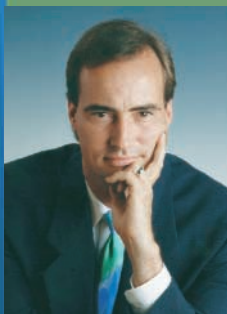


# Why You Might Need A Financial Advisor

**SPECIAL REPORT**



**H.S. Dent Foundation**  
*Helping People Understand Change*



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*The Roaring 2000s Investor*

*The Roaring 2000s*

*The Great Boom Ahead*

*The Great Jobs Ahead*

## How To Find An Advisor

### Introduction

In all of my books on investment, I have talked about the importance of having a competent and objective financial advisor. A competent financial advisor is one who works in your best interest. This means someone who can integrate your entire financial-planning process, effectively and efficiently, to meet your highest life goals. Before you consider whether you should be investing on your own through a discount broker or through one of many financial advisors, from insurance agents to stockbrokers to financial planners to CPAs to tax attorneys, ask yourself first, "Do I know what I need?" and second, "Am I willing to take the time to be responsible investor?"

Below I've put together several questions you should ask yourself before starting on an investment program. The first set of questions starts with general goals and the second deals with the specifics of investments. Many investment advisors are competent at suggesting investments. However, unless they also have a strong understanding of what your life goals are, you may get an answer that is both wrong and inappropriate for where you are in life.

### Determine Your Fiscal Quotient

The first set of questions deals with your long-term goals as they relate to your financial situation. Many advisors will help you to develop risk and volatility measurements for how you invest. However, I believe that analysis should be done toward the end of the engagement.

The first step is to develop a liability analysis, one in which you look at your financial needs, compare them against your income, and create a wealth development statement that fits with your needs and ability to understand markets.



### Do You Know Your Present Situation?

- Have you done a thorough analysis of your annual financial needs? Do you know how much money you need annually? Have you projected that amount into the future using a reasonable rate of inflation?

- Do you have a thorough understanding of current tax laws? Do you follow the tax strategies that the US Congress is considering? Do you think about the "social engineering" for which the US Congress insists on using the tax code?

- Do you have a thorough understanding of the difference between capital gains, short-term capital gains, dividends, and ordinary income? Do you know how to convert short-term taxable gains to never-taxed or long-term capital gains?

- Do you understand the relationship between risk and how much money you have to save for future comfort?

- Do you have the discipline to follow through with your financial plan once you develop one? Do you have a "coach" to help you work through your financial challenges? If you are your own coach, when do you know it's time to change or modify your strategy?

These are the first questions you should ask if you decide to handle your own finances. These questions address how to develop a wealth strategy that will have a high probability of success, one that uses modern tax law and wealth-building strategies that have a minimum of friction.

Ask yourself the following question: Do I have the ability and, more importantly, the ambition to stay on top of the best practices of those who are great at amassing large sums of assets with little work? If the answer is no, or if you do not have a

good idea of how your own plan will work, you are a prime candidate for working with a financial planner.

You must look objectively at your own situation. Many people hire teachers and coaches to help them improve in areas of their life. If you want to start to play golf, you might choose a teacher to help you learn the game. The same is true with your financial situation. If you want to increase your odds of having a successful financial life, you should work with a professional coach who has the knowledge, tools, and education to help you to achieve your goals.

## Determine Your Investment Abilities

After you've figured out what you want in the way of a liability or risk-based plan, move toward your investment quotient test. First, have your strategy in place for what you need to accomplish and then work toward making some decisions on how and in what to invest your money.

To help you to decide the best way to invest, consider the questions below:

- Do you know how your mutual funds work? Are you aware of how long the manager has been in place? How has the manager done in down markets as well as up markets? Do you know the style of investments in your mutual funds? Does the manager of the fund stay within the style he or she advertises?
- Do you know the level of tax efficiency in your investment portfolio? Do you know what amount that the average after-tax return of your mutual fund or investment portfolio provides? Have you done an analysis of the different forms of investments that can provide a variety of after-tax returns?
- Do you know the differences among managed money accounts, mutual funds, hedge funds, closed-end mutual funds, bonds, strip bonds, mutual bonds,



corporate bonds, junk bonds, derivative investments, and stocks?

