

The background is a teal gradient with a pattern of colorful dots (pink, blue, yellow, green) and a grid of dots that recedes into the distance, creating a sense of depth and digital connectivity.

# Are Financial Advisors Still Relevant in a Digital World?

**A Guide to Determining if You Should Work with a Financial Advisor**



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## A Guide to Determining if You Should Work with a Financial Advisor

**At times, it can feel as if the odds of being financially stable are stacked against you. Between bills, college loans, rising home costs, and a challenging job market keeping your head above water can be overwhelming.**

According to a 2016 [survey](#) by the American Institute of CPAs (AICPA), a majority of young adults (84 percent) say their current salary is a main reason for their financial stress and inability to save money. Other factors common among millennials struggling to reach their financial goals include: having too many bills (81 percent), paying down debt (79 percent), and lack of a personal budget (62 percent).

But while the current millennial financial outlook may be challenging, a majority of respondents indicated to the AICPA that saving was still a top priority — either for an emergency, for a home, or to create more secure financial footing.

When it comes to making decisions about how to manage, save, and invest their money, however, most millennials say they feel undereducated and ill-equipped to take on this challenge. A full 70% of millennials say they wish they learned about basic investing in school according to a recent [study](#) from Wells Fargo. And a recent [study](#) by PricewaterhouseCoopers (PwC) found that only 24 percent “demonstrated basic financial knowledge.”

Interestingly though, while the majority of millennials admit they don't have the knowledge to adequately manage their finances, according to PwC research, most don't seek professional financial help. In fact, only 27 percent reported that they relied on financial professionals.


There are a number of reasons why millennials don't seek out financial help, but perhaps the most prevalent is a lack of knowledge on the benefits of such a relationship. In this paper, we'll explore some common misconceptions about financial planning, shine some light on the different types of advisory relationships out there, provide tips for choosing an advisor, and get an inside look into what this type of partnership can and should look like.

# Why Seek Out Financial Help?

Regardless of age, we can all benefit from some guidance when making big financial decisions. However, the good news for millennials is that you are in a unique position to affect your financial future. Because of your age, you have ample time to make an impact in your financial situation and stand to gain significantly from taking action today—however small—to improve your finances. However, it can be difficult knowing when (and who) to ask for professional assistance.

Here are a few reasons to consider seeking professional financial advice:

- You are looking for ways to manage and reduce debt such as college loans, credit card debt and/or mortgage or car payments
- You want to better understand how to save for retirement, how much to contribute to a retirement account, or if you're saving enough
- You are looking to get your arms around multiple retirement accounts from past jobs and get a better handle on your investment strategy for each
- You have recently inherited money or acquired a significant sum or money and aren't sure how best to invest it
- You would like to help your children, younger siblings, nieces and nephews, or another family member with college savings
- You have life goals you want to achieve and don't know how to finance such as buying a house, taking care of parents or relatives, purchasing a car, or taking a trip



*Financial advisors can work with you to identify your short and long-term financial goals, help educate you on your investment options, and provide you with a personalized plan for reaching them.*

## Chapter 1

# Breaking Down Misconceptions

If you find yourself in one of these situations but have yet to consider the services of a financial advisor, it may be due to some common misconceptions about financial planning. Here are three that you may be able to relate to.

### MISCONCEPTION #1

#### A FINANCIAL ADVISOR JUST OFFERS STOCK PICKS AND EXECUTES TRANSACTIONS FOR ME

If you are unclear about what a financial advisor actually does, you're in good company. According to a recent survey by the Insured Retirement Institute and the Center for Generational Kinetics, only 38% of millennials even know what a financial advisor does. Hard to justify paying for something when you don't even know what you'll get from the relationship!

The confusion is hardly surprising though. Because there are so many different types of advisors – practically one for every type of need – distinguishing between them can be challenging.

The fact is, while most advisors do in fact help you pick investments and execute transactions, many do much more than that. Broadly, an advisor looks at your financial situation and suggests strategies and investment products to help you achieve your financial goals. They work with you to understand your current financial picture, set goals for your future, and provide a roadmap to help you reach those goals.

