

LEARNING MADE EASY



Success as a Financial Advisor

for
dummies[®]
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Master the seven
core competencies

Foster strong client
relationships

Deliver value to
your clients

Ivan M. Illán, CFS

Forbes Finance Council and
Financial Times Top Financial Adviser



Success as a Financial Advisor

by Ivan Illan

Financial adviser

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Introduction

Success as a financial advisor requires that you practice as a financial advisor. Most people unfortunately who practice as financial advisors aren't really financial advisors. At best, they're portfolio managers. At worst, they're salespeople looking to score big commissions. That's not what I mean when I use the title *financial advisor*, and it's certainly not *the* measure of success in this field.

The problem is that no single standard authorizes someone to practice as a "financial advisor." Unlike other professions including medicine, law, and accounting, financial advisory has no single governing or regulatory authority charged with their members' oversight. Doctors have medical boards, lawyers have bar associations, and accountants have the Financial Accounting Standards Board (FASB), but financial advisors have no equivalent. As a result, you can find plenty of people in this profession who, for example, sell only insurance products or who are raising money in an unregistered private placement investment offering. No wonder that consumers are so confused and leery of financial advisors; too many who operate under this designation are just commissioned salespeople, not actual *advisors*.

When I say success as a financial advisor requires that you practice as a financial advisor, I mean you can achieve success in the profession by always placing your clients' needs above yours and by providing superior comprehensive and cohesive financial advice. This advice covers all aspects of a client's family finances, including buying a home, paying for children's education, saving and investing for retirement, protecting assets against unforeseen tragic events, reducing the client's tax burden, and more. Simply put, you achieve success as a financial advisor by delivering consistently superior holistic service to your clients. With this point of differentiation, you can just about corner the market wherever you practice.

About This Book

Welcome to *Success as a Financial Advisor For Dummies*, where you discover how to achieve your success by helping clients achieve theirs. The two key terms in the title of this book capture what this book is all about:

- » Success means not only financial success, but also personal satisfaction, job satisfaction, self-respect, and personal and professional fulfillment. The more you work with clients, the more you realize that money and what it buys is only one key component in achieving happiness and fulfillment. My guidance in this book, just as the advice you give (or should give) your clients, is holistic. By following my advice, you can achieve success in your career however you choose to measure it.
- » *Financial advisor* means a professional who delivers holistic financial advice to clients and upholds the *fiduciary* standard — always advising and recommending products and solutions that are in the client’s best interest and with total compensation transparency.

This book covers all aspects of being a successful financial advisor, from deciding whether you’re a good fit for the profession to starting your own firm and everything in between. To make the content more accessible, I divided it into six parts:

- » Part 1 brings you up to speed on the basics. Here, you conduct a self-assessment to figure out whether this is the right career for you, decide whether to join or firm or start your own practice, and scope out the regulatory landscape.
- » Part 2 guides you in developing the foundational knowledge you need to practice as a financial advisor. Here, I identify the core competencies, point you in the direction of where to go to obtain your formal education and get licensed, and explain asset and liability management, budgeting, estate planning, taxation, and behavioral finance.
- » Part 3 leads you through the process of onboarding new clients, so you can target your services to their unique needs; developing a personalized financial plan for each client; and offering collaborative advice by teaming up with your client’s lawyer, tax advisor, and other professionals. Here you also discover how to tier your service to different clients to optimize efficiency and how to measure performance.
- » Part 4 presents three ways to acquire and retain clients, the most effective of which is to *earn* clients by delivering superior service. I also provide guidance on how to market and network to raise your profile and how to team up with other professionals to improve service while expanding your referral network.
- » Part 5 discusses how to transition from solo practitioner to business owner, structure and run your business, attract and retain talent through equity participation and other means, and develop a business succession plan to preserve your legacy in the event you choose to retire or you experience a situation in which you’re no longer able to run the firm.
- » Part 6 features ten tips for achieving success as a financial advisor and ten tips for growing your practice. This part also includes an appendix that provides

several lists of valuable resources, including professional development resources, professional licensing bodies, trade publications and resources, and business valuation and formation resources.

In short, this book explains first how to become a holistic, fiduciary financial advisor and then how to raise your game to build on your success.

Foolish Assumptions

As a financial advisor, or someone who wants to be a financial advisor, you should realize that all assumptions in this field are foolish and potentially dangerous, so I hate to admit to making foolish assumptions as I wrote this book. However, to keep the book focused on the right audience and ensure that it fulfilled my purpose in writing it, I had to make the following foolish assumptions about you:

- » You want to be a financial advisor aligned with my definition of what that means. You don't want to merely sell investment and insurance products and solutions to earn a buck.
- » You're committed first and foremost to each and every clients' financial success in all areas of their financial life and what that wealth represents for each client and your clients' family.
- » Your knowledge of and experience in the field ranges from nothing to substantial. At any point in your career as a financial advisor, and even before you take the first step, you can benefit from the guidance I provide in this book.
- » You're eager to acquire knowledge and skills and willing to change, especially if you're entrenched in bad habits and practices or stuck at a firm that doesn't support the highest standards of practice. My hope is that this book will be transformative to most readers, setting them on the right path to becoming holistic, fiduciary financial advisors.

