are being sold through an increasing number of full-service banks. These are usually separate from the bank, but housed in the same building. Many banks have personal bankers or investment service centers to help advise you.

Consumers need to be aware that mutual funds purchased in a bank setting are not covered by deposit insurance.

Do some homework in selecting the bank that best suits your needs. Telephone the bank and make an appointment with a personal banker to discuss your banking requirements. Establish personal rapport with someone in the position of making judgments on credit. This will work to your advantage as your need for banking services increases.

Trust Officers

Full-service banks provide individual investment management through their affiliated trust departments. Trust departments can provide estate planning and property management for individuals, corporations, charitable organizations and other legal entities. A trust department staffed with trained professionals can act



as trustee, agent, conservator and personal representative for your cash and other assets, including real estate. Investment management style is typically conservative, but depends on the guidelines established by the beneficiaries.

Trust departments may also offer a full range of employee benefit services including profit-sharing, 401(k) and pension plans. Most of them charge a separate fee for each function, with total fees running from .5 to 1.5 percent annually, depending on the size of the account.

Taxes

Tax Preparer

Commercial tax preparers provide the most basic and broadest service. Most people could perform the same services for themselves, given inclination and time. Fees generally range from \$40 to \$75 for a simple tax return to several hundred dollars for a more complicated one.

Accountants/Enrolled Agent

Public accountants generally cater to small businesses and individuals with simple accounting needs. Qualifications to practice are rarely stringent, if they exist at all. To become an enrolled agent, a person must have worked for the IRS as a tax auditor for five years or have passed a two-day IRS tax exam. Additional courses must be completed yearly to maintain accreditation. Enrolled agents can represent you in an audit or before the IRS appeals office. Fees are generally more than those of a commercial preparer, but lower than those of a certified public accountant.

Certified Public Accountants (CPAs) and Tax Attorneys

CPAs and tax attorneys have the most extensive training and experience in tax matters. Generally, because of the level of their fees, they are best reserved for complex tax situations. CPAs and tax attorneys are equally qualified to represent clients before the IRS. Tax attorney fees can run as high as \$500 an hour.

Personal financial specialist is a designation offered, through the American Institute of Certified Public Accountants, to CPAs with three years of experience in personal financial planning who pass a comprehensive exam and maintain continuing education. CPA fees range from \$100 to \$200 for a simple return prepared by a small firm to \$5,000 or \$10,000 for a complex return prepared by a large international firm.

Particular caution is urged when dealing with some local tax services. Because they may lack the motivation of a national tax preparation service to maintain a good reputation, your chances of stumbling onto a dishonest practitioner may be greater here.

Free Tax Assistance

There are at least two programs for people who do not have many tax problems and do not have a lot of money to spend on tax advice. Tax Counseling for the Elderly (TCE) is an IRS-funded program targeted at older taxpayers. Tax counseling centers are located in senior centers, libraries, financial institutions and other sites in North Dakota and across the United States. Trained volunteers also make house calls and visits to nursing homes.

VITA, the Volunteer Income Tax Assistance program, also is sponsored by the IRS. VITA workers provide free tax preparation services, primarily to low-income, elderly, non-English-speaking or disabled individuals who file simple tax returns.

Call (800) 829-1040 for the VITA or TCE site nearest you.

Legal

Attorney

When in need of information and advice in areas such as wills, trusts, tax planning, bankruptcy and so on, you will need the services of an attorney. Every individual with dependents or property should have an up-to-date will. In situations where a person dies without a valid will (that is, dies intestate), the state of residence will impose its own laws on the estate and determine guardianship for minor children and how to distribute the property. A lawyer's job is to advise you on any problem presented and to try to attain a client's legal objectives through all methods permitted by law.

Insurance

North Dakota Senior Health Insurance Program

Trained volunteers are available across the state to help seniors understand Medicare and Medigap insurance policies. *The toll-free number to find out the volunteer in your area is (800) 247-0560.*

Life/Health Agent

Agents can be classified according to the type of insurance they sell. The life/health agent determines which policy offers the desired life or health insurance coverage and then submits a potential policyholder's application. The abbreviation CLU (chartered life underwriter) indicates a solid working knowledge of insurance.

Property/Casualty Agent

Property/casualty agents handle auto insurance, home insurance, personal property floaters and other similar insurance products.

These agents make the sales and also do some of the underwriting (risk and cost-of-policy determination). The abbreviation CPCU (chartered property/casualty underwriter) indicates expertise.