### FOR EXAMPLE:

If you are starting a new job and your employer contributes to your 401(k), an advisor may recommend you max out your contributions this year to make sure your company contributes the highest amount. Or if you are carrying multiple loans, an advisor may recommend adjusting payments to each in order to minimize the amount you pay in interest.

Another reason it can be hard to know what an advisor does is because the Financial Industry Regulation Authority, Inc., (FINRA)—one of the primary regulatory agencies governing the industry—currently lists **176 designations** that apply to professional financial advisors.

Looking at the advisors' accreditation (the letters after their name) can help ensure you find the right fit for your needs. Advisors can help you manage specific investments and financial accounts or provide a wide range of services to encompass every aspect of your financial picture. Depending on the complexity of your financial situation, you may want to seek out financial professionals with specific expertise in various areas. For example, a Certified Tax Specialist (CTS) can assist with complex tax issues such as tax credits, tax regulations, LLCs and S corporations, business income and home businesses and other topics. While a Certified Financial Planner (CFP®) is required to demonstrate that she has extensive experience in financial planning and is generally well-versed all in areas of financial management from analyzing and evaluating client data and goals to developing and presenting financial recommendations.



## MISCONCEPTION #2

### FINANCIAL ADVISORS ARE ONLY FOR THE RICH

It's a common misconception: If you're not part of the one-percent, you won't be able to benefit from a financial advisor. Yet, the truth is, while there are financial advisors that do work exclusively with the ultra-wealthy, the majority work with everyday people. For example, according to a recent Certified Financial Planning Board study, **only 19% of clients** at full-service CFP® firms are considered ultra-high net worth.

If the cost to work with a financial professional seems like a barrier to entry, remember there are discount and fee-only advisors who specialize in helping those just starting out with investing or are just beginning to amass wealth.

Similarly, just as there are financial advisors to fit any need, there are also payment structures to fit different budgets.

#### FOR EXAMPLE:

**Fee-only:** These are registered investment advisors who charge only for their time and do not receive commissions from the investments they recommend. They may charge a flat fee or take a percentage of the total assets they manage for you. Sometimes these advisors operate on a tiered fixed-fee schedule based on the value of your assets under their management.

**Fee-based:** These advisors typically charge you a fee for their advice as well as receive commissions for the products they select to implement that advice. Their fees may be lower than fee-only advisors because they are recouping some of the difference in the commissions and incentives they receive from product sales.

**Commission only:** This pay structure typically applies to an investment advisor or broker who works for a large firm. The advisor (and thus the firm) earns a commission each time a client makes an investment transaction. The more transactions the advisor conducts for his clients, the more earnings he receives.

## MISCONCEPTION #3

### A FINANCIAL ADVISOR IS JUST INTERESTED IN GETTING PAID AND DOESN'T OPERATE WITH MY BEST INTERESTS IN MIND

Since this is your hard-earned money, finding an advisor you trust and one that will work with you in a true partnership is key. In addition to the fee structure your advisor operates within, there are several factors you should consider when determining if an advisor is going to be someone you can trust and partner with.

#### BEFORE YOU MEET WITH ONE, HERE ARE A FEW THINGS TO KEEP IN MIND:

**Reputation:** Check out online **if the advisor is reputable**; if they have online reviews, are they positive/negative?

**Testimonials:** If the adviser has recommendations or client testimonials on their site or literature, are they recent? Do they seem trustworthy?

**References:** A good advisor should be able to give you a list of names and contact info for references whom you can speak with to get a sense for the advisor's style, track record, and overall approach.

Another potential consideration is to find out if your financial advisor acts as fiduciary. In January 2016, the Department of Labor issued the **final version of the fiduciary rule** intended to protect consumers. While the status of the rule and its implementation is still being determined, its ultimate purpose is one that you should be familiar with. In simplest terms, an advisor that operates as a fiduciary is bound legally and ethically to operate in the client's best interest—essentially putting their clients' interests above their own. Likewise, an advisor who is operating as a fiduciary must disclose to you if they receive any compensation from the provider of a specific account, such as a mutual fund, for recommending it to you. With the fiduciary rule, even if an advisor does receive money from a provider, they must also be able to show that they are acting in your best interest by recommending that investment to you.