Icons Used in This Book

Throughout this book, icons in the margins highlight different types of information that call out for your attention. Here are the icons you'll encounter and a brief description of each.



REMEMBER

I want you to remember everything you read in this book, but if you can't quite do that, then remember the important points flagged with this icon.



TIP

Tips provide insider insight. When you're looking for a better, faster way to do something, check out these tips.



WARNING

“Whoa!” Before you take another step, read this warning. I provide this cautionary content to help you avoid the common pitfalls that are otherwise likely to trip you up.

Where to Go from Here

You're certainly welcome to read this book from cover to cover, but I wrote it in a way that facilitates skipping around. For a quick tutorial on how to achieve success as a financial advisor, check out Chapter 1, where I touch on the key topics. Review the table of contents or the index for a topic that piques your interest. Flip to any number of chapters and start reading. For an extra Cheat Sheet chockfull of interesting tidbits that you can refer to again and again, check out www.dummies.com/successasafinancialadvisor.

1 Getting Started as a Financial Advisor

IN THIS PART . . .

Wrap your brain around what's required to be a successful financial advisor.

Figure out whether you have the right characteristics to be a financial advisor, such as problem-solving, intention, and service-oriented.

Discover how to leverage your education, experience, and former career(s) to transition successfully into the role of financial advisor.

Weigh the options and make the call of how to practice — working for an established firm or starting your own business.

Get up to speed on the rules and regulations that govern financial advisors, so you can avoid doing anything that gets you into trouble and be positioned for where the regulatory and legislative trends are headed.

IN THIS CHAPTER

- » Deciding the kind of financial advisor you want to be
- » Conducting a quick self-assessment
- » Getting up to speed on the basics
- » Building and growing your client base
- » Making the leap to starting and running your own firm

Chapter **1**

Looking at the Big Picture

Becoming a successful financial advisor is a process that involves deciding the kind of financial advisor you want to be, developing the personal and professional attributes that make you a natural for the job, obtaining the formal education and training required, gaining on-the-job experience, and then honing your skills as you build your practice.

The acid test is whether you consistently enable clients to achieve their financial goals. This test sounds easy enough, but like any marathon or triathlon, the path to victory is strewn with potential pitfalls. Success depends on your ability to carefully balance your clients' risks and returns (their liabilities and assets) while keeping them from veering off course. To achieve success, you must serve clients in a way that they understand *how* your guidance keeps them heading in their desired direction and *why* your role is so important to them.

This chapter provides a bird's-eye view of how to become a successful financial advisor by touching on the key topics covered in this book. The remaining chapters take a deeper dive into these topics and other areas you must attend to in order to achieve success as a financial advisor.

Understanding What a Financial Advisor Does (or Should Do)

A *financial advisor* is a person who helps her clients plan and manage their finances to achieve their short- and long-term financial goals. Ideally, every financial advisor should meet the following two criteria:



REMEMBER

» **Fiduciary:** A financial advisor has a *fiduciary* responsibility to her clients, meaning that the advice provided is in the best interest of the client instead of what's best for the advisor, such as commissions received for the sale of a financial product or solution.

Serving as a fiduciary is easier said than done, considering that so many financial advisors work for firms that have institutional agendas (to sell specific products or solutions) that compete with this standard.

» **Holistic:** A financial advisor must attend to all aspects of a client's family finances to not only grow wealth but also protect it in ways that are carefully planned to meet the client's goals and objectives. Financial goals include buying a home, paying for children's education, affording a comfortable retirement, starting and running a business, supporting a charity, passing down assets to heirs and beneficiaries, and more. Holistic financial advice also includes ensuring that the client is properly insured against events or incidents that could undermine the client's ability to achieve those goals.



REMEMBER

A financial advisor doesn't merely sell insurance policies or manage investment portfolios, but that doesn't mean that the advisor must do everything. Financial advisors often outsource many of the tasks required, such as referring a client to a lawyer for estate planning or using a turnkey asset management program (TAMP) instead of personally managing a client's portfolio.

Unfortunately, there's quite a bit of confusion in the marketplace as to *how* someone serves clients as a financial advisor. Many financial advisors focus on certain investment or insurance-related financial products. Others are licensed to advise on a product purchase or are registered to provide holistic financial advice that's not product related. The variety of roles and the complexity involved in addressing all of a client's financial needs present big challenges, but they also offer a world of rewarding opportunities.

