WOMEN'S GUIDE TO WORKING WITH A FINANCIAL ADVISOR

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The desire to have financial stability and freedom is gender neutral and so is the need for sound advice to get you there. Both women and men want to know they can provide for themselves and their families and enjoy a financially secure and fulfilling life. What is different between men and women is that traditionally, men have tended to take more initiative and interest in managing their finances whereas many women shy away from this critical aspect of their lives.

Whether you are single or married, new to the workforce or nearing retirement, it is never too late to actively engage in planning your financial future. As you pass through various life stages and experience milestone life events, there will be financial decisions that need to be made. Often these decisions can be complex. Working with a financial professional at these times can be hugely beneficial in increasing your probability of success and in managing your financial health and well-being now and in your future.

WHY SHOULD I WORK WITH AN ADVISOR?

There is no shortage of options when it comes to your finances, and the internet is full of competing and often conflicting advice that can be confusing. You may want to understand which type of account to use to save for retirement or you may have more complicated needs like how to minimize your tax liabilities. Either way, getting expert advice from a trained professional will give you the guidance you need to best grow and protect your wealth.

How you view your money and the goals you have for its use are unique to you. You may have to decide on a big investment, such as a home or education—or feel overwhelmed with the financial details after a wedding, the birth of a child, divorce, death of a spouse, or major illness. A financial advisor can help you define your needs and priorities and identify solutions that will help you make the best financial decisions based on your situation. An advisor will also help you stay accountable to reaching your goals by meeting with you regularly and adjusting your plan as circumstances change.

Who are Financial Advisors?

Financial advisors can help you with several things, including investment management, tax preparation, and estate planning. Many financial advisors also have large networks to help you with other financial tasks that they themselves may not be qualified to help you with – but with this network, your financial advisor can easily become your key source of advice and knowledge.

A financial advisor is a professional who assists clients in making economic, personal finance, and investment decisions. They might operate as independent consultants or as employees of a financial organization. In order to conduct business, registered advisors must pass one or more tests and be officially licensed. Financial advisors give counsel and make educated judgments on behalf of their clients, unlike stockbrokers whose main focus is to execute orders in the market.

A financial advisor is considered to be a broad phrase often used to refer to a wide range of financial specialists. For example, financial advisors include stockbrokers, insurance agents, tax preparers, investment managers, distributors of financial instruments and financial planners. This category may also include estate planners and bankers.

Signs You May Need an Advisor

If you're contemplating hiring an advisor, look for the signs. At any age or stage of life, anyone may work with a financial advisor. The decision to seek expert financial advice is a personal one. Still, every time you're feeling overwhelmed, confused, worried or afraid about your financial status, it's a good idea to get help. It's also appropriate to seek the advice of a financial professional if you're financially comfortable but want to ensure that you're on the correct path and are in a position to realize your financial and personal goals. An advisor might provide suggestions for changes to your strategy that will help you attain your objectives more efficiently.

Finally, hiring a financial advisor is an excellent idea if you don't have the time or inclination to handle your finances. There are a variety of reasons why you might want the services of an advisor.

The Reasons to Consider an Advisor

Women are not only paid less than males, but they also have to stretch the rupee further due to their longer life span. Men and women have distinct life experiences, knowledge, and attitudes toward risk. Because financial planning is such a personal endeavour, it is necessary to look at the course of action for women differently. For at least four reasons, women have a more substantial need than males to think critically and to actively manage their finances. Regrettably, they are less likely to see investing as a top priority. Here are four important reasons why women should be involved in money management.

Earnings Gap

It is widely known that women, on average, earn less than men for the same work throughout the world. This is something that is being brought up around the world as a global issue to correct. In the meantime, as a result, their lifetime earnings are lower in identical occupations. This depletes their savings and ability to save for retirement. Women also take job pauses to care for their families. They might, for example, take time off after having a kid. These pauses may have two effects on their earnings. One is a loss of pay; they may cease contributing to any SIPs or regular savings, impacting investments early in their careers. Two, when they return to work after a hiatus, they may lag behind in their profession.