While fiduciaries are legally bound to operate in a client's best interest, many advisors who do not operate as fiduciaries still hold themselves to the same values. Ultimately choosing a reputable advisor (fiduciary or not) who understands your unique financial goals and is committed to helping you achieve them is essential. You should be the judge of whether your selected advisor fits the bill for your specific needs and is someone you can trust to act in your best interests.

# Determining the Advisory Relationship for You

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**So, you've considered your financial situation and the potential benefits of working with a financial advisor.**

**Now it's time to determine what type of advisory relationship is best for your individual situation, lifestyle, and goals. There are three main types of relationships you can enter into depending on what you'd like to gain from the partnership.**

### THE TRADITIONAL ADVISOR



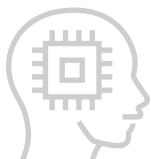
There are many types of financial advisors you could choose to work with—from registered investment advisors to fee-based advisors to brokers and insurance agents. But generally, in this relationship, an individual financial advisor or an investment firm manages your finances. The latter usually involves a team effort with your advisor being your main point of contact. Frequently these relationships can provide a broad range of financial services whereby your advisor will work with you to define short- and long-term goals and provide a financial plan to help you reach those goals.

### THE ROBO ADVISOR



A robo-advisor is an automated, technology-driven approach to portfolio management that is designed to provide asset allocation based on an algorithm. It usually comes with a low minimum deposit requirement and typically provides you with computer-generated investment advice based on a series of inputs you provide about your risk preferences and investable assets—all without the use of human involvement.

### THE HYBRID APPROACH



In this model, a portion of your funds are managed by an advisor while the rest may be managed by a robo advisor. In some cases a robo-advisor may manage all of your funds but you will have access to a human advisor who is available to help answer questions and provide guidance when needed.

## Chapter 3

# Choosing the Right Advisor for You

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**If you're just starting out, there is a lot to consider. Speaking in person with a financial advisor can help you decide what kind of advisory model best fits your style—even if you think a robo-advisor may be the best approach for your situation. Consider holding a preliminary conversation with a few financial advisors to understand what they offer and how they differ from one another before making a final decision.**

Here are a few key questions to ask when interviewing an advisor:

### **HOW DO YOU WORK WITH PEOPLE MY AGE AND INCOME?**

Knowing your advisor is skilled in helping those in the same boat as you can be key to ensuring a good working relationship. If the advisor primarily works with retirees for example, they may not have the same insights into how to achieve your short-term financial goals like paying off student loans or purchasing your first home. Likewise, if the advisor works primarily with ultra-high net worth clients (and this is not your personal situation), you may not be the best fit for their business model, and as a result, you may not benefit as much from the relationship or be able to reasonably afford the fee structure.

### **HOW ARE YOU PAID?**

As we saw earlier, there are many different ways advisors get paid. While some advisors are fee-only, taking payment for their time and advice only, other financial advisors get paid a percentage of the amount of assets they manage for you. Additionally, some advisors receive payments from product providers in the form of commissions. Make sure to ask for a written breakdown of how you're going to be paying for the advisor's work and if you are unsure about any of it, just ask. A good advisor will be able to clearly explain their fee structure and answer any questions you may have.

### **WILL YOU ACT IN MY BEST INTEREST?**

When it comes to establishing a relationship with an advisor, knowing they are committed to serving you and acting in your best interest is important. They should be able to provide a level of transparency about their services, payment structure, and advice and act as a trusted partner.

## WHAT'S YOUR TRACK RECORD?

While most every advisor will tell you past performance is no indication of future returns, asking how you might benefit from the relationship can lead to important discussions about investment philosophy. For example, the advisor will likely ask you to complete a risk tolerance questionnaire—meaning, are you open to investments that are potentially more volatile if it means the opportunity to increase your earnings. Addressing how the advisor will mitigate risk and what investment mix they will use to help you achieve your goals can assure that you and your advisor are on the same page.