A GOOD TIME TO BE A FINANCIAL ADVISOR

Financial advisory is one of the most personally and financially rewarding professions you can pursue, and your timing couldn't be more perfect. Baby Boomers are retiring in record numbers, creating an epic intergenerational wealth transfer in the trillions of dollars. These Boomers and their heirs and beneficiaries are in need of reliable and trustworthy financial advice now more than ever.

Adding to this vast and growing opportunity is the fact that relatively few people who call themselves “financial advisor” meet the criteria to serve in that capacity. Most are either salespeople who have transactional relationships with their customers, or they serve as portfolio managers who ignore all other aspects of their clients' financial health and well-being. Chances are good that by acting as a true fiduciary financial advisor, you can essentially corner the market wherever you choose to practice. All you need to do is deliver optimal financial outcomes to your clients, which is what being a successful financial advisor is all about.

Evaluating Yourself: Do You Have What It Takes?

Not everyone is cut out to be a financial advisor. Certainly financial knowledge and skills are necessary but aren't sufficient. Interpersonal and communication skills are also essential. You have to love being with, talking with, and, most importantly, listening to people — all day, every day. As with any profession, your ability to acquire clients is directly related to your ability to add value to their lives. In addition, your interactions with clients and others is the fuel that keeps you going when the inevitable roadblocks, rejections, and market crashes dampen your spirits.

In this section, I encourage you to conduct a self-assessment to determine whether you have the qualities and qualifications to become a successful financial advisor, and I lead you through the process. Chapters 2 and 3 provide more detailed self-assessments, with Chapter 2 focusing on your personality and motivation and Chapter 3 examining your personal and professional qualifications.

Do you have the right personality?

This profession has a place for all personality types, as long as you choose a role that fits. All firms need financial advisors to fill the following three roles:

- » **Minders** run the business/practice, organizing, managing, hiring/firing, and setting goals and agendas. Typically, these are partners who've been in the business for many years, made the business-building mistakes, and learned from them. To be a minder, you must be a leader with excellent organizational, interpersonal, and communication skills. You may not be working closely with clients, but you'll be leading and mentoring associates and staff.
- » **Finders** source new clients. These advisors are great at filling a pipeline and marketing services and solutions. Finders can be any age and at any level of experience, but they must have excellent interpersonal and communication skills and genuinely enjoy interacting with prospective clients.
- » **Grinders** do research, analysis, illustration, and paperwork. Whether it's the research that drives discussion at investment committee meetings, or running several insurance carrier illustrations, these advisors are the worker bees of the business. This is a great position for new college grads, because it gives them the opportunity to figure out how the business runs from the inside-out. It's also great for those who aren't exactly people-persons.

See Chapter 20 for more about these three roles and how to team up with other financial advisors to build productive synergies. If you choose to practice as a lone wolf, you'll have to fill all three roles.



REMEMBER

You can be an introvert in this business and be successful, but only if you're teaming up with complementary advisors. Forcing yourself to become a finder when you love manipulating spreadsheets all day isn't the best use of your time or career development. This profession has room for all personality types, but you need to be honest about who you are and what you enjoy doing before taking the leap.

What's driving you to consider this career?

If you're looking for money, you'll find it in this business. However, just because you've uncovered methods to routinely ring your cash register doesn't mean you've achieved success as a financial advisor. If you're motivated solely by the promise of a six-figure income, you probably won't become successful for two reasons:

- » You'll be focused on your own success instead of that of your clients, and your clients and prospective clients will sense it.

- » You'll be more prone to conflicts of interest, which could get you into legal trouble or at least tarnish your reputation in the community in which you practice.



REMEMBER

Nothing's wrong with wanting to earn a good income, but your motivations should also include the following:

- » A desire to have a positive impact on your clients' lives (and a genuine concern for their well-being).
- » A desire to serve on a team and to coordinate the team's efforts and expertise to improve your clients' financial outcomes.
- » A hunger for relevant knowledge and skills to continually improve your ability to serve your clients. To be successful, you must keep up on rules, regulations, tools, and techniques.
- » A desire to teach others the importance of careful financial planning, disciplined management, and the reasoning behind the plan you develop for each client. The desire to gently but firmly guide, educate, and direct action is paramount to your long-term professional success.
- » A desire to work in a challenging career.



REMEMBER

You achieve true success when your clients arrive at their desired destination. This goal can take many years, usually decades, to achieve. When you're doing it right, you serve more as a financial steward than anything else, preventing clients from making decisions when they struggle to see the long-term consequences or negative impact of certain choices.

Being a successful financial advisor requires nerves of steel and the ability to talk people off ledges and navigate them through troubled waters. When a family crisis or market instability causes panic, you need to be the calm captain with the steady hand who keeps the ship on course.

What are your qualifications?

