How to choose a financial adviser: Here are the 6 biggest factors to consider

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Knowing how to choose the right person to manage your money can be a complex process.

Thinking of hiring a financial adviser? Here's how to start. GETTY IMAGES

Plenty of Americans want financial help, but only about one third use a financial adviser, according to Statista. So what gives? As many as three in five say they simply aren't sure where to look, according to a report from financial technology company IntelliFlo.

And frankly, finding a good financial professional you gel with can be a complicated process. There are dozens of credentials, fee structures, and an entire language to understand. Another important factor, says Catherine Valega, a certified financial planner at Green Bee Advisory, is finding someone you can trust. (Looking for a new financial adviser? This tool can match you to an adviser who meets your needs.)

Because there are so many factors to take into account when looking for a financial adviser to manage your money, we have pulled together some of the most critical factors you need to consider when picking a financial adviser to help with the decision making process.

1. Your own financial needs

Are you looking to build a retirement plan to one day settle down and leave the workforce? Are tired of renting an apartment and you want to buy a house?

Read more: Building your financial confidence could be the key to improving your money situation

While financial advisers are equipped to help build a comprehensive fiscal plan, one of the first steps you may want to take before meeting with your new prospective money management professional is deciding what you, personally, hope to accomplish from this relationship. Establishing what you want to one day accomplish, as well as meeting your day-to-day financial needs, are just some of the factors to consider.

Read more: 4 financial-planning rules the world has forgotten

A good starting point here is to look within and figure out what your own needs really are — by definition, these are the expenses you can't live without.

Here are some examples of financial needs:

- Food
- Housing
- Transportation
- Gas and electricity

Knowing how much you earn and how much you spend on the things you need can also help you determine how much you have to invest and what your ability to save really is. And then look within: What are you saving and investing for in the future? What does your future life look like to you?

Read more: I'm 27 and finally ready to build an investment portfolio. Should I pay a pro to help me?

Once you know all that, you can begin look for a financial adviser who might be able to assist you with those goals.

Here are some of the most common reasons to hire a financial adviser:

- Starting a new family and you're trying to build a more complex budget
- Buying a home
- Starting (or ending) a relationship like a marriage
- Received a inheritance, bonus or other large sum of money and need advice on how to invest
- Retirement planning

Looking for a new financial adviser? This tool can match you to an adviser who meets your needs.

2. Consider the adviser's qualifications

Of course, these are just some of the reasons people find a financial adviser. And while there are dozens of possible uses for one, knowing how to find one equipped for those financial needs and wants is highly important. But where do you look?

Read more: ChatGPT vs. financial adviser: We asked both one question — how should I prepare financially for a recession? Here's how they stacked up.

There are many resources online to find a financial adviser in your area to help. One helpful place to start is with associations such as the Financial Planning Association, or FPA, or The National Association of Personal Financial Advisors, or NAPFA, to help match someone with your needs (their 'find an adviser' portal can be a good place to look). There you'll likely find dozens of qualified professionals to help. You can also use this tool can match you to an adviser who meets your needs.

However, one thing you'll also notice are the wide variety of listed credentials and certifications, touting various financial planning specialties and areas of expertise. Knowing what these mean and how it may apply is key.

Here are just some of the most common credentials financial advisers tack to their email signatures and Linkedin profiles to show their various qualifications:

Credentials and designations held by financial advisers

- **Certified Financial Planner (CFP)®**: This certification is backed by the Certified Financial Planner Board of Standards, also known as the CFP Board. If you're looking for an adviser with expertise in financial planning, taxes, insurance, estate planning and retirement saving, seeing CFP next to their signature should assure you're in the right place. CFPs are also required to be a fiduciary of your assets, which in short means they are required to work in your best interest when it comes to managing your money.

- **Chartered Financial Analyst (CFA)®**: This subsect is recognized by the CFA Institute and ensures your adviser has passed exams covering topics such as accounting economics, ethics, money management and security analysis. For some context on the exclusivity of the CFA credential; more than two million candidates have taken the Level I exam since its inception in 1963, with 291,500 candidates going on to pass the Level III exam, according to Investopedia.

