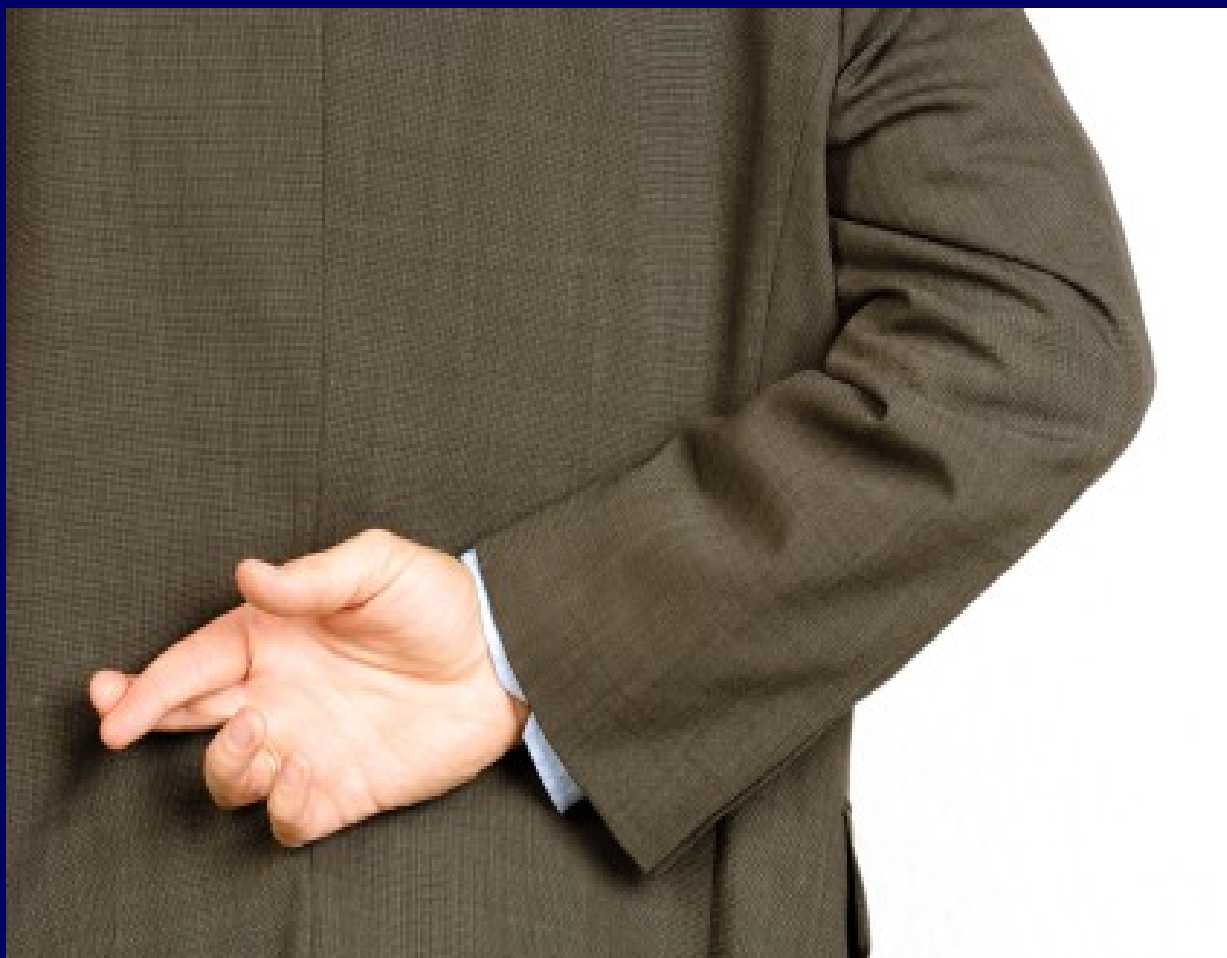
How to Avoid Bad Advisors



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Bad advisors are not ogres. In fact, most bad advisors are nice, gregarious, friendly people. Their firms selected them for their pleasant personalities. This is why they are so dangerous. It's easy to like them and they know you trust people you like. They also know trust reduces your natural sales resistance.

Once trust is established, the next sales step is to convince you they are investment experts. This is an important step because they know you do not question the investment advice of financial experts.

The goal of this article is to provide insight into key issues that impact your financial security when you accumulate or preserve retirement assets.