Just finished college studying basketweaving? That may not be the best initial training for becoming a financial advisor, but I've heard worse, such as a high school dropout who entered the business at 18 with an insurance license who was selling policies door-to-door. You don't need a great deal of formal education and training to be a successful financial advisor, because the best preparation is on-the-job training. However, you do need to have the following qualifications:

- » **Interpersonal skills:** You must be able to engage with a wide variety of clients if you hope to have any clients.

- » **Organizational skills:** Organization is essential in record-keeping, financial planning, and presentations to clients.
- » **Communication skills:** Explaining the financial plan you developed and the need to stick with the plan is essential for keeping clients on track to meet the agreed-upon goals and objectives.
- » **Analytical skills:** A big part of the job involves shopping for financial products and solutions that fit with the client's financial plan. To do so, you need to be able to analyze and compare options.
- » **Computer skills:** Increasingly, financial advisors rely on technology to do their work, so you need to be comfortable using a computer. However, you don't need high level skills such as programming.
- » **Basic education and training:** You need to know the basics about asset and liability management, budgeting, estate planning, taxation, and behavioral finance. (See the later section "Taking Inventory: What You Need to Know.") You can (and often should) outsource the more complex tasks or anything you're not really good at, such as estate planning or even portfolio management.

If you've studied economics or finance in college or graduate school, you'll certainly have a knowledge base that gives you confidence and enables you to sound super-smart. However, knowing a bunch of fancy terms and how things work is of value only if you're able to convey your knowledge in a way that's relevant and comprehensible to clients.



REMEMBER

Financial advisory is a people-business first and financial-business second. For example, if you have the best investment portfolio in the world, but your clients don't understand the path you've mapped out for them, then you won't achieve the desired level of success, and you may not last very long in the business.

Deciding Whether to Fly Solo or Work in a Firm

Critical to longevity and success in this profession is having the right work environment and conditions. For some, living the dream is hanging out in shorts on their patio with their laptop and smartphone, whereas others need to dress in a business suit and meet with clients in a professional office setting to make them feel as though they're really in this business.

The first choice is whether you want to work for a firm, operate as a solo practitioner, or start your own firm. In this section, I briefly describe the potential benefits and drawbacks of each option. (See Chapter 4 for additional guidance on deciding whether to work for a firm or set out on your own.)

Weighing the pros and cons of working in a firm

If you're just getting started or you prefer working in a more structured office environment or you want to avoid the hassles and costs of running your own operation, working for a financial advisory firm may be the best choice. Consider the pros and cons.

The pros are as follows:

- » An existing firm is likely to provide at least some training and may cover part of the cost of getting certified and continuing your education.
- » The firm covers the hassles and costs of providing office space, utilities, technology, business management, and support personnel.
- » You can focus solely on client acquisition and service. Typically, you can delegate financial planning, portfolio management, and other planning and management work to others in the firm.
- » You're an employee, so you don't pay self-employment tax, and you may qualify for benefits, such as retirement, paid vacations and leave, health insurance, disability insurance, and other fringe benefits.
- » You're in closer contact with other financial advisors and personnel, so you work in a more supportive environment.
- » You have an office and regular office hours, so you have a clearer separation between work and home.

And, the cons are

- » You have regular office hours, so your schedule is less flexible.
- » You're managed to some extent, meaning your daily activities are monitored, reported, reviewed, and assessed weekly. (Performance metrics are usually related to sales and not financial advisory work.)
- » You build a client base for the firm, not for yourself. If you leave the firm, you're likely to be prohibited from taking your clients with you.

- » You may be pressured or required to recommend certain financial products or solutions favored by the firm that are not necessarily in the best interest of your clients.
- » You earn less of the revenue you generate, but it is often offset by the amount saved (in time and money) by not having to run your own business.

Considering the option of operating as a lone wolf

Many financial advisors choose to set up shop as sole proprietors, which provides the ultimate in freedom and flexibility but burdens the advisor with the most responsibility. This option is typically practical only if you've been in the business for a few years. Before you make the break from working for a firm to working for yourself, consider the pros and cons.

Here are the pros:

- » You make your own hours.
- » You answer only to yourself and your clients.
- » You have no restrictions on your financial planning and management activities; you can recommend any financial products or solutions that are in your clients' best interests.
- » You keep all the revenue you generate, less operating costs.
- » You build your own client base for yourself, not for someone else.

And, the cons are

- » Running your own business costs time and money and distracts from your focus on client acquisition and service. All the day-to-day management, administration, and other operational concerns are yours to deal with — on top of the normal client interaction and financial advisory work.
- » Without management oversight, you must be self-motivated, and you receive no professional feedback on your performance. However, by being accountable to clients, you do receive some oversight and feedback from them.
- » You have limited contact with colleagues unless you reach out to other financial advisors and relevant professionals.