Read more: ‘I was so mad.’ My financial adviser moved my investments into cash in June 2022 without consulting me. What should I do?

- **Certified Fund Specialist (CFS)**: Advisers with a CFS have been certified by the Institute of Business & Finance (IBF) for their proficiency in working with mutual funds. Those who hold this title are qualified to become accountants, bankers, brokers, money managers, personal financial advisers, and various other financial industry professionals. To maintain this credential, advisers with a CFS are required to recertify with 30 hours of education every two years.

- **Chartered Financial Consultant (ChFC)**: Issued by the American College of Financial Services, this designation ensures additional expertise in tax and retirement planning for special needs, wealth management, insurance and more. Continuing education requirements here is also 30 hours every two years with at least one hour in ethics.

- **Chartered Investment Counselor (CIC)**: Started by the National Alliance for Insurance Education & Research in 1969, the CIC certification is designated for agency owners, producers, agents, brokers, as well as agency and company personnel who meet various requirements and who pass five of seven course exams on the following topics: personal lines, commercial casualty, commercial property, life and health, agency management, commercial multiline and insurance company operations.

- **Certified Investment Management Analyst (CIMA)**: Financial consultants and investment advisers who achieve this credential from the Investments & Wealth Institute typically build their business around investments, risk assessment and portfolio management. This certification requires three years of industry experience, no record of ethical misconduct, a passing score on the qualifying course offered at Yale, the University of Pennsylvania or the University of Chicago, a passing grade on the exams offered by the Investments and Wealth Institute, and 40 years of continuing education every two years to maintain.

Read more: ‘I think our financial adviser is overcharging us.’ But how do we prove it?

- **Chartered Market Technician (CMT)®**: Those with this credential from the CMT Association demonstrate an expertise in investment risk in portfolio management including quantitative risk and market research, and rules-based trading system design and testing. CMTs are additionally qualified to conduct research, author research reports, recommend trades and investment programs and trade their own accounts.

- **Certified Public Accountant (CPA)**: This is probably one of the more widely recognized credentials in public finance. CPAs are proficient in taxation auditing financial analysis and regulation, and meet both high professional and accounting standards.

- **Personal Financial Specialist (PFS)**: This credential is issued by The American Institute of Certified Public Accountants (AICPA). Those with a PFS must hold an unrevoked CPA certificate, become a member of the AICPA and have at least two years of full-time teaching or business experience in personal financial planning.

- **Chartered Life Underwriter (CLU)**: If you’re looking for an expert in life insurance, estate planning, and business planning, financial professionals with a CLU might be for you. Often CFPs will add this credential to demonstrate this additional expertise.

That is only some of the wide range of potential credentials an adviser can have. If you see any certifications that are foreign to you, check out this designation database at financial industry regulatory body known as the Financial Industry Regulatory Authority, or FINRA, for more details.

Read more: If you hate managing money, here’s the simplest financial plan ever

Do a deeper dive on the financial adviser’s background

After you've found a number of potential financial advisers that you might be willing to work with, the next thing you'll want to do is complete an investigatory background check.

A good resource to find background information on the brokers, brokerage firms, investment adviser firms and advisers you're considering is a free tool from FINRA known as BrokerCheck. Just type in their name or name of the firm for a detailed history of their credentials, work history timeline and even possible violations. (Looking for a new financial adviser? This tool can match you to an adviser who meets your needs.)

3. Thoroughly understand how the adviser makes money

Along with their various qualifications, what financial advisers charge for their services is another factor you'll want to consider. Do they charge a fixed fee, are they hourly, does their rate depend on how much money you have or will they charge you based on how much money they can help you earn?

Read more: Am I too broke to afford a financial adviser?

"Most advisors charge a fee, or a percentage of assets under management, to manage money," says Valega, adding that "you'll typically find fees around 1% to 1.5% — unless you get above millions when fees drop, some planners also charge planning fees, or a combination."

To help power your decision when you're asking an adviser about their fees, here are the five most common ways they charge their clients:

How financial advisers charge their clients

- **Percentage of assets under management:** With this model, advisers charge fees based on your total amount of invested money, or assets under management (AUM). A typical fee is about 1%, though charges are usually built on a tiered schedule with the lower percentage of fees attached to the higher asset levels.