Exclusive Agents, Independent Agents and Brokers

Agents can also be classified according to their relationship with the insurance companies. Exclusive agents sell policies for just one company and may be salaried employees. Independent agents sell policies for several companies and usually rely on a commission from those sales. Brokers are similar to independent agents in that they are licensed by several companies; however, unlike some agents, they can sell many lines of insurance.

Stocks and Investments

Stockbroker

Stockbrokers are licensed to buy and sell securities for clients as well as for themselves. Securities include common and preferred stocks, bonds, mutual fund shares, real estate syndications, oil drilling programs and other investment programs. Brokers may also be known as registered representatives or account executives. The brokers of nearly all major brokerage houses go through a training and apprenticeship period and must pass federal or state examinations before they become licensed as full-fledged brokers. Brokers receive a commission ranging from 1 to 6 percent on every buy-and-sell transaction they make. The broker's firm must be registered with the Securities and Exchange Commission, and the broker must personally be registered with the National Association of Securities Dealers. Brokers may also be licensed to sell insurance products.

To investigate disciplinary records of stockbrokers, call the National Association of Securities Dealers (800-289-9999) and ask if there have been any judgments against the broker by them

or a regulatory agency, or if one is pending. Within 14 days, the NASD will send you a computer printout of your broker's record. Settlements through arbitration will not be mentioned.

Investment Advisor

Investment advisors (or counselors) offer individualized management of investment accounts and newsletter advisory services. Tremendous variation exists among different firms and the scope and type of services they have to offer. The services tend to be very expensive, so know the fee structure. Careful research on the investor's part is necessary. Ask for referrals from other financial professionals.

Financial Planner

Ideally, a financial planner should have a broad understanding of tax laws, insurance coverage, investments and general finance. A planner should be able to take a broad look at your situation and design an overall strategy to help you set and meet your financial objectives.

If you have your basic finances under control and are looking for ways to reach further financial goals, a qualified financial planner can help with planning for higher education for children, with retirement planning and with overall estate planning.

The growing field of financial planning has gone virtually unregulated. There are no state or federal laws specifically covering financial planners, and of the estimated 250,000 to 400,000 financial planners currently doing business in the United States, fewer than 10 percent belong to any professional organization.

Professional organizations such as the International Association for Financial Planning, the National Association of Personal Financial Advisors, the Registry of Financial Planning Practitioners and the Institute of Certified Financial Planners, offer various "correspondence credentials," including CFC (Certified Financial Counselor), ChFC (Chartered Financial Consultant) and CFP (Certified Financial Planner).

In addition, some financial planners may be registered with the Securities and Exchange Commission. Other than the reputation of the planner and his or her firm, these are the credentials which may be indicative of quality service.

Real Estate

Real Estate Agent

A real estate agent is licensed by the state as a sales agent and should be a member of the National Association of Realtors or the local board of realtors. Whether buying or selling, ask to see a list of houses in your neighborhood, in your price range, that he or she has sold in the past 60 to 90 days, along with the sales prices.

Real Estate Broker

A real estate broker is licensed by the state as a broker and should also be a member of the National Association of Realtors or the local realty board. Real estate brokers supervise real estate agents. If you are looking for real estate as an investment, you will want to develop a close working relationship with an experienced broker.

Buyer's Real Estate Broker

Usually a real estate agent is working for the seller and is representing his or her best interests. Many buyers mistakenly expect the agent to be representing their interests.

Any agent can be a buyer's broker, but you should have that relationship formalized in writing. A buyer's broker will represent the buyer in real estate negotiations. A buyer's broker may be more

motivated to spot problems with a home you are considering, and may be able to obtain more favorable purchasing terms. Buyer's brokers may or may not charge you a fee. This is because a buyer's broker can legally share in the sales commission paid by the seller, as long as all parties agree.

Education

Libraries, Bookstores

Magazines such as Consumer Reports, Smart Money, Family Money, Kiplinger's Personal Finance and Money contain useful information to help you understand personal finance and chart your own financial course. The Wall Street Journal contains up-to-the-minute financial information, including trends in the economy and market. Personal finance books are also useful and are available at many local libraries and through interlibrary loan throughout the state.

Adult Education Classes

Everyone needs a basic understanding of financial management principles. Contact your local adult education program for upcoming schedules of classes on this topic. You can never know too much about managing your finances. Many financial management classes are available at local colleges and universities. Classes range in length from a semester to special, short-term seminars. Contact the economics, agricultural economics, consumer and family sciences or business department for additional information.

Extension Agents

State extension services have a wide range of free or low-cost financial courses and low-cost educational materials. One important advantage of this type of program is that no one is pushing any certain product or stands to make a profit. Free or low-cost money guidance publications and computer programs are also available. Contact your local office of the NDSU Extension Service for details about what is available in your area.