- Do you have a method for putting together an asset allocation model that will help you to achieve your long-term

financial goals?

- Have you ever lived through a 25% downward correction of the market? If so, what did you do with your investments?

■ If you have mutual fund investments, how do you go about evaluating which funds are correct for you? Do you purchase funds on the basis of past performance? Did you know that that the top 50% of performing funds will not necessarily be the top performing funds for the next five years? Research shows that of the top 50% of the funds for a five-year period, approximately 50% of the funds will stay in the top 50% and the other half will join the bottom 50% of fund performance.

- Do you understand the demographic and technological factors that drive economies around the world? Do you invest your money on the basis of these factors?

■ What screens do you use when choosing an investment or investment advisor? Do you have a method for easily changing investment advisors or investments when it becomes necessary?

- Do you have a wealth-accumulation strategy? Have you put together a statement that says where you want to be invested and why?

■ Here is the biggest question: How have your investments done over the last five or ten years compared with your goals? Are you on track or off track for achieving your wealth-accumulation goals?

Objectively look at how your investments have done over the last five or ten years. Because most professional investors have not done as well as the main indexes over the last five or ten years, it is likely that you have not done as well either. If you are

investing on a part-time basis, the odds are very high that you should get professional help to advise you on where and how to invest your money.

Building a wealth process for you and your family is a complicated affair. First, you must decide what you want to accomplish. Second, look at the hard numbers that show where you are now, develop a family wealth strategy, choose appropriate investment strategies, and, third and finally, monitor your progress on a regular basis. Not many people are able to do all of the steps listed above. We might know a fair amount about some of the wealth-building process, but most of us do not know all of the steps.

When you look for advice on serious health problems, whom do you choose? When developing a wealth-accumulation program for you and your family, should you use a discount provider or one who has the training, expertise, and experience of working with people like you to achieve their goals?

If you have been beating the appropriate indexes over a long period of years and enjoy the investment process and time involved in making appropriate decisions, keep self-directing your investments. If your performance has lagged, you do not enjoy the research process, or you do not know what your goals should be, find an investment advisor with whom you are comfortable working. This professional should be competent, understand your situation, and be working in your best interest.

## Evaluating a Financial Professional

You need an advisor to integrate all of your financial affairs. I suggest using a financial planner in this role. Although a competent financial planner will not do taxes, provide legal services, or represent you in front of the IRS, they will be in a position to understand your entire financial program, make a long-term plan, and bring a holistic view to your financial goals.

Many investors have an accountant, life insurance agent, attorney, and at least one investment



advisor. Although all of these professionals understand some of your needs, none of them has the whole picture. A properly credentialed and

trained financial planner will work to integrate your entire financial life into one that fits your current and long-term financial and personal wealth-creation goals. Financial planners by their training and nature will look long-term toward what are probable outcomes five, 10, 20, and 30 years in the future.

If you presently are working with a financial planner, you will want to be confident that he or she can answer the questions you considered in section one. Be especially clear that your financial planner spends most of his or her time developing a strategy for your financial life. Too many "salespeople" in the financial services business use planning as a come-on for selling their products. Ensure that your planner spends at least 75% of your engagement talking about and planning for you and your family's wealth-creation strategies.

Only after the wealth-creation strategy has been established should your planner talk about specific classes of investments. These classes of investments include insurance, mutual funds, managed money, bonds, stocks, hedge funds, and variable annuities. After you have agreed on a wealth-creation strategy and the classes of investments that are important to fulfill this strategy, then and only then should individual investment products be discussed. If your financial planner deviates from this order, you may be working with a "salesperson" and not a planner working in your best interest.

The investment profession is like all other professions. There are good and bad investment advisors. Plan to pay your advisor for advice. If your advisor says he will do a comprehensive plan with you and only want the opportunity to show you some ideas, he probably will start looking at products immediately. You might be better off at first to work with your advisor on a fee basis by which you pay for

your plan. This will give you an opportunity to evaluate whether this planner is providing you with information that you feel is in your best interest.

