



A Buyer's Guide for Financial Advice

A brief guide to shopping for a financial advisor, in two parts... If you've already decided to look for a fee-only planner and take action, then you may want to skip to Part 2. Otherwise, please read below.

Part 1: Where to Look for Advice

There are many thousands of financial advisors of one sort or another. There are undoubtedly some good, reliable advisors in every quarter, once you identify them ... but how do you narrow the field? We have a bias about "what pond to fish in" when looking for financial advice, and when to start. It turns out, so do leading financial journalists:

Newsweek / Jane Bryant Quinn, on when to plan for retirement, and where to get advice:

"When you turn 50, it's more than an embarrassing birthday. It's the outer door to retirement, whether you know it or not. Some people save for years so they can retire early (55 is a favorite age). Others have retirement thrust upon them: they're fired, their health breaks down or they have to take care of an ailing spouse. Of those 60 to 65, a mere 33% still work at their primary jobs full time ... 40% of retirees are forced to leave work earlier than they'd planned ... the average retirement age is 57."

"... That's what makes your 50th birthday so important. From then on, your employment options narrow. To retire early ... by choice with enough money to last for life – takes planning that stretches back to your 40s and 30s... To figure it out, run, do not walk, to a financial planner. Ideally, skip the planners who sell financial products. They lean toward putting you into high-commission investments whose costs will reduce your future gains. Instead, look for "fee-only" planners who charge just for their services and advice. They'll help you set goals, forecast your income and expenses, decide whether to sell your house, plan for long-term care and choose suitable, low-cost investments."

"I hate to say it, but if you *start* saving at 50, it's too late. You've been living on magical thinking, and now you're up against it."

"Start Planning Now for Retirement", Newsweek, September 18, 2007

Money Magazine / George Mannes, on how fee incentives affect advice on investments, insurance and annuities:

"... While your planner may vehemently deny it, the financial and psychological incentives built into the advice business sway the nature of the advice ... Some of those influences – a hope that you'll be satisfied enough to refer friends, for instance – can work in your favor. But most incentives don't, even if your planner is a genuinely nice guy. 'I think the majority of advisers have clients' best interests at heart', says Bing Waldert, associate director of the financial services research firm Cerulli Associates. Maybe so, but ... your biggest challenge isn't to avoid crooks and incompetents (though both exist). It's to make sure you're getting the most from an adviser with good intentions – but with interests that may run counter to yours."

"... When you're sitting across the desk from a financial professional, you should realize that there's a fundamental misalignment of interests. You're looking for sage advice. Chances are your adviser is looking to hit sales targets ... behind the wood paneling, it's a sales culture."

On selling commissioned investments: "... The only way a commissioned adviser can help you is by selling you something... Kent Grealish, an ex-broker ... faced this problem when he was urging clients not to buy tech stocks during the dotcom bubble. It was, he says, a 'perverse' compensation system: 'Sometimes by giving the right advice – don't buy – you didn't get paid ... while you could be rewarded handsomely for giving bad advice.'"

On asset-management fees as an alternative to commissions: "... you might pay your adviser an annual fee

that's calculated as a percentage of the value of your assets he oversees – ranging generally from 0.5%, if you've got millions, to 2%. (That same broker might also collect some of what you pay in mutual fund expenses, so ask.) ... [this] adviser has less incentive to urge you to buy and sell ... [But] more important, an assets-under-management fee gives an adviser cause to discourage you from withdrawing any of your money, even if you'd be better off doing so. When you cash out \$500,000 in stocks to buy a house, your adviser feels the loss. And management fees give him all the more reason to suggest ways for you to bring him more money – from swapping perfectly good bank CDs for bond funds to pulling equity from your home to invest."

On the over-selling of annuities: "Some investments are far more lucrative to sell. The most glaring disparity occurs when an adviser offers annuities as well as funds. With mutual funds, he earns just a portion of the load you pay, which usually tops out at 5.75%. First-year commissions on variable annuities run as high as 9% ... those for equity-indexed annuities can be 18%."

On where to get advice: "Find a pro who works for a fee (not commissions) at napfa.org/consumer/planners, cambridgeadvisors.com, or garrettplanningnetwork.com."

"Inside the Mind of Your Adviser – Before You Take Your Financial Pro's Advice, Consider What's Behind It", Money, October, 2007.

Consumer Reports, on getting investment help and fending off sales-pitches:

"As a report released on September 10 by the U.S. Securities and Exchange Commission noted in grim detail, the educational 'workshops' and 'financial seminars' offered by brokerage firms and other financial outfits are – surprise, surprise – simply attempts to sign up clients ... Half of the seminars, the SEC said, featured exaggerated or misleading advertising claims" and "23% involved potentially unsuitable recommendations, and 13%, possible fraud."

"... If you do attend an investment seminar, never sign up or buy anything on the spot ... If you need financial advice, consider consulting a Certified Financial Planner, preferably one who works on a fee-only basis and doesn't receive commissions from the investments or other products he or she recommends."

"Free' investment seminars can cost you dearly", Consumer Reports Money Adviser Newsletter, September, 2007.



