

CHOOSING A FINANCIAL PLANNER



*Connecticut Department of Banking
Securities and Business Investments Division*

Choosing A Financial Planner

*“Who cannot give good counsel?
‘Tis cheap, it costs them nothing.”
Robert Burton*

*“When everyone is somebodee,
Then no one’s anybody.”
Sir William S. Gilbert*

Although the number of individuals calling themselves “financial planners” has grown, there is no stereotypical financial planner. Ideally, a financial planner is someone who, for compensation, provides you with a total package of money management recommendations, including advice on taxes, estate planning, insurance, educational funding for your children, real estate and investments, including securities. However, many planners either focus on only a few areas or consult with outside specialists as to the others.

More than one governmental agency may regulate your financial planner, depending on the services the planner offers. If a financial planner offers advice on securities, that person would be subject to regulation by securities agencies. If the financial planner sells insurance or real estate, he or she would be regulated by insurance or real estate regulators, and so on.

You will be sharing some very personal information with your financial planner - how much money you make, how much you’ve saved, your bills and outstanding loans, whether you own your home, what your tax situation looks like and your kids’ educational needs. Therefore, it is important to choose someone you can trust and who is qualified to meet your needs. In this publication, we will show you how.

WHAT WE DO

A comprehensive financial plan almost always includes securities recommendations. The Securities and Business Investments Division of the State of Connecticut Department of Banking registers investment advisers and their agents. An investment adviser is an individual or a firm that provides you with securities-related advice for a fee or other compensation. However, larger investment advisers are registered with the federal Securities and Exchange Commission (the “SEC”) rather than the Department of Banking. Effective July 1, 2011, the Department of Banking will register advisers having less than \$100 million in assets under management (the current state ceiling is \$25 million).

In addition, if a planner will be selling you securities products, there is a good chance that he or she would have to be registered with the Division as a broker-dealer or an agent under the Connecticut Uniform Securities Act. Connecticut’s securities laws also prohibit fraudulent practices by people who give securities-related investment advice or sell securities products.



WHAT TO LOOK FOR IN A FINANCIAL PLANNER

Education

“Training is everything. The peach was once a bitter almond; cauliflower is nothing but cabbage with a college education.”
Mark Twain

If your planner is registered as an investment adviser with the Division, your planner must provide you with a disclosure document or “brochure” which includes information on the adviser’s education and business background. You may also ask the planner specific questions about the planner’s schooling and coursework (including continuing education courses). Pay special attention to courses relating to the particular services you will receive from the planner.

Some planners hold industry designations like Certified Financial Planner (CFP) or Chartered Financial Consultant (ChFC). To qualify for these designations, planners must meet special education requirements and pass certain examinations. There are countless other designations. The Financial Industry Regulatory Authority (“FINRA”, formerly the NASD) maintains a list of designations and what they mean on its website (www.finra.org). These designations are not government-endorsed and do not guarantee that a planner will be able to satisfy your financial needs. However, they may be a good indicator of the planner’s active interest in his or her profession. Be skeptical if the planner uses an unfamiliar designation or one that targets clients solely on how old they are, their sex or their ethnicity. Designations like these may be nothing more than marketing gimmicks. In addition, don’t be overly impressed by the designation “Registered Investment Adviser” or its acronyms “R.I.A.” or “RIA.” Any planner using this designation to claim that the Connecticut Banking Commissioner or the SEC has given its seal of approval to the planner’s activities is acting illegally.

Experience

*“Knowledge and timber shouldn’t be much used til they are seasoned.”
Oliver Wendell Holmes*

Connecticut law requires investment adviser registration applicants to have at least three years of securities-related experience as a broker-dealer, agent, investment adviser or investment adviser agent or be otherwise qualified by knowledge and experience as determined by the Commissioner. In addition, registered investment advisers must give prospective clients a “brochure” or disclosure document. The brochure contains important information on the adviser’s background and experience. Ask for it.

Here are some additional pointers:

- Never do business with a planner strictly over the phone or in response to a piece of mail (including “free lunch” invitations and e-mail), unless you’ve first investigated the planner’s past track record or otherwise know something about the planner’s credentials. The same holds true for planners advertising on the Internet. And if you do receive an unsolicited phone call or e-mail, ask the planner how he got your name/telephone number/address.
- Ask the planner how long he or she has been doing financial planning and working directly with clients.
- Find out if the planner has experience with the services you need. (*Examples: retirement planning, business planning, etc.*)
- Ask what business the planner was in before he or she got into financial planning.
- Ask about the planner’s typical clients. (*Examples: retirees, middle-income clients; business clients*)



