Five Signs You Picked The Wrong Financial Advisor

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You know what they say: You can't choose your family, but you can choose your financial planner. Or something like that.

One of the great things of being in charge of your money is choosing who (if anyone) will help you manage it.

The choice isn't always an easy one. How will you know that your planner is reputable and trustworthy? Perhaps more importantly … how will you know when she *isn't*?

These five red flags are a good indication of whether the financial planner sitting across from you is someone you should trust with your money.

1. She Isn't Certified

"There are a lot of good planners out there who aren't certified financial planners," says Samantha Vient, CFP®, of LearnVest Planning Services. "But the certification is becoming the industry gold standard, partially because CFPs® are required to adhere to the CFP® Board's standards of professional conduct, which basically means we must put clients' interests ahead of our own in all circumstances."

It's always a good idea to work with someone who has the CFP® designation, which is issued after completing a CFP® Board-approved personal financial planning curriculum, passing a rigorous exam issued by the Certified Financial Planner Board of Standards, meeting experience requirements and passing an ethics and background check.

2. He Offers to Manage Your Money for "Free"

Financial planners are usually paid in one of two ways: Either through upfront fees, which can be hourly, retainer or a percentage of the assets they manage for you, or through commission, which means the planner is paid each time he buys or sells an investment.

Fee-only payment structures are more desirable for most clients, as there's no financial incentive (commission) for a planner to buy or sell, whereas working on commission encourages planners to make trades, rather than solely look out for your best interest—called a "fiduciary" duty. (You want to be sure that the planner you choose *is* a fiduciary.)

Sometimes commission-based brokers can represent their planning as being free of charge: "Nothing is ever free," warns Vient. "You'll likely be paying through fees and commissions on the investments they choose."

To find a fee-only certified financial planner, visit the National Association of Personal Financial Advisors (NAPFA), which is the largest group of fee-based financial advisors.

LearnVest Planning Services also provides the services of fee-only certified financial planners. To see if they're right for you, start with a free, 15-minute financial checkup.

3. She Says She Outperforms the Market

"If a financial planner tells you that she can outperform the market, that's a major red flag," Vient explains. "In fact, due to government regulations, it's illegal to advertise statements that promise a specific return."

Outperforming the market—that is, getting better investment returns than the market average—is extremely difficult to do consistently, and requires taking a lot of risks with your investments. While some fund managers (paging Warren Buffett) have an aptitude for consistently outperforming the market, it's a rare planner who can do the same—and results are never guaranteed. Either way, in the pursuit of these high returns, she'll be exposing your investments to higher risk.

Instead, look for an advisor who, when looking at your portfolio, can advise on proper asset allocation based on your risk tolerance and time horizon, as well as through economic ups and downs.

4. She Doesn't Ask About Your Financial Goals

"Your planner isn't just there to crunch the numbers," Vient advises. "She's helping you make a plan for your money and your life. You should be looking for someone who has similar values to you."

Ideally, you'll likely want to work with someone who is in a similar life stage. Are you a parent? A planner with children may be better able to understand your need to save for college. Does your CFP® have a specialty? Some planners have an area of expertise, like insurance, estate planning, divorce or retirement—a fact you might want to consider if that's a particular need of yours.

When meeting a potential planner, remember that you're allowed to ask questions about their experience and priorities: "Do you think it's more important to save for retirement or pay off debt? How do you feel about supporting kids through college? How do you mitigate investment risk as your clients get older?"

The choices you make with your money are intensely personal. The person who helps you make these choices should be able to understand and accept your financial priorities, and help you use your money to meet them.

5. His Management Style Makes You Uncomfortable

Financial planners can manage your money *for* you or manage your money *with* you. As different people have different needs when it comes to money management, there is no right way to work with a planner—it's up to you to decide how hands-on you want him to be.

When you sign on with a financial planner, there will be a written agreement of how the two of you will manage your money. Read this carefully, and ask questions if you're unsure about anything. Are you signing your accounts over to this planner? Will he check in with you before making a trade, or when rebalancing your accounts? If you're uncomfortable with anything in the agreement, bring it up immediately.

Again, one guiding word to keep an eye out for is "fiduciary." This means that the planner will always work in your best interest—even above his own—which is the bottom line when it comes to getting help with your bottom line.

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