- **Hourly:** Special project or consulting rates for advisers are often charged by the hour and can range anywhere from $100 to upwards of $300 an hour, according to a report from AdvisoryHQ.

- **Fixed fees:** After consulting with an adviser with a fixed fee, this predetermined amount must be paid for a service, such as the creation of a financial plan. Those who charge flat fees can range anywhere from $2,000 to $7,000 a year, the NerdWallet report found.

- **Commission:** Compensation for advisers with a commission-based fee structure charge when a purchase or a trade is made on your behalf.

- **Performance-based fees:** Fees for performance-based compensation packages are charged when a defined benchmark is outperformed.

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4. What services can I expect an adviser to perform?

What tasks or financial planning services can you expect from your financial adviser? Typically, a financial adviser specializes in providing investment management services, planning help for your financial future, and all things related to wealth management.

Read more: Are we simply 'not rich enough'? My husband and I want a financial adviser, but the well-regarded ones seem to only help people with 'way more money.' What's our move?

Here are just some of the services a financial adviser may offer:

- Retirement planning
- Build an emergency fund
- Portfolio and investment management
- Help save and budget
- Catching up on debt
- Tax planning
- Estate planning
- Insurance planning
- Charitable giving
- Financial education

Another feature you may consider are financial advisers who are legally required to work in your best interest. In simple terms, a fiduciary is an adviser who is required by law to work with your best interest in mind when it comes to managing your assets.

While not all financial advisers follow these guidelines, those who do are most often known as Registered Investment Advisers, or RIAs. By design, RIAs meet these requirements. Certified Financial Planners, also known as CFPs, may also carry this status, but it's best to ask any adviser if they're a fiduciary first to find out.

Read more: I just want a financial adviser to help every now and then — but most of them want me to pay them year round. No thanks. What's my move?

5. Types of financial advisers to consider

Needless to say, there is more than one kind of financial adviser out there. Some come with credentials backed by financial industry regulators, and others are just superficial. Here are some of the most common types you may encounter when you're researching the right one for your planning needs and some of their capabilities:

Investment adviser

These advisers typically specialize in securities and provide clients with data analysis to pick and manage their investments. They also typically charge a fee to work with you and have a fiduciary responsibility to put your financial needs first. Investment advisers are also registered with the Securities and Exchange Commission (SEC) if they manage more than $100 million in combined client assets. They can also specialize in a wide range of financial advice, such as estate planning, retirement planning, investment management or taxes. This class of financial adviser often works with higher income levels.

Financial planner

This term is used with a wide brush in the world of financial advice. While many who fall into this category can be highly credentialed and carry titles such as broker, investment advisers, insurance agent or accountant, the term financial planner doesn't necessarily mean these individuals actually have any financial credentials.

Often used synonymously with the term financial adviser, a financial planner, much like its title, is primarily concerned with assisting with developing a financial plan for their clients. These can revolve around just about any aspect of a potential client's financial wellbeing, including savings, college planning, retirement, taxes, insurance and estate planning. And while they may be authorized to sell commission-based products such as life insurance, annuities and other investments, they more than likely will not discuss their investment choices, such as stocks, bonds or mutual funds.

Read more: Want to hire a financial planner? Here's what to expect and how to know what you're paying for.

Asset manager

These financial professionals specialize in the day-to-day management of their clients investment portfolios, help clients acquire additional assets and maintain trade investments for their clients. Asset managers can either work for an investment bank, as a private contractor or with a number of financial institutions.

Broker-dealer or brokers

A term describing either individuals or companies, broker-dealers and brokers buy and sell securities such as stocks, bonds or mutual funds for either themselves or their clients.

If they do so on behalf of their client, they are doing so as a broker. If they do so for themselves or their own account, they are acting as a dealer. Those who do both are commonly referred to as broker-dealers. Broker-dealers are also registered with the SEC and are members of FINRA.

