Money and You: Finding an adviser you can trust

by Lynn_O'Shaughnessy

Too many people who portray themselves as financial experts aren't. The threshold to get into this business is too low to cull out the knuckleheads, but you can eliminate many candidates by rejecting any adviser who isn't a true fiduciary. Working with a fiduciary - someone who is required to put your interests first - is so important that I'd urge you to avoid any financial adviser who won't acknowledge a fiduciary duty to you in writing.

How do you know if a financial adviser is really working in your best interest? One way to eliminate most of the field is to use a detailed questionnaire when talking with candidates. You can find an excellent one, "The NAPFA Comprehensive Financial Planning Diagnostic," by visiting the Web site of the National Association of Personal Financial Advisors (www.napfa.org), which is a great resource for finding fee-only planners. At the same time, you'll need to print out the companion document, "The NAPFA Comprehensive Financial Planning Checklist."

Another way to shrink your chances of getting a bozo is to hunt for a fee-only adviser. Not all fee-only planners are fantastic, but I believe you eliminate a lot of potential conflicts of interests if you stick with them.

If you aren't interested in hiring an individual investment adviser, some discount brokerage firms and mutual fund companies, such as the Vanguard Group and T. Rowe Price, provide guidance via the phone and the Internet for a modest fee. And in many cases, the advice will be free if you move assets to their firm. T. Rowe Price, for instance, charges $250 to develop a solid game plan for a retiree or someone on the verge of that milestone.

FINANCIAL MAGAZINE HYPE

Do you regard magazine articles that hawk investment picks as harmless infotainment? If you put as much relevance into these articles as Court TV commentaries, you won't get hurt. But if you actually buy the mutual funds and stocks that you see hyped in the media, you could be in trouble, according to a study written by a pair of professors at Stanford University and the University of Oregon.

Here's one of their key conclusions: "Investors would do just as well picking funds at random." After tracking the performance of mutual funds touted by various financial magazines, the researchers said that the recommended funds didn't even perform as well as the average mutual funds.

I doubt this discovery will surprise people who work at financial magazines. I've had plenty of conversations with financial journalists who acknowledge that they invest their own money in low-cost index mutual funds, as do I. My experiences mirror that of an anonymous journalist, who wrote a first-person story in Fortune magazine a few years ago that carried the headline, "Confessions of a Former Mutual Funds Reporter."

In the article, she writes, "Mutual fund reporters lead a secret investing life. By day we write 'Six Funds to Buy NOW!' We seem delighted in dangerous sectors like technology. We appear fascinated with one-week returns. By night, however, we invest in sensible index funds."

Of course, if magazines simply told readers to stop chasing hot funds and invest instead in those sensible index funds, where would the advertising dollars come from?

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