- JANUARY 5, 2011

Wall Street Journal

How to Find the Right Adviser for You

The first question to ask yourself: What exactly are you looking for?

By JAIME LEVY PESSIN

It's a new year, a time when many people resolve to pursue or improve romantic relationships. But for those who have vowed to get a better handle on their finances, there might be another type of intimate relationship worth starting in 2011—one with a financial adviser.

Like finding the perfect mate, finding the right financial adviser can be tricky, especially if you lack experience. It helps if you know what you're looking for: For example, do you need a lot of attention, or do you prefer someone who will give you space? It's also a good idea to explore all of your options before making a commitment. Finding an adviser you trust and respect is critical, experts say, so don't just sign on with the first person you meet.

For those seeking an adviser for the first time, here are some tips on finding the right match:

What Do You Want?

The term "financial adviser" encompasses several business models, and it's important to understand the distinctions.

Stockbrokers, for example, typically offer tips on when to buy and sell specific securities and are paid through commissions. Investment advisers, on the other hand, tend to offer more advice, including portfolio management and retirement planning; sometimes they have total discretion over a client's account, meaning they can buy and sell securities without getting the client's permission for each trade. Often, their clients pay them a percentage of the assets being managed.

Some shops don't offer discretionary accounts and instead allow clients to pay a set fee or by the hour for a big-picture financial plan that they can then execute themselves.

Different types of advisers are held to different standards. Investment advisers are considered fiduciaries and must act according to the client's best interest. Stockbrokers are held to a "suitability" standard, meaning that as long as a product is appropriate for a client, it is considered acceptable for the broker to recommend it. That said, a stockbroker might be the right choice for investors who have their own ideas about the market and are seeking to use an expert as a sounding board.

Your income and investable assets may affect the range of providers that are interested in working with you. At some large national firms, for example, only affluent investors are assigned a dedicated adviser, while others are routed to call centers where various professionals answer questions or provide advice.

Once you have an idea of the type of adviser you want, start gathering names. Talk to friends and colleagues you trust. Other professionals—lawyers or accountants, for example—may be a good source of recommendations, too.

You also can check out professional associations that represent advisers. The Financial Planning Association, for example, has a "Find a Planner" feature on its website, fpan et.org, that lets you search not only by location, but also by how planners are paid, their specialties, and their income and asset minimums. The National Association of Personal Financial Advisors has similar information on its site, napfa.org. And the Garrett Planning Network, a group of fee-only financial advisers who work with clients of all different income levels, has a search feature at garrettplanningnetwork.com.

Do Your Research

You wouldn't hesitate to do a Google search on a potential mate, and you should do the equivalent digging on potential financial advisers to weed out sketchy types.

All financial advisers should be registered with either the Securities and Exchange Commission, the Financial Industry Regulatory Authority (Wall Street's self-policing organization) or a state securities regulator.

To check the registrations and records of stockbrokers, use the Financial Industry Regulatory Authority's BrokerCheck tool at www.finra.org. Information about investment advisers is generally available at www.adviserinfo.sec.gov, but some smaller shops might be registered with state securities regulators instead. You can contact your state securities regulator's office to get that information. (For a list of state regulators, go to the North American Securities Administrators Association website, www.nasaa.org.)

However, you need to do more than simply confirm that a financial adviser is registered with the proper authorities. You also should review the adviser's record—and know what it means.

David Massey, president of the North American Securities Administrators Association, or Nasaa, tells investors to look at an adviser's employment history (has he changed jobs often?), disciplinary history (has she been fined by regulators?) and other reportable events, including disputes with customers that went to arbitration.

"If you find out a person had a dozen situations in which clients had been so disturbed that they carried claims to arbitration, you'd want to know about it," Mr. Massey says.

Ask Questions

Once you've narrowed down the list of names, start interviewing potential advisers.

Be sure to ask how the adviser is compensated. Don't rely on advisers' titles to tell you what kind of fees they charge, or whether they accept commissions on sales.

Decide what level of service you want from a financial adviser. Do you want someone to call you once a month to fill you in on your portfolio's performance? Or would a quarterly in-person meeting satisfy you? Ask potential financial advisers how much communication you can expect from them.

Investors are "going to view the relationship as positive or negative based on the type and frequency of contact, even more than performance," says Tad Fryer, a St. Louis-based vice president and branch manager for Charles Schwab Corp.

Find out who will be the primary person communicating with you. Some firms have teams of financial advisers who essentially share accounts; make sure you're comfortable with the person with whom you'll have the most contact.

If you've decided to hand over your portfolio to an adviser to manage, ask who makes the investment decisions. Some financial advisers do it all—they come up with asset allocations themselves, pick the specific mutual funds or other securities, and decide when to buy and sell. But at many large firms, investing decisions for advisory accounts are made by central research departments, which make changes across the board for clients who have chosen similar asset allocations. Neither model is necessarily better—it all depends on what you prefer.

Steer clear of advisers who make promises that sound too good to be true, and make sure a potential financial adviser is willing to explain something until you understand it. This is especially true if you intend to hand over control to an adviser.

"Confusing jargon is a red flag," Mr. Massey says. "It's [meant] to intimidate less-experienced investors." Advisers, he says, "ought to be able to explain a product to you, and how that product fits into your particular situation."

Then there's chemistry. Advisers may look great on paper, but if you dread communicating with them, the relationship can become counter-productive.

Matt Brandeburg, a financial planner in Columbus, Ohio, suggests interviewing at least three financial advisers in person before committing to one.

"Make sure you're compatible," he says. "You're going to be divulging some very sensitive information for years to come."

Breaking Up

Like your first love, your first financial adviser may not end up being "The One." If that's the case, feel free to give him or her the boot. Don't let an adviser pressure you into staying; changing advisers may entail some paperwork if your money is housed at the firm, but it shouldn't be more than a minor hassle in most cases.

Still, once you've taken the time to select a financial adviser you trust, give that person at least a little time to do the job.

"Give them a chance to work for you," says Mr. Fryer, the Charles Schwab vice president. "All the statistics say the long term is the way to go."

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