*"As you can see, I plan to retire next week, and I haven't saved a dime.
This is your chance to become a legend in your profession."*

Courtesy Bob Veres

Part 2: Comparing Advisors

You can use this table to make comparisons of services offered by Northeast Passage, an alternate advisor, or if you were to provide the services yourself.¹

It can also be helpful to our existing clients to confirm the value of our ongoing relationship.

Service / Benefit	Northeast Passage Availability	Alternate Advisor	Do-It-Yourself
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Overall Client / Advisor Relationship:

Training & Continuing Education	College For Financial Planning, CFP® exam, NAPFA and CFP® Board continuing ed. requirements		
Compensation method	Fee-Only		
Required minimum investment	None		
Short-term advice by the hour or per-project	Yes		
Ongoing, integrated financial planning	Yes		
Fee for ongoing planning (fixed fee, % of assets managed, or commissions)	Fixed annual fee, \$2k minimum		
Committed to client education	Yes		

Initial Client Scorecard

Comprehensive net worth evaluation, including home/real estate	Yes		
Evaluation of income, spending, savings rate and tax efficiency	Yes		
Debt evaluation (good debt and bad debt)	Yes		
Evaluation of underperforming, loafing or risky assets	Yes		
Evaluation of asset liquidity	Yes		
Education on credit score	Yes		

¹ This service listing is structured mostly around the services available in our Integrated Financial Planning / Open Retainer service, but note that some of the same services are available 'a la carte' in a Financial Fitness Review.



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Cash Management

Ongoing management of liquidity	Yes		
Understanding of income and expense flows; and real cost of living	Yes		
Streamlined structure of bank and brokerage accounts	Yes		
Lifestyle spending review and budgeting / record-keeping assistance	Yes		

Goal Setting

Analysis of personal values, short-term and long-term goal-setting and prioritization	Yes		
Understand probability of achieving goals	Yes		
Investments, spending, savings linked to goals and priorities (“goals-based planning”)	Yes		
Annual review of goals and progress achieved	Yes		

Pathway to Financial Independence and Retirement Planning

Facilitated client definition of financial independence goal and interim milestone targets (Financial Life Cycle analysis)	Yes		
Ongoing evaluation/management of savings and investments to achieve financial independence based on progress against milestones, probabilities, and acceptable risk	Yes		
Once financial independence achieved, plan for long-term preservation of capital through management of cash flow, taxes, investments and risk	Yes		
Retirement-transition planning: education, personal goals/values analysis, benefit choices, retirement income strategy, tax strategy, health care strategy	Yes		
Facilitated development of values and vision for family estate, charitable goals; estate distribution plan	Yes		





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Investment Strategy / Implementation

Evaluation of existing investments and asset allocation	Yes		
Education on investment risk and structural analysis of client risk tolerance	Yes		
Devise asset allocation and investment strategy in line with life situation, risk analysis and goals	Yes		
Recommend specific investments	Yes		
Provide custodian/broker recommendation; offer access to lower-costing "institutional class" mutual fund	Yes		
Execution of trading instructions, secure multiple bids on bonds or other less-liquid securities	Yes		
Periodic review & adjustment of asset allocation, investment strategy and individual securities	Yes		

Risk Management & Insurance

Evaluation of various risk exposures, discuss options to mitigate exposures	Yes		
Evaluation of current insurance needs: <u>Income replacement:</u> Life / Disability, Buy/Sell <u>Health:</u> Medical / Dental / Long Term Care <u>Property:</u> Auto / Homeowners / Personal / Umbrella / Estate Planning / Spec. Needs	Yes		
Evaluate need to change existing coverages, as appropriate	Yes		
Access to low-load or no-load insurance when indicated	Yes		
Review of employee benefit plans with recommendations in line with risk management needs	Yes		

Tax Management

Income tax projections and application of legal strategies to minimize tax liabilities in tax <i>planning</i> (during the yr)	Yes		
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Income tax <i>preparation</i> and application of legal strategies to minimize tax liabilities (year-end)	Yes (fee reduced if not elected)		
Evaluation of past returns for necessary amendments	Yes		
Prepare amended tax returns for prior years	Yes		
Education on client's effective and marginal tax rates	Yes		
Education & assistance with record-keeping / record-retention requirements	Yes		
Monitoring of tax withholding and estate tax payments/returns	Yes		
Integration of tax strategies into investments, real estate and (as indicated) retirement distributions	Yes		
Audit protection: clients represented with tax authorities if audited	Yes		

Estate Planning

Education on high-level concepts of estate planning	Yes		
Assess estate planning goals & review strategy options to meet goals re: wills, health care powers, trusts, etc.	Yes		
Coordinate with estate attorney to ensure effective implementation of estate documents	Yes		
Ensuring beneficiary designation in line with estate planning objectives	Yes		
Evaluation of current and potential estate tax liability	Yes		
Facilitation of charitable giving intent	Yes		
Ongoing review of estate planning as needed	Yes		

Specialized Client Situations

Evaluate and address (as needed) education financing, monetary settlement, eldercare, retirement or other special needs situations	Yes		
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