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Good Help is Hard to Find

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Ilustration by Kagan McLeod

Do you need a financial planner? The answer's probably yes. Here's a primer on what they do and how they compare, with a look at the six make-or-break criteria to consider when making your selection

At first glance, Andrea Bodkin and Barbara Hawkins don't have much in common. For most of her life, Bodkin, a 38-year-old program coordinator with Ontario's Heart Health Resource Centre, earned a modest income, invested very little and had only meager savings to show for it. On the other hand, Hawkins (not her real name), is a highly paid, 48-year-old professional in Vancouver, with an investment portfolio worth more than $600,000, who has managed her own self-directed RRSP plan for the past 15 years.

Yet despite their differences, the two women share a common need - for a professional financial planner. Bodkin actually reached that conclusion and hired one four years ago, when she inherited a "rather large" sum from her grandfather. "I don't know anything about money, except that I spend it really quickly, and the last thing I wanted to do was burn through my inheritance," Bodkin says. Hawkins, for her part, only started thinking about help more recently. "I keep asking myself, 'Is there a better way to invest non-RSP savings?'" she says. She also thinks she's ready to let a professional take over the management of her RRSP portfolio.

The lesson, of course, is that all kinds of people - no matter what their age, stage and financial station in life - can use the services of a financial planner. Yet according to a survey by the Financial Planners Standards Council, no more than 30% of Canadians in any age group do so. What that suggests is that there are a lot of folks out there who either don't realize that they could use a planner's services, aren't comfortable with the idea of going to one, or simply haven't made the leap because they don't know where or what to look for. If you're in any of those categories - or if you're just looking for an upgrade - this article is for you.

Were Hawkins to ask Bodkin about her experience before taking the plunge, the first thing Bodkin would tell her is that getting a planner is a good idea. Next, she'd tell her to be prepared to put in a little bit of time to sort out their various qualifications, fee structures, services and to find the right fit. All planners appear pretty much the same at a distance - you go to them and they'll take a comprehensive look at all of your financial needs, from savings to insurance. Get closer, however, and you'll realize they have a wide range of interests and specialties, such as debt reduction or retirement planning. You should also learn to distinguish between planners and investment advisers, the latter of whom restrict their guidance primarily to stocks, bonds and mutual funds.

Once you know what's out there, you're ready to look for candidates. Because you can't check out a planner as you would a contractor - by looking at the houses he's built - it's a good idea to ask friends and family, or your lawyer or accountant, for references. Ideally, you'll want to come up with a short list that you can then interview. While many people are put off by the thought of interviewing financial experts, it's the only way to find a planner with the right fit, says Tom Hamza, president of Ontario's Investor Education Fund. "It's a buyer's market, so the savvy investor needs to take their time and ask difficult questions."

Because you're looking to start a long-term relationship with a planner, Hamza says, ask about their experience, qualifications and specialties. Also ask about their client base and whether you are a good fit. Most importantly, "Don't be shy asking about cost," says Warren Baldwin, communications chair of the Institute of Advanced Financial Planners. Planners make their money in a variety of ways, so you need to know how they get paid - whether they're on commission or charge you a flat fee, for example - and what effect that may have on your investments. Likewise, once you've settled on the right planner, get all the basics down in writing, so you know what kind of service to expect. When it comes to investments, Hamza also suggests asking your planner for a meaningful benchmark that you can measure their performance against.

In Bodkin's case, she chatted up friends and family for references before eventually signing on with her mother's certified financial planner. Today, she's delighted with her choice - in terms of fit and results. "She is so wonderful," says Bodkin. "She explains things really well and is able to find a level of detail that I can understand but that doesn't overload me. She's also very good at answering questions and really pumps me up." Since starting to work with her, Bodkin feels more on track with her finances and plans to go to Australia in the new year to complete her master's degree - something she never thought she'd be able to afford without her planner's advice. Says Bodkin: "I don't know what I'd do without her."

How to Pick a Planner

Make a short list and interview each candidate. Get the best fit, based on these six key areas of compatibility

Qualifications, designations

Because the term "financial planner" is not regulated outside of Quebec, anyone in the rest of Canada can hang up a shingle and call themselves an expert. So it pays to look for someone with widely recognized qualifications, such as a CFP (Certified Financial Planner), an RFP (Registered Financial Planner) or, if you're working with a bank, a PFP (Personal Financial Planner). These designations are awarded on the basis of work experience and exams, and members are held accountable to their governing organization's code of conduct. You may also seek advice from an invest-ment adviser or counsellor. Since both are unregulated titles, be sure to ask for their specific qualifications and what types of products they're licensed to sell.

Services, specializations

Before telling a prospective planner too much about yourself, ask him who his typical client is. Financial planners have all sorts of specialities, from small business owners who want to retire early, to single women, to gay couples, to people interested in ethical investing. Find someone who has experience that relates to your situation. You don't want to end up with a stock picker when what you need is a long-term planner to help you with investments, insurance and taxes.

Compensation

Most planners charge you little or nothing up front, earning their money instead via commissions and sales fees from the companies whose products they recommend. However, this method has a potential downside, as it tempts advisers to push more products than you need or to lean towards those that offer them the best commission. In response, many advisers now offer fee-for-service billing, in which you pay an hourly or flat fee for each deliverable (such as creating a financial plan). A third payment method, asset-based fees, essentially means taking a cut of your investment portfolio. It's usually between 1% and 2% and is most common among clients with portfolios of more than $250,000 that require constant attention.

Trust

Gut instinct only goes so far. You can verify a planner's qualifications and check for rulings and orders against him with your

provincial securities commission. If your planner holds any part of your portfolio, make sure you're protected should he go out of business, either by the Canadian Investor Protection Fund (CIPF) or the Canadian Deposit Insurance Corp. (CDIC). If you want to switch planners, simply give a new planner written authorization to transfer and take responsibility of your accounts.

Style, involvement

It's your job to set the ground rules for your relationship with your planner, not the other way around. First and foremost, you need someone whose investment philosophy matches your own and who is aware of your risk tolerance. Look for someone you can understand and who will help you set clear goals. While most planners typically send out quarterly account statements and follow up with a phone call, if you require more or less face time, you can find someone to suit. Be sure to talk about your communication needs when you interview prospective planners. Once you've found the right fit, ask for a summary in writing that you can hold him to.

Regional bias

Most of us won't be shopping the country to find a planner we like, but it still helps to bear in mind regional bias when interviewing candidates or acting on your planner's advice. For instance, Vancouver planners routinely make bullish assumptions about real estate values that would seem crazy to planners elsewhere. At the opposite end, you'll find planners in a place like Calgary to be a more cautious lot - despite the recent boom, they've grown up in an economy whose health fluctuates with the volatile price of oil. Toronto planners are another conservative bunch, focused on debt reduction and paying off mortgages as quickly as possible; they rarely factor real estate into a client's retirement savings.