These losses might pile up, especially if people switch jobs to balance work and family life.

Lifespan

Women must also stretch their money over a more extended period of time. According to the World Health Organization (WHO) data from 2018, women in India have a life expectancy of 70.3 years, compared to 67.4 years for males. To support their costs as they live longer, women require greater retirement savings.

Awareness

Lack of financial knowledge also contributes to lower savings and increased demands. According to a 2017 research by the Global Financial Literacy Excellence Center on the gender gap in financial literacy, just 20% of women comprehended financial concepts (a lag of 8 percentage points over men). In more developed countries, where general financial literacy is strong, the discrepancy was even more prominent. In Canada, for example, 70% of women are financially educated, yet they are 17 percentage points behind men. Budgeting, saving money, regulating spending, managing debt, engaging in financial markets, preparing for retirement, and effectively amassing wealth are all skills that financially educated people can manage and monitor.

WHO QUALIFIES AS A FINANCIAL ADVISOR?

When you have decided to hire a financial advisor for your own good, it is essential to identify the 'right' financial advisor. Let's gain some knowledge on how you can identify a suitable financial advisor.

There are three types of Financial Advisors in India: Flat Fee Only Financial Advisor, Fee Based Financial Advisor and Distributors of Financial Instruments.

Likely, your financial advisor will be registered as a Certified Financial Planner (CFP) or as a Securities Exchange Board of India (SEBI) Registered Investment Advisor (RIA).

<u>Certified Financial Planner</u>

A Certified Financial Planner (CFP) has professional certifications that confirm that they can effectively manage your money. In addition, they pass a test that evaluates their abilities and adheres to a code of ethics. They also promise to provide financial planning in the best interests of their clients while adhering to the highest ethical standards. To become a Certified Financial Planner, you must meet the following four standards of excellence: Education, Exam, Experience and Ethics.

The CFP is a globally recognized qualification offered by the Financial Planning Standards Board in India (FPSB). This step was also taken to make a structured learning program for financial advisors and CFP hopefuls in the nation more accessible. As of April 2019, the CFP Certification is managed by the USA FPSB in India.

In India, there are two methods to become a CFP: Challenge and regular. The two paths have distinct qualifying requirements. At the time of application, a Regular applicant must have completed either 10th or 12th grade. A CA / Intermediate level, CFA (US), CAIIB, CS, LLB, Ph.D., M.Phil, PG, or ICWA candidate is required for the Challenge. They may also hold a Licentiate/Associate/ Fellowship of Life Insurance, Actuary (India), FFSI & FLMI from LOMA, and have passed the UPSC Civil Service Exam. Usually, a financial planner must choose one of the four tracks listed below to meet the requirements for a CFP certification:

Investing Strategy
Tax and Retirement Planning
Risk Management and Estate Planning
Financial Preparation

<u>SEBI Registered Investment Advisor</u>

Prior to the SEBI regulations implemented in 2013, anyone could start working as an investment adviser. It wasn’t until these regulations were put in place where a level of professionalism was brought to the industry and credible qualifications were required to become a financial advisor. However, there are certain categories who are exempt from registering with SEBI due to their specialized knowledge and/or experience – these groups include: insurance agents or brokers, pension advisers, mutual fund distributors, Chartered Accountants and stock brokers.

To become a Registered Investment Advisor (RIA), the individual must have a professional qualification or a post-graduate degree or a port-graduate diploma in accountancy, banking, business management, capital markets, commerce, finance, economics or insurance or actuarial science from a recognized university or institution. Some exceptions are made when there is significant experience (5 years or more) linked to providing advice about financial products, securities, funds or portfolio management.

In addition, the RIA needs additional certifications from the National Institute of Securities Markets (NISM) to get registered. From time to time, it is possible that other certifications like the CFP will be recognized by the NISM to exempt the individual from needing these additional certifications.

Types of Financial Advisors

As outlined previously, there are three key types of Financial Advisors in India: Flat Fee Only Financial Advisor, Fee Based Financial Advisor and Distributors of Financial Instruments. Many of these advisors may have different titles associated with them, whether it's an Investment Advisor, Financial Planner, Mutual Fund Distributor – but they all fall in to one of the three categories.