Financial coach

Unlike a certified financial adviser or other credentialed financial professional, financial coaches are not required to receive any certifications to provide their services. If you see someone with this title, they often will charge hourly rates for helping you work towards a specific financial goal. These types of goals can usually include cutting back on spending, budgeting and saving.

Read more: 7 signs it's time to fire your financial adviser

Financial consultant

These advisers are generally most useful for helping their clients understand their financial potential and help plan for their future. While consultants can also be registered financial advisers, they may also hold the ChFC credential (listed above) and act more as a specialist in tasks such as estate planning, charitable giving, retirement planning and taxes.

Financial therapist

A financial therapist is one type of finance professional who can help ease the emotional aspects associated with these issues. They are often found in a family therapy or financial counseling setting, and can achieve both financial and mental-health-related issues associated with your money. And while these professionals can indeed get a certified financial therapy certification, it should be noted that credentials are not required to tout this job title.

Robo adviser

Much like the name suggests, the term robo-adviser simply refers to a wide range of automated investing services ultimately designed to help you manage your money and investment portfolio.

Because they are typically less costly than working with a human adviser, they also charge lower fees and often come with lower investment requirements to get started. They can be used to manage your retirement accounts and even help build a comprehensive investment portfolio.

Wealth adviser

Unless otherwise mentioned or listed by these individuals, the term wealth adviser does not inherently mean this type of adviser comes with any form of accreditation.

That said, this line of advisers often specializes in financial planning services for high net worth individuals and help with tasks such as estate planning, charitable giving and insurance planning services.

6. Are you compatible?

Arguably the most important credential for anyone you're considering to manage your money is compatibility. "If you're not compatible, you're not likely to share your intimate concerns and money stories, which is what allows (good) planners to implement a plan that you'll stick to," says Valega.

Read more: 4 strategies to recession-proof your retirement plan

Like in any personal or professional relationship, the best way to determine an adviser's potential compatibility is to meet with them in person and learn about their practice.

Also just like any budding relationship, you'll likely want to ask as many questions as you can to find out how you will work together and whether they can help you achieve your goals. (Read more here about the 15 powerful questions to ask a financial adviser in your first meeting.)

Depending on how much you want to meet, some advisers are more or less hands on than you may be interested in. If you want to reach them on a more frequent basis, finding someone who is technologically savvy and can hold virtual meetings in the event an in person meeting doesn't work may be a consideration.

What is the financial adviser's investment philosophy?

Another thing to think about is their overall investment philosophy. Does the firm or adviser engage in actively managing your funds or do they let automated tools do all the work? If they choose them on their own, how do they make their investment selections? Are their decisions based on choices that you feel comfortable with? Or do you get the sense that they are making random decisions?

Read more: I'm paying my financial adviser 1%, but 'the only communications I get are invoices.' So I want to regain sole control of my accounts — without having to talk to him about it. Is this possible?

Since the financial planning industry can also have some complicated language and concepts, finding someone who can clearly explain these complicated concepts is another. You'll likely have to work with this person a lot so making sure you have a common understanding and connection should be top-of-mind.

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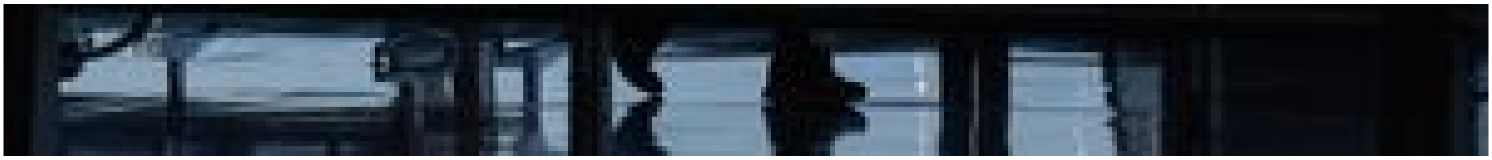

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Andrew Shilling is a reporter for MarketWatch Picks, writing about savings, retirement, investing and other personal finance topics. Previously, he was an associate managing editor at Financial Planning magazine and both a reporter and editor at the Queens Ledger/Brooklyn Star Newspaper Group.