You will find investment professionals that first need to understand their customers situation and those who want to start with products. Both may be competent in the service that they provide. However, it is impossible for you to have an integrated solution presented until your planner understands your entire financial situation.

## Where To Find an Advisor

The best place to find an appropriate advisor is through people just like you. If you know a person who is in a situation similar to yours and who has an advisor he feels good about, have a conversation with that person. When getting a referral from one of your friends, ask her if her advisor has covered the issues in section one of this report. If so, set a time to meet with this person and form your own opinion.

All financial advisors should be willing to spend an hour with you for no fees. During this time you should get a feeling for whether this person has added value to the time you spent together. At the end of the first meeting you have had with your potential advisor, he or she should have learned a little about your situation and made some comments to help you feel that they understand your situation. If the advisor suggested specific investment products during this interview, you might want continue to look for an advisor that will put you first.

You also can find advisors through radio, television, articles in trade journals, newspapers, websites, or professional referral services. With all of these avenues you have the ability to judge their ability without having to go through a sales process. Another great way to judge the ability of a potential advisor is through a seminar. Seminars are a great way to see your potential advisor in action. You also might find



an advisor through a direct-mail program. Many advisors will send information to people they think

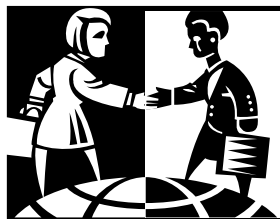
can use their services.

In all of the above methods of finding an advisor, ensure that the information that advisor provides is generic in nature. If the information provided pushes a particular investment idea or product, you are probably working with a salesperson and not an advisor. The most valuable information that can be provided is a strategy to help you to achieve a long-term goal.

Many people turn to their accountant, CPA, or tax advisor for suggestions on whom to use for financial advice. All of these professionals will work with the good advisors and be able to help you to find someone who can work well with you. However, be warned that CPAs and now, more and more, attorneys have sections in their practice that provide these services. If the suggestion is made to stay in-house, use the same analysis you would use with a suggestion from a friend about people he or she work with.

You now have found a potential advisor to work with. You should ask some or all of the following questions:

- What sort of experience do you have working with clients like me?
- What results have you had with people like me?
- Are you willing to give me references so that I can talk to these people myself?
- What sort of specialized training or experience have you had in working with clients like me? If you own a closely held business, you will want to work with a planner who understands the special problems and opportunities of small business owners. If you are an executive of a publicly held corporation, you will have different problems and will want to work with a planner who specializes in this field.
- Are you product-neutral in the suggestions you make?



■ What is the process you go through before making a product suggestion? Independent planners will have a screening process of investment products they use. It is important for you to understand their screening process.

■ Do you work on a fee-only basis, or are commissions and management fees involved? Understand how your advisor gets paid. Ask them for a specific fee schedule on the products they use.

■ What sort of service do I get for working with you besides the placement of financial products? The true value of working with a financial planner is the non-investment and strategy advice they provide. You want to understand how he works with clients on a holistic basis.

■ Are there break points for placing more assets with you? Most planners will provide discounts as the amount of money placed under management increases.

■ What is your experience in the business?

■ How long have you been in practice and how many clients like me have you worked with?

■ What are your educational credentials? The CFP designation is becoming the standard for how planners are judged. However, CPAs have their own planning designation, as do life insurance agents with the CLU and ChFC. Your planner should have one of these designations as a minimal education requirement.

■ How much and what sort of continuing education do you provide for yourself every year? The financial planning business changes rapidly. Tax law, investment theory, and investment options continue to change. You want your planner to stay current with the best and most advantageous strategies for you and your situation.

■ What sort of associations and reading do you do? You want your planner to be involved in professional organizations that moves his or her general knowledge

forward as well as in associations that deal with your particular situation. If you are a small business owner, you will want your planner to be involved in not only financial industry associations, but also in associations that support small business.

■ How do I know I that will get the type of service I need from you?

■ Will I be a priority account for you? Find out what size account is an “A” account for your advisor. If possible, you want either to fall into this group or have the potential to fall into this group.

■ If you are not available to answer questions immediately, how will I get these questions answered? What is your standard response time for questions I might have?