The Kill

You are set-up for the kill. The financial advisor can sell you the products that make him or her and his/her firm the most money. You don't even question the advisor's sales recommendations. After all, you like the advisor, you trust people you like, and you believe the advisor is a financial expert. Who questions the advice of experts, even self-purported experts?

This advisor sales process is fraught with risk for unsuspecting investors who may not even know the risk exists.

It is unfortunate that bad advisors do not come with warning labels like packs of cigarettes. It is your sole responsibility to identify bad advisors and avoid them.

Good Guys & Bad Guys

You need a process that separates good advisors from bad advisors. The process is tougher than it should be. That's because bad advisors use misrepresentation and omission to sound like good advisors. You have to see through the sales gimmicks to identify the best advisors.

Who's Interests Come First?

You need a simple way to determine whose needs come first. It should be your need to accumulate and preserve assets for retirement. But, it might be your advisor's need to produce revenue and income from your assets.

Real financial advisors are fiduciaries who are held to the highest ethical standards in the financial service industry. They are required to put your financial interests ahead of their own. Fake advisors (stockbrokers) are held too much lower ethical standards. They are not required to put your financial interests first.

Paladin says: "Select a financial fiduciary to be your advisor. Require a fiduciary acknowledgement in writing. Avoid advisors who are not financial fiduciaries."

What About Advisor Competence?

How do you determine competence? You have to ask the right questions and know good answers (benefit you) from bad answers (damage you).

How big a risk is advisor knowledge. Consider the following facts:

- Advisors do not have any minimum education requirements; not even a high school diploma
- Advisors do not have any minimum experience requirements. Your friendly advisor could have been a used car salesman three months ago
- More than 50% of advisors use fake certifications to look more knowledgeable than they really are

There are three primary ways financial advisors can obtain planning and investment knowledge:
1. Education
2. Experience
3. Certifications

The best advisors have college degrees, years of experience, and high quality certifications (CFA®, CIMA®, CPA®, CFP®).

Paladin says: "Avoid advisors who cannot or will not provide written documentation for their sources of expertise."

Use Paladin's free Check a Credential service to determine the quality of advisor certifications.

What About Advisor Sales Skills?

All advisors sell financial advice and services to produce income and gain new clients. However, selling may be the primary skill set for low quality advisors. The best advisors may have very limited sales skills. They tend to be intellectual, quantitative, and analytical.

Unless you are an accomplished sales professional, there is no way you will be able to separate sales facts from sales fiction. And, the more advanced the advisors' sales skills, the tougher it is to detect the skills.

Don't waste your time on sales skills. Instead, focus on how advisors are compensated for their advice and services.

Real financial advisors are compensated with fees for their knowledge, advice, and services. You may pay an hourly or fixed fee for their planning advice and services. You may pay an asset-based fee (% of assets) for their investment advice and services.

Salesmen are paid commissions to sell you investment and insurance products. For example, a salesman convinces you to invest $200,000 in several mutual funds and he collects a $10,000 commission. He is compensated for the sale and not for helping you achieve your financial goals.

> Paladin says: "Avoid advisors whose only method of compensation is commissions and their only service is a sales recommendation."

Instead, select advisors who are paid fees, like other professionals, to help you achieve your financial goals.

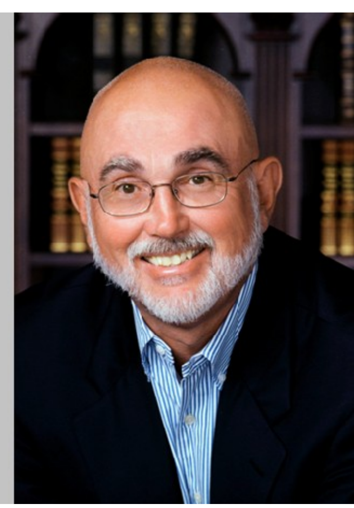
Free Resources

These resources will help you research financial advisors and make the right decisions when you rely on them to help you accumulate and preserve retirement assets. Be sure to check:

- The free Advisor content on the PaladinRegistry.com website
- FINRA.org's free BrokerCheck service that documents advisor records of compliance
- The SEC.gov's free ADV documents for registered investment advisors

The more you know the better prepared you are to protect your financial interests.

About the Author



Jack Waymire is the founder of PaladinRegistry.com and Investor Watchdog. He spent 28 years in the financial services industry and is the author of *Who's Watching Your Money?*

You can follow Jack on:
Twitter: @PaladinRegistry
Google+: https://plus.google.com/+JackWaymire/posts