- Eyeball a few sample plans. (Watch out if the planner refuses to provide samples or if each plan's recommendations are the same or similar.)
- Ask for the names of other clients with whom you can discuss the planner's services. (Be careful if the planner only gives you one or two names since the planner may have selected these people to give you rave reviews on the planner's performance.)
- Ask for references. Some planners circulate promotional materials with a reference list of professionals such as attorneys or accountants. Don't be shy about calling these references and asking about their relationship to the planner, whether they can vouch for the planner's business reputation and whether they've consented to being included on the reference list. One unscrupulous planner's reference list included an attorney who had done nothing more than file the planner's incorporation papers decades earlier. The attorney had no idea that the planner was using the attorney's name as a reference.
- Find out if you will receive the planner's undivided attention or whether you'll be working with an associate of the planner. (If you will be working with the planner's associate, investigate the associate's experience and training and meet with the associate.)
- Identify others (e.g. accountants and attorneys) who will help the financial planner prepare the plan. (Once you have found out the names of these people, ask questions concerning their background, training and experience as these relate to the services the planner will be providing to you.)
- Ask the planner how long he or she has been doing business in the area. (Be wary of planners with no established roots in the community, especially if you can't find out anything about their prior background, training and experience.)

Disciplinary Background and Ethics

*“Lost is our old simplicity of times.
The world abounds with laws, and teems with crimes.”*

Anonymous

Before you turn over any financial records or funds to your financial planner, check for prior court or administrative actions involving personal bankruptcy, embezzlement, tax problems, professional license revocations and securities violations. A professional such as an attorney can also help you with the background check.

You can obtain disciplinary information from several sources:

- **Online**

The SEC’s Investment Adviser Public Disclosure website, www.adviserinfo.sec.gov, provides online access to registration and disciplinary information for state and SEC-registered investment advisers. Similar information is available via FINRA’s BrokerCheck, at www.finra.org for individuals and firms registered to sell securities.

- **Department of Banking**

You may contact us (see the telephone and fax numbers at the end of this brochure) to request that a Central Registration Depository (“CRD”) or Investment Adviser Registration Depository (“IARD”) report be e-mailed, faxed or mailed to you concerning a specific securities professional. The CRD and IARD systems are online databases administered by FINRA and used by state and federal regulators to register securities industry personnel. CRD/IARD reports contain much of the same information as is available online through the Investment Adviser Public Disclosure website and FINRA’s BrokerCheck.

- **Financial planning industry groups**
Links to various industry groups are included in FINRA's online listing of professional designations.
- **Non-securities specialty regulators**
Consult the State Board of Accountancy for financial planners who are also accountants; State Insurance Department for planners selling insurance; Real Estate Commission for planners selling real estate products; and the Statewide Grievance Committee for financial planners who are attorneys.

Services

*“Nothing astonishes men so much as
common sense and plain dealing.”
Emerson*

Your planner should be a straight shooter when it comes to the services you'll receive for your money. Common items include: a personal financial statement; cash flow analysis; income tax projections; estate planning information; insurance analysis; education funding schedule; personal cash management advice; a liquidity plan for emergencies; employee benefits advice; advice on savings and investments (including the pros and cons of getting into particular investments); how inflation, tax laws and current economic conditions may reasonably affect your financial situation; referrals or resources for tax or legal services from others where the planner is not qualified in these areas; and an implementation schedule.

Under Connecticut law, if the planner is a state registered investment adviser, the advisory contract must be in writing and must disclose the services that the adviser will perform for you. Read the contract carefully.

Here are some additional tips:

Basics

- The planner's recommendations should be in writing.
- Tell the planner what financial risks you're willing to take.
- Tell the planner if you need financial liquidity (the ability to cash out your investment in the event of an emergency). Products that you can readily sell in the market in the short-term are liquid. By contrast, the markets for coin investments, art and real estate are generally illiquid.
- Your financial plan should be tailored to your particular financial needs. Oversimplified, computer generated plans may suggest that all clients are receiving the same advice.
- Ask the planner for the assumptions underlying the plan, including projections for shifts in inflation and interest rates.
- Discuss how the planner will keep you posted on financial information that is important to you (e.g. newsletters, reports, seminars, phone calls, personal meetings). Make sure that any electronically disseminated information will also be made available to you in hard copy form.
- Find out if the planner will be doing a follow-up review and, if so, how much it will cost.
- Ask the planner whether he does his own research.
- Find out if your planner will implement the plan's recommendations for you. If so, and the plan involves securities recommendations, check with the Securities Division to see if the planner is registered as a securities agent or broker-dealer.
- Your planner's investment recommendations should include a range of choices, with the pros and cons of each explained to you, rather than a short list of one or two products (unless you've fully discussed the limitations of the list with your planner). To slightly paraphrase Mark Twain, "[If you put] all your eggs in ... one basket ... WATCH THAT BASKET!"

“Red Flags”

- Be especially careful if the planner's only address is a post office box or office telephone answering service. Visit the office. Proper planning, record keeping and monitoring require computers and a number of office workers.
- Don't be swayed by razzle-dazzle. An adviser later convicted of securities fraud interrupted sessions with clients to take numerous “international” calls from exotic destinations. Although clients never discovered to whom the adviser was really chatting, they were so impressed with his importance that they invested thousands of dollars with him – and lost every dime.
- Steer clear if the planner promises you an unrealistically high rate of annual return or an investment that's guaranteed against loss.
- Be wary if the planner tells you that (1) the recommended investment strategy is so complicated that only the planner can understand it; (2) you should invest in something whose purpose is unclear or just not stated (e.g. a blind pool); or (3) you should invest in "exotic" sounding ventures such as ultra-high tech developments, rare coins or transactions with international overtones.
- If your planner will help you implement the plan, never pay for a securities product by making the check payable to the planner. Your check should be payable to the issuer of the securities instead.