■ What to Ask

Here are some of the things you will want to find out when you meet with a financial professional:

- How many years of professional training have you had?
- What is your educational background?
- What is your area of expertise?
- How do you keep up with current trends in your field?
- What type of clients do you usually handle and what income bracket are they in?
- How long has your company been in business?
- What other financial professionals do you work with?
- What credentials do you have? Professional memberships?
- How are your fees determined and how will I be billed?

One final question that is helpful is to ask "What would you like to know about me?" More than any other, this question will tell you whether this financial professional is a true pro. She or he ought to ask you appropriate questions about your risk tolerance, your investment goals and your knowledge about investing, how much you already have invested and what investments you currently own. If the adviser isn't interested enough in you to probe for full answers to these critical questions now, say good-bye. You'll never get the treatment you or your cash deserve from a professional like that.

■ A Final Note About . . . Fees and Billing

Some financial experts, such as insurance agents and stockbrokers, do not charge a consulting fee. They make money from commissions on the products they sell. Others will charge you an hourly fee for their time.

Financial planners usually charge in one of three ways: flat or hourly only, commission only or a combination of the two. Hourly rates for fee-only planners range from \$50 to \$150, flat fees range from \$500 to \$5,000, depending on the complexity of your finances. The disadvantage of commission-only financial planners is that they will only suggest that you invest in the products they are selling. In some cases, the commission rate will vary and some not-so-scrupulous planners may steer you into products that are not right for you to earn a higher commission. Experts will give you a free first visit to determine what your needs are and to see how they can help you.

■ Your Part in the Process

Good financial experts can be very useful in developing your financial plan. But remember that only you know what choices are best for your lifestyle and family situation. Weigh their advice carefully before making any financial decisions. If you don't feel comfortable with the advice you have been given, ask for a second opinion.

■ Danger Signals

There are several serious danger signals that can indicate you are working with the wrong person. Plan to look for another professional if your adviser:

- Does not spend a satisfactory amount of time with you
- Can't or won't give clear explanations
- Says he/she has a "surefire" system for above-average earnings
- Displays his/her own wealth or brags about his/her income
- Tells you that you will "miss the boat" if you do not sign up right now
- Offers hot tips or claims to have insider information

■ An Ongoing Process

Financial needs, priorities and goals change just as your lifestyle, age and personal values change. When you re-evaluate your financial plan, remember to begin by identifying your goals and priorities.

Whatever sort of financial assistance you finally settle on, the objective of the entire process should be threefold:

1. to define your financial goals,
2. to make specific plans to achieve your goals, and
3. to follow through and reevaluate plans.

Check it out in North Dakota!

Accountants

North Dakota Society of Accountants
PO Box 102
Bismarck, ND 58502-0102
(701) 255-6502 or (800) 328-1950
E-mail: vjse@btigate.com

Attorneys

State Bar Association of North Dakota
515½ E. Broadway
Bismarck, ND 58501

Lawyer's Referral and Information Service
(c/o State Bar, see above for address)
(800) 932-8880

Certified Financial Planners

(No North Dakota association at this time)

For a list of CFP licensees in your area:
(800) 282-7526
To confirm whether the planner is a current CFP licensee:
(303) 830-7543

Consumer Assistance and Information

(If your complaint involves consumer fraud, false advertising, unfair or deceptive business practices)

Consumer Fraud and Antitrust Division
Office of the Attorney General
600 E. Blvd. Ave.
Bismarck, ND 58505
(800) 472-2600 or (701) 328-3404

Financial Institutions

(For more information or complaints about lenders or money brokers)

N.D. Department of Banking and Financial Institutions
600 E. Blvd. Ave.
Bismarck, ND 58505
(701) 328-2253

Insurance

(For complaints or inquiries dealing with insurance companies, salespersons or practices)

N.D. Commissioner of Insurance
600 E. Blvd. Ave.
Bismarck, ND 58505
(800) 247-0560 or (701) 328-2910
E-mail: insurance@state.nd.us

North Dakota Association of Insurance and Financial Advisors
PO Box 5010
Bismarck, ND 58502
(701) 258-9525
E-mail: info@ndaifa.org
<http://www.ndaifa.org/>

Securities

(For problems with salespersons and companies dealing in securities)

Securities Commissioner
600 E. Blvd. Ave.
Bismarck, ND 58505
(800) 297-5124 or (701) 328-2910

For more information on this and other topics, see: www.ag.ndsu.nodak.edu

