The Key to the Best Financial Advice: 'Humility in Large Doses'

Finding the right financial adviser is one of the most important money-management decisions you'll ever make. Here's how to get started.ENLARGE

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Financial advisers like to say the good ones are worth their weight in gold.
Not so fast. If men tilt the scales at about 170 pounds and women at roughly 140 pounds, and with gold around $1,210 per ounce, that would value the typical financial adviser somewhere around $3 million.

Not many are likely to measure up to that bar, but a good one is still extraordinarily valuable. A low-cost adviser can make you thousands of dollars richer with well-chosen investments while saving you a fortune in unnecessary fees, excessive taxes or reckless risks you might otherwise incur.

This past week, a group of financial and business organizations sued the Department of Labor over new government rules that require brokers to act in the best interests of investors in retirement accounts. That’s the latest reminder that finding a good financial adviser is still harder than it ought to be.

Make no mistake: Searching out an adviser who is the right match for you takes a lot of work. Some people may instead prefer the ease of hiring an automated online investment service — a robo adviser. But there aren’t many robots set up to manage all aspects of your financial life. That means you may still want to hire an adviser, one of the most important financial decisions you’ll ever make.

Start by inverting the traditional search. Rather than asking friends or family for someone they trust, then interviewing advisers and finally researching their background, proceed in the opposite direction. That helps prevent your first impression of a charismatic adviser from coloring all your other judgments.

Look for fee-only advisers in your area at napfa.org,letsmakeaplan.org or plannersearch.org. Then prepare a standardized list of questions. Handy templates are the financial-adviser interview questionnaire at garrettplanningnetwork.com and “Questions to Ask in Your Search” at plannersearch.org. Email the advisers on your list and ask them to send back a signed copy of their answers.

Meanwhile, Google each adviser’s name and that of his or her firm looking for lawsuits and customer disputes. Enter them onBrokerCheck, a website run by investment regulators; while not perfect, it should surface most instances of misbehavior.

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Read the Form ADV brochure, a mandatory disclosure for many advisers, atadviserinfo.sec.gov. Pay special attention to fees and compensation. Some advisers claiming they are “fee-only” may in fact accept commissions that could induce them to put their interests ahead of yours. If an adviser charges annual fees, look for 1% or less.

Better yet, says Samuel Lee of Severian Asset Management in Chicago, if you can't easily find the Form ADV brochure on the adviser's own website, move on. A firm that isn't proud of its disclosures probably isn't worth doing business with.

Once you have two or three advisers who have clean track records and whose emails answered your initial questions, request a meeting — and make sure there is no charge for it.

Bring your spouse, partner or a close friend. You should each take thorough written notes and compare them afterward.

"The key for investors is to get advisers talking," says James Osborne of Bason Asset Management in Lakewood, Colo. Ask questions that will prompt advisers to reveal how confident — or cocky — they are about their predictive powers.

A few possibilities: Do you try to beat the market? How often do you trade? Do you have a view on where interest rates, inflation and the dollar are headed? What aren't you qualified to do? "Humility in large doses," Mr. Osborne says, is a good sign.

William Koehler, chief executive of FCI Advisors in Kansas City, Mo., recommends asking advisers how they define a successful relationship and why they believe you will benefit from becoming a client. You want one who will help you form a comprehensive financial plan, set realistic goals and prevent impulsive decisions.

If the adviser's questions center on how much money you have to invest, it's a red flag, says Sheryl Garrett, founder of the Garrett Planning Network of Eureka Springs, Ark. Always get a written agreement that discloses all fees to be charged and services to be provided.

Above all, "never make a decision right there," says Patrick Lach of Lach Financial in Louisville, Ky. "You need to be away from the person to form an objective final opinion."

Only after you've thoroughly questioned the advisers and reviewed their answers should you ask yourself which one feels most likable and trustworthy. Then you can finally sign on the dotted line.

Nothing can guarantee that you'll get an expert adviser beyond reproach. But due diligence improves your odds of avoiding an adviser who isn't even worth his or her weight in fool's gold.

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