



# “On The Money Report”

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By Steve Pomeranz, CFP

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Recently I responded to listener's questions regarding what to look for when choosing a financial advisor. Here is a summary of my comments.

**Q: Steve, what advice would you give to someone looking to hire an advisor for the first time?**

**A:** First and foremost, decide what type of services you need.

- Do you need someone to manage a pool of money, maybe your pension plan or IRA; maybe your personal money or money in trust? Or are you looking for someone to manage it all and organize it into one large picture and investment plan.
- Do you want someone to share the process with you, the both of you managing this money together?
- Maybe you prefer someone who is an order taker but gives you ideas from time to time and brings product ideas to you.
- Another scenario would be someone who does not manage the money but creates a financial plan and makes recommendations that you implement yourself.
- You can see there are numerous ways to hire an investment professional and you should put some thought into what you think you need before you talk to anyone.

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**Q: Are there any red flags to look out for when interviewing advisors?**

**A:** If you meet with an investment person and they start mentioning products during your first meeting, that is a bad sign; a big red flag. If you think about it logically, how can someone recommend a course of action until they really know your situation and have done an analysis of your goals and risk tolerance?

Secondly, if an investment person is using words or catch phrases such as: “risk-free”, “a sure thing”, or promises you “exclusive access”, start looking for the door. If the advisor says “my mother has this investment”, it’s just another red flag, don’t fall for an appeal to you faith in motherhood.

There is an old saying that if you’re a hammer everything looks like a nail, so be wary of professionals that only have one product or service for sale. They will want to sell it to you whether it’s appropriate or not.

**Q: Is there a place where I can find an advisor’s license status and history?**

**A:** The place to check on a professional who are affiliated with a broker or licensed to sell products for commission is the North American Securities Dealers (NASD) website at [www.nasd.com](http://www.nasd.com). Click the investor information tab. Besides checking out a broker to see if they have any legal issues you can also see the status of their licenses and reviews of conduct. It’s also a good site for getting up to date investor alerts on recent scam activity.

**Q: What are the different ways investment professionals are compensated?**

**A:** First there is commission. You buy a mutual fund, stock or annuity and the professional earns a direct commission from that sale. The key here is find out the

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amount of the commission so you can make an informed decision as to whether you wish to pay that amount or not.

Then there is fee based compensation. You may invest in an investment plan like a group of mutual funds that are managed by the broker or his firm and you would pay what they call in the business a “wrap fee” to invest in this product. The broker may hire an investment manager or group of managers for you and *wrap* his fee around the manager’s fee to present a unified cost to you for the product.

And then there is fee only. In this model, you are paying a fee, either an hourly fee or a fee as a percentage of the assets under management. Typically those assets are not dedicated to a specific product. It’s sometime called wealth management when the advisor invests in all sorts of different things and includes financial planning as part of the package.

**Q: When an investor does hire an advisor, what expectations should they have for that relationship?**

**A:** That is the key word, Relationship.

I’m not talking about friendliness or charisma; there is plenty of that to go around in the investment industry. I’m talking about professionalism. Someone who has a lot of experience, knows what they are doing, and does so in a thorough and professional manner.

Look for someone who understands that a long term relationship is much more valuable to both of you than a short-term relationship. They should be someone who wants to be your advisor, not just a person selling a product to you so they can meet their next month’s mortgage payment.

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When choosing an advisor your homework should include these items: look for a good reputation, ask family or friends with similar investment needs or coworkers, and check for licenses and conduct at the NASD website. When you finally meet your potential advisor don't forget to ask for references, look for the CFP designation and choose someone you feel understands your goals and objectives.

Additional articles of interest:

“Eight Things Your Broker May Not Tell You about Bonds” by Steven L. Pomeranz, CFP [http://www.onthemoneyradio.org/Edu\\_Articles.php](http://www.onthemoneyradio.org/Edu_Articles.php)

“Protecting Yourself from Investment Fraud” by Robert C. Port  
[http://www.onthemoneyradio.org/Edu\\_Articles.php](http://www.onthemoneyradio.org/Edu_Articles.php)

*Steve*

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“The Investor's Advocate”  
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