WHAT SERVICES CAN YOU EXPECT FROM A FINANCIAL ADVISOR

A financial advisor is a partner in your financial planning. Assume you wish to retire in 20 years or send your child to a private university. To achieve your objectives, you may want the assistance of a competent expert with the necessary licenses; this is where a financial advisor comes in.

You and your advisor will discuss a variety of topics, including how much money you should save, the sorts of accounts you should have, the types of insurance you should have (such as long-term care, term life, disability, and so on), and estate and tax planning.

In addition to being a financial advisor, consider them as your teacher. Part of the advisor's job is to explain what's required in achieving your long-term objectives. Economic subjects may be covered in depth during the educational process. For example, budgeting and saving are two subjects that may come up early in your relationship. Then, as your expertise grows, the advisor will help you grasp complicated investment, insurance, and tax issues.

The service offering an advisor will or can offer you will depend on their registration, qualifications and training. Some advisors will offer a broad menu while others may act as specialists in specific areas. Your unique circumstances, knowledge, time and interest will determine what services you may require from an advisor. It will also depend on the life stage you are in or life events you may be experiencing. Here are some of the options you may come across:

1. Cash and credit management – savings strategies, debt management, budgeting
2. Investment planning – utilization of the best investment vehicles to reach goals
3. Retirement planning – savings and distribution strategies
4. Tax planning – minimization of current and future tax liabilities
5. Estate planning – utilizing wills, Power of Attorney's and trusts to protect and distribute your assets
6. Insurance planning – protection from financial loss or hardship
7. Charitable giving – giving back and maximizing tax benefits

Understanding your financial health though, is the first step in the financial advisory process. You can't adequately prepare for the future until you know where you are right now. Usually, you'll be required to fill out a lengthy written inquiry. Your responses assist the advisor in comprehending your condition and ensuring that you do not neglect any crucial information.

Fill Out a Financial Health Questionnaire

In order to choose a specific kind of Financial Advisor, you need to check out your present financial needs and status.

A financial advisor will work with you to gather information about your assets, obligations, income, and spending. You'll also include future pensions and income sources, predict retirement needs, and outline any long-term financial responsibilities on the form. In a nutshell, you'll make a list of all existing and future assets, pensions, gifts, and income streams.

The investment section of the questionnaire delves into more personal issues like risk tolerance and risk capability. When it comes time to decide on your investment asset allocation, knowing your risk helps the advisor.

Other financial management problems, such as insurance difficulties and your tax status, may be examined during the first evaluation. Your advisor and other members of your planning team, such as accountants and lawyers, should be informed of your present estate plan. Once you and your advisor have a good understanding of your current financial situation and future estimates, you can start working on a strategy to achieve your life and financial objectives.

Creating the Financial Plan

The financial advisor combines all of this preliminary information into a complete financial plan that will act as a road map for your financial future. It starts with reviewing the most critical findings from your initial questionnaire and then goes through your present financial condition, including your net worth, assets, obligations, and liquid or working capital. The financial plan also summarises the objectives that you and your advisor discussed.
This lengthy document's analysis will give further specifics on a variety of areas, including your risk tolerance, estate-planning details, family status, long-term care risk, and other relevant current and future financial difficulties.

The plan will construct simulations of both best- and worst-case retirement scenarios based on your estimated net worth and future income at retirement, including the terrifying possibility of outliving your money. Steps can be taken in this scenario to avoid such consequences. It will look at realistic withdrawal rates from your portfolio holdings in retirement. If you're married or in a long-term relationship, the plan will also take into account factors like survivorship and financial possibilities for the surviving partner.

You're ready to go after reviewing the strategy with the advisor and making any required changes.

Creating an Action Plan

A financial advisor does more than simply assist with investing. It is their responsibility to help you in all aspects of your economic life. You may also engage with a financial advisor without having them manage your account or make any investment recommendations.

On the other hand, investment guidance is a primary incentive for many consumers to consult with a financial advisor. Here's what to anticipate