Compensation and Conflicts of Interest

“I do perceive here a divided duty.”

William Shakespeare

Financial planners are in business to make money. When you first visit or contact the planner, ask if there is an initial consultation charge. Then, find out about additional payments, including any charge for a follow-up review. Ask for a written schedule of fees or other remuneration the planner will receive (directly or indirectly) in connection with the services. Planners are paid in four major ways:

Fee Only

Fee only planners are paid strictly for advising you. It doesn't matter whether or not you follow their advice and buy products. The planner may be paid at an hourly rate or by project.

Fees and Commissions

Some planners receive a fee to draw up a financial plan and commissions from third parties to implement it. For example, a planner may recommend that you buy shares of XYZ Fund. Once you do buy the shares, the planner receives a sales commission in addition to an advisory fee. If a planner gets paid if you buy a particular product, will the planner be able to give you unbiased, objective advice on what products to buy? Answer: No. The planner's advice may be slanted if he has a financial stake in your buying decision. By law, planners giving securities-related investment advice must fully disclose to you any conflicts of interest, including compensation arrangements with third parties.

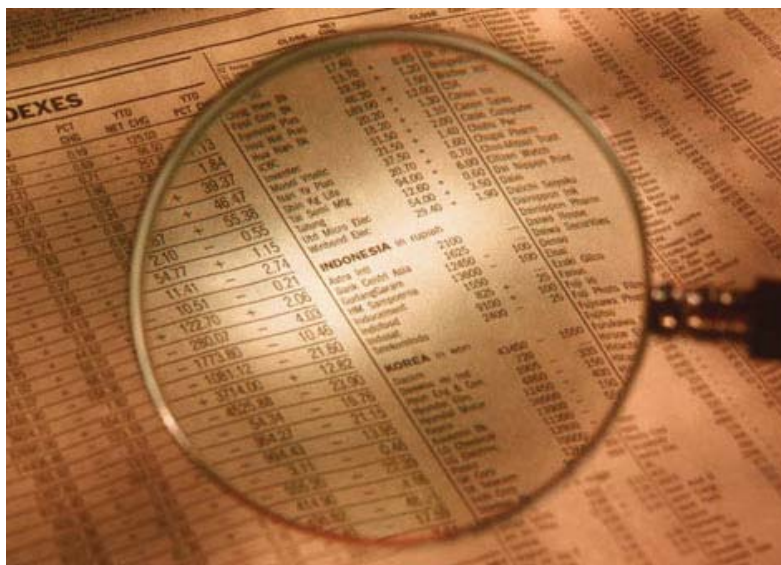
Commission Only

Here, the planner is paid (by a third party) only if the planner sells you a financial product. Conflict of interest problems

are most common here. The planner should tell you if he or she will be receiving fees or commissions or if he or she has any other vested interest in the recommended financial products. For example, a financial planner who sells you a portfolio of rare coins may charge a mark-up which is in addition to the product's commission. If the planner will use a securities brokerage firm to implement the recommendations for you, you are entitled to know how the planner is affiliated with the firm. For example, is the planner an agent of the brokerage firm and, if so, is he or she registered with the Division as such?

Wrap Fee Arrangements

A wrap fee program provides an investor with a number of investment services for a single “wrap” fee. Some planners may receive a portion of the wrap fee that a client pays to a financial product sponsor. If so, the planner should tell you that its services are provided in connection with a wrap fee program and give you the names and sponsors of the programs. In addition, if the services the planner will provide to non-wrap fee clients differ from those furnished to wrap fee clients, the planner must tell you about the differences.



SOME FINAL ADVICE

“Learn, compare, collect the facts!”

Pavlov

Choosing a financial planner is an important decision. Sound out your planner before he or she sounds off with a costly investment recommendation. Investigate the planner’s qualifications, including his or her education, experience and disciplinary background. Research the services your planner will provide. Inquire about fees and commissions. Compare different financial planners to select the one who will best meet your financial needs. Avoid planners who are reluctant to give you information or who insist that you make your investment check payable to them rather than to the issuer of the financial product. And finally, if you have a securities-related complaint against a planner or want to know about his or her registration status under Connecticut’s securities laws, contact the department. We’re here to help.

**Do you have questions
about an investment,
investment manager or a securities firm?
Call the Connecticut Securities Division
(860) 240-8230
or
1-800-831-7225**



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Securities and Business Investments Division**

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This publication is funded by a grant from the Investor Protection Trust, (IPT). The IPT is a nonprofit organization devoted to investor education. Since 1993 the IPT has worked with the States to provide the independent, objective investor education needed by all Americans to make informed investment decisions.

www.investorprotection.org

March 2011