■ What sort of communication can I expect from your office? You will want to have at least quarterly communications coming from your advisor’s office. It also is important to have the ability to communicate with clients through e-mail and websites in addition to traditional methods such as face-to-face meetings and telephone conversations.

■ What sort of account statements do I get, and how often will they come? Many financial planning firms are working toward an integrated statement, but the industry is not there yet. Know how your planner is going to keep track of the different classes of investments you have and how these investments integrate into the greater plan you've developed.

■ How often will my total financial plan be updated? Because you are looking for a planner to provide integrated planning for you, you need to have an annual update that keeps your financial plan current. This also gives you an opportunity to monitor your progress toward your long-term goals.

■ How do you decide to make investment changes if performance is not up to expectations? Ensure that your investment professional has the ability to change investments as it becomes appropriate to do so. The

investments you choose today most likely will have to be changed in the future.

Understand what the process is that will cause this change to be made.

■ How are you going to know what to do in the future?

■ The investment landscape changes. You need to understand how your financial advisor will make the suggestion for the time to change. Does your investment advisor look at macro or micro issues in investments? In my book "The Roaring 2000's," I make the argument that we will want to have major asset changes toward the end of this decade. Will your investment advisor understand the reasons for doing so?

■ On what experts do you depend for future direction of the markets? Understand the thinking of your advisor and know whether he or she reads and thinks about future changes in the market.

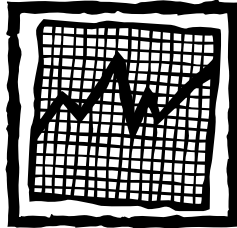
■ What is your investment philosophy towards gains and taxes? The name of the game is keeping what you make on an after-tax basis. Does your advisor keep up with tax law changes and how they affect your investment portfolio?

■ Do you use a bottom-up approach?

■ Many advisors start their work with clients by talking about investments and returns. I believe that the proper way is first to establish your goals, and then to develop a strategy to support those goals to agree on an implementation strategy, to agree on investment classes, and, finally, to choose the appropriate investments and investment managers. Your advisor should follow this strategy if he or she is working for you.

■ Does your advisor ask you for all of your financial records and information? This should include all legal work and spending records as well as present assets and liabilities. If you want your advisor to provide a bottom-up approach, he or she needs to know where you stand today.

■ Does the advisor spend a significant amount of



time talking with you about where you want to be? This is your plan and financial life. You want your advisor to understand your goals clearly before making any recommendations.

■ When major changes happen in my life, how fast do you want to update my plan? When major changes are proposed, you want your planner to run some scenarios before these changes are implemented. Prior planning can help you to avoid some major challenges in your financial life.

■ What sort of technology do you use to help you to prepare my financial plan? If your planner has sophisticated planning tools, he or she will be able to update your plan easily and quickly. You will probably get better service from your planner if he or she has a good grasp of and budget for the use of technology.

You don't have to ask all of these questions, but you might want at least to think about how these questions help with your financial planning. More importantly, you want your planner to be working in your best interest. The above questions will help you to decide whether the planner is doing that.

You also should not expect your potential planner to get a perfect score on this test. However, make sure that your planner has the competence and training to provide you service that will give you long-term value. Also, many excellent financial professionals make the majority of their income from commissions and asset-based fees. The fact that these planners are getting paid by product suppliers is not necessarily a bad thing. Just ensure that in all cases your chosen planner is working in your best interest.

You will want your financial professional to settle on a few vendors he or she can depend on to provide clients with first-class service. With over 12,000 mutual funds, 20,000 money managers, and 2000 insurance companies, your planner cannot know about all of them. However, having a stable of 10 to

30 suppliers that can provide quality services to their clients will help most investors to achieve their long-term goals.

Remember, doing everything yourself to save fees is not necessarily the way to financial freedom. If you dislike the planning process, do not understand how tax laws and investments work together, or do not have a long-term plan in place, consider using a professional to get you started. If you find that the professional can provide you with long-term advice and investments that work to your best interest, you can work with this person in a partnership to provide long-term value to you and your family. Just as you would not use your own knowledge for complicated medical procedures, you do not want to use your own knowledge for complicated financial procedures. Establish your need for service and then look for the best professional to provide that service.

