

Finding and Using a Financial Advisor

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Disclaimer: All personal opinion - not a financial advisor, never used a financial advisor. Run paid service for finding financial advisors.

Not Rocket Science - Certified Financial Planner (CFP) curriculum consists of 6 or 7 college level classes. \$5,000 online or evening/weekend program. If not taking the exam, can just order textbooks and read.

No Shame in Getting Help - Like using a personal trainer at the gym. Faster. Different people have different learning styles. But you have to be careful not to overpay.

3 questions - What do I want? What will I get? How much will I pay?

Bad Reasons for Using an Advisor

“Tell me when I should go all-in and when I should take chips off the table.”

“Put me in investments that will do well and switch me out of investments that did poorly.”

“Tell me what’s undervalued and what’s overvalued.”

“Give me upside returns and downside protection.”

“I don’t want to think about it. Just do it for me.”

Good Reasons for Using an Advisor

Have a roadmap for going forward (higher income, sold business, retiring, ...)

Do a review or checkup

Avoid making stupid mistakes (“second pair of eyes”)

Clean up a mess

Establish a relationship for surviving spouse

Types of Financial Advisors

Broker: commission and/or % of assets

Insurance Agent: commission embedded in products

Fee-Only / Registered Investment Adviser (RIA): % of assets or fixed fee for managing money

Advice-Only: hourly, project, fixed fee; don’t manage money

Fee-Only and Advice-Only advisor fees are on top of product fees.

Fee-Only and Fiduciary - Fee-Only: Only compensated by client, no commission from products used. Fiduciary: Act in your best interest. Both are good, but ... Charging assets under management (AUM) fees is Fee-Only. Best interest does not extend to advisor fees.

Problems with AUM Fee - AUM fee is rooted in active management. AUM advisors are motivated to demonstrate *special sauce*: market timing, manager selection, slice and dice, factors, trend following, alternatives, ... AUM fee automatically increases as portfolio grows, unrelated to financial planning needs.

Watch for Pitfalls - Commission-driven inappropriate products, load funds, high expense ratios, high recurring fees, over-complicated portfolio smoke and mirrors, financial planning as a hook and retention device, ... High probability to pay a high price when you choose an advisor by chance, advertising, or peer recommendation.

Portfolio Management vs. Financial Planning - AUM advisors include some financial planning as freebie or add-on. Financial planning needs go down while portfolio management fees go up over time.

Robo Advisors - Less expensive automated portfolio management (free to 0.25% of assets). Deposit and forget: automatic rebalancing, tax-aware portfolio composition, tax loss harvesting. No or limited financial planning.

Robo + Human Hybrid - Access to human advisor for some financial planning. Still more focused on investing. Still requires recurring portfolio management fees.

Vanguard Personal Advisor Services: 0.3% of assets

Schwab Intelligent Portfolio Premium: lower return on cash + \$300 one-time + \$30/month

Betterment Premium: 0.4% of assets

Advice-Only - Like seeing a doctor - get the Rx and take the meds yourself. Financial planning front and center. Pay for what you need, only when you need it. \$100 - \$500 per hour.

Advice-Only Downsides - Must follow through yourself. Penny-wise for not asking for advice when you need it. Hard to find: advisor may not be local, limited availability for new clients.

Advisor Listings

Financial Planning Association (FPA) - plannersearch.org

NAPFA - napfa.org

Garrett Planning Network - garrettplanningnetwork.com

XY Planning Network - xyplanningnetwork.com

Other 3rd party sites - paid listings

Alternatives to Using an Advisor

Educate: books, Bogleheads forum and meetings

Simplify: Target Date Fund, 3-fund portfolio

Software: MaxiFi Planner, Income Strategy, Pralana, Fidelity Planning & Guidance Center, ...

Accept uncertainty: stop looking for the best