## HOW OFTEN WILL I HEAR FROM YOU?

Understanding how much you'll be in contact and what form that contact will take is important—just make sure you're comfortable with whatever the arrangement is. How often will you meet? What if you have a question or want to make a change? Do you prefer to get email updates? Setting this out at the start can alleviate confusion and ensure your peace of mind.

## HOW CAN I MONITOR MY INVESTMENTS AND ACCESS MY PLANS IN BETWEEN MEETINGS?

Today, most of us expect instant access to information and the ability to execute transactions via our mobile devices—from ordering our dinner to managing and paying bills to depositing checks via our bank's online portal. If this level of connectivity is an important part of your daily life, you should consider a potential advisor's approach to technology. What technology tools does your advisor use to generate your financial plans and stay up to date on your accounts? Will you have access to your account and investment data online 24/7 or just when you meet to review your portfolio? Will you be able to collaborate with your advisor remotely if necessary, or will all meetings need to occur in person? If staying connected digitally and monitoring your strategy is important to you, finding an advisor who shares these values and can offer a digital experience is an important consideration.





## Chapter 4

# What to Expect at Your First Meeting & Beyond

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**Once you've found an advisor (or two) to meet with, have a game plan for the first meeting. Be prepared for the types of questions your advisor will ask you so that you can be ready with useful information. This will help ensure the meeting is productive and that you and the advisor are both on the same page regarding the type of advisory relationship you are entering into.**

Here's what you can expect when you first meet with your advisor.

### **GATHER DATA, DISCUSS GOALS, ESTABLISH A PLAN**

Before your first meeting, you may be asked to complete a general questionnaire on things like your income, assets, risk tolerance, tax situation, marital status, home ownership and level of financial experience and education.

This saves you and the advisor time so you can spend more of the meeting getting to know each other.

While no two advisors are exactly alike, at the first meeting with an advisor, they'll typically start with asking you "big picture" questions. These questions give them an idea of how aggressive or conservative your financial goals are and how much you know about finance.

### **TYPICAL "BIG PICTURE" QUESTIONS ARE...**

- Where do you want to be in 10 years?
- What is your experience with money?
- What are you looking for in an advisor?
- What scares you about your current financial situation?
- At what age do you want to retire?
- What kind of retirement lifestyle do you want?
- What are your life goals (home ownership, travel, education, etc.)?
- If you are not on track with your goals, what are you will to change?
- What keeps you up at night?

If you have thought through these questions in advance and are prepared to answer them, you can save time and make a more reasoned evaluation of whether the advisor understands your needs.

Sometimes at the first meeting, an advisor will also present a general model portfolio, based on your initial questionnaire. At this time you can help the advisor by providing feedback on the portfolio. Do you feel it's too aggressive if the market changes? Would you prefer to invest in stocks that are socially responsible or environmentally friendly? Now's the time to help the advisor know how best to fulfill your needs.

After your first meeting, advisors will usually prepare a revised portfolio allocation based on your feedback. This will often be a computer-generated asset allocation plan based on inputs like time frame and risk tolerance.

Once you decide on the right advisor and path for you, they will provide the appropriate paperwork for you to fund the account. This will set in motion the agreed-upon asset allocation plan and formalize your relationship with the advisor.

## BE OPEN & HONEST

You've done your research and gone through the proper vetting process. You've met with your advisor to review goals and decided on the nature of your partnership together.

Now it's time to fully commit to the process. When discussing your financial picture with your advisor, be honest about your ability to manage money and your tolerance for risk. Share your financial struggles and your goals. Remember: although you might be independent in many other aspects of your life, asking for financial advice is a commitment to learning and requires collaboration.

It can be difficult to open up about money challenges and speak to another person about your finances—a topic that feels very personal at times. But remember that your advisor is your advocate. The most successful partnerships between investor and advisor are achieved when trust and transparency is present on both sides. By approaching the relationship as a true partnership, you will be one step closer to achieving a successful financial future.

