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ADVISOR RANKINGS: TOP INDEPENDENTS

How to Pick a Financial Advisor

By Steve Garmhausen

Aug. 23, 2014 1:50 a.m. ET

Selecting a financial advisor can be a lot like choosing a new car: The one with the most flash isn't necessarily the best one for you.

"It doesn't matter if they have nice shiny offices, or what last year's investment returns were," says Kimberly Clouse, a Boston-based consultant who helps wealthy clients select advisors. "The question is really, Can you see partnering with this person or firm to help you achieve your financial goals?"

The evidence suggests that those shopping for an advisor often make choices they regret. In a clear sign of their dissatisfaction, a 2013 survey by Tiburon Strategic Advisors found that more than three-quarters of high-net-worth investors planned to yank money from their advisors.



Looks can be deceiving: "Just because someone is with a big firm and has certain clients doesn't mean he's competent," says Peter Mallouk, the No. 1-ranked independent. ILLU: DAN PICASSO FOR BARRON'S

Most consumers approach advisor selection the wrong way, industry experts say. Too often, they sense that they need an advisor, then latch on to the first referral from a friend or colleague. That approach amounts to "looking for a solution before you've defined the problem you're trying to solve," says Clouse.

Choosing an advisor should be an organized process, she says, one that starts with taking inventory of your needs and attitudes toward investing. This simple step is one that a surprising number of consumers overlook, says Brad DeHond, a Chicago-based advisor with Morgan Stanley Private Wealth Management. "A lot of people don't really know what they're looking for," he says.

Knowing your investing preferences can help eliminate the wrong advisors. Do you prefer active, aggressive trading aimed at beating the market? Or are you more comfortable with a patient approach that may yield just enough return to help you reach your goals?

ANOTHER KEY QUESTION, says Clouse, is whether you're comfortable delegating investment responsibility. If not, you'll want an advisor who will welcome your involvement.

Finally, think about how complex your needs are. You may be part of a two-earner couple with the straightforward goal of retiring comfortably. Or you may have multigenerational wealth stock options and offshore accounts. An advisor who is comfortable serving straightforward clients may be in over her head with clients who need more expertise.

When interviewing advisors, consumers should arrive with a list of questions in hand, says Clouse. Broader questions -- such as, "What is your investment strategy?" and "What is your typical client like?" -- can help you determine whether you're in the right ballpark. Look for concise answers and beware of long-windedness.

Some key areas to ask about:

- 1) Advisor-to-client ratio. DeHond, who serves very wealthy investors, keeps his ratio at 30-to-1 to provide enough attention to each client. A "retail" advisor, serving clients with under a few million dollars, should serve no more than 100 clients, he says.
- 2) Experience. Intelligent, committed advisors can be any age, but a little seasoning can be very reassuring. If an advisor has been through a few bear markets, she may do a better job of protecting your money when hard times hit.
- 3) Compensation. Some advisors are compensated through sales commissions, others through fees based on the amount of assets under management, and others through a combination of the two. Be prepared to ask hard questions about why the advisor's compensation model is better for you than the alternatives.
- 4) Career stage. Advisors typically spend the first several years of their career building a client base, which may affect the amount of personal attention you'll receive. You should leave an interview confident that you won't get lost in the shuffle.
- 5) Firm stability. Because advisory firms compete with one another to recruit successful brokers, some advisors make a career of jumping from firm to firm. You may want to avoid advisors who can't stay put, says DeHond, adding, "Clients hate that kind of instability."

Before visiting with an advisor, it's a good idea to check his or her credentials, employment history, and disciplinary history. To begin researching brokers -- who are regulated by the Financial Industry Regulatory Authority -- go to finra.org/Investors/ToolsCalculators/BrokerCheck.

For registered investment advisors -- who are regulated by the Securities and Exchange Commission or by states -- you'll want to find the ADV Part 2 disclosure form. Go to the SEC's Investment Adviser Search Website at adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx. Look up the advisor by firm name. After clicking on the link for the firm, click on the SEC link if the advisor is registered with the SEC, or if the advisor is registered with a state, click on the link to that state. Go to Part 2 Brochures.

Professional credentials are especially important when choosing an advisor, says Peter Mallouk, of Leawood, Kan., the No. 1 independent advisor in *Barron's* latest ranking. Unlike doctors or architects, financial advisors aren't required to earn degrees in their field, so credentials show that the advisor has taken his professional development seriously. "Just because someone is with a big firm and has certain clients doesn't mean he's competent," says Mallouk. Among the most respected credentials are Certified Financial Planner and Chartered Financial Analyst.

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