## Options for Investing

You now have your financial plan in place and you know in which asset classes you will be placing your investments. The next question is: What are my options for choosing those investments?

## Do-It-Yourself Investing

Here, you play the field. You use your own discipline to choose good companies and investments to make. You also decide when it is time to change asset classes and which asset classes would be good for you to move toward. Many people in this class will try to time the markets. For 99% of you, timing the market will not work. History shows that market-timers will do less well than those who invest on a systematic basis. No one knows what will happen to the



market on a short-term basis. Deciding on a short-term basis when to be in the market often will have negative results.

You can use discount brokers and no-load mutual funds to limit the costs of trading. However, these savings can be wiped out quickly if you decide to sell in a correction and then the investment turns around two weeks later. Many individual investors do poorly because they sell at low points in the market and buy back in when markets are close to the top. Having a long-term view with equity investments will provide superior returns for the vast majority of investors than those who try to time the market.

## Guided Online Investing

More and more online services, from individual mutual fund companies to the large stock houses, are providing the opportunity for online planning and investing. Again, for this to be successful, first you must understand the basics of investing and tax law as well as have a clear understanding of your long-term wealth accumulation goals.

If you want to do your own planning and investment counseling, the major investment companies have excellent tools on the World Wide Web to do this. What they do not provide is the personal touch of an expert who understands people like you and the needs and wants you may experience in life.

The key issue once again comes down to discipline and time. If you are willing to spend the time to stay current and have the discipline to monitor and update your plan on a regular basis, you are a prime candidate for using an online investing service. These organizations provide you with great basic tools for planning. However, I would suggest that after you have your basic plan, pay for a qualified professional to spend an hour or two reviewing your plan.

## Use a Personal Advisor

The final way to invest is through the use of a personal advisor.

As we stated earlier, you want your personal advisor to work with you in your best interest. You also want them to understand how technology can keep you informed and provide you with a plan that provides integrated services.

As your assets rise, the costs of mistakes are higher. In addition, most people with high assets value their free time more and more. Quality personal advisors can provide you with a host of services that not only free your time, but also help you to limit costly investment mistakes.

The financial landscape is one that is technical and complicated. Financial professionals who study and keep current with their profession provide a great deal of added value to their clients. The trick is finding one who understands you and has worked with people like you. This is where you can invest a fair amount of time.

More and more professional advisors are specializing in working with clients who have needs they understand. Doctors have different needs from accountants. Small business owners have different needs than executives of large corporations. Many financial advisors now recognize that for them to provide outstanding service to their clients they need to choose a small niche and stay close to that market place. I suggest finding a planner who knows your niche and has many clients in that area.

Before choosing an advisor, make sure that you evaluate your life needs first. Know what you want your planner to provide. Make sure that you stay in control of any professional engagement. Know your goals, and make sure that your planner provides that service for you.



## Summary, Lifestyle First

The secret to a happy life is doing what you want and spending

time with those who are important in your life.

Analyzing markets, evaluating strategies, and choosing investment classes and individual investments are time consuming. If you have the discipline to stick with a simple plan that works for you and your family, then self-directed investing will make sense for you. You can follow the guidelines in my book, "The Roaring 2000's Investor," and in other financial publications to help you along. However, for most of us, using a competent financial planner can make a huge difference in our ultimate net worth and happiness.

I recommend that you first take the time to develop a family wealth creation plan. I also suggest that this plan be based on a liability platform that supports and promotes the lifestyle you have or would like to have. As you develop this plan, make sure that you are factoring in the effects of taxes and changes in tax law as you go down the road toward personal financial freedom.

The next decade will provide great opportunity to those who plan and invest for their future. However, the help of a financial professional who understands your situation is crucial to your long-term financial health. The use of a competent financial professional to help you sort through the myriad of choices available today can be both cost effective and help you to sleep easier at night.

Before making your final choice, look at the options available to you. Have a conversation with the important people in your life about your life goals. From there you will be in a position to know which direction will help you to achieve those goals. You probably have received this article from a financial professional who is genuinely interested in helping their clients to achieve their financial goals. I strongly suggest that you have a conversation with them about your lifestyle goals, investment options, and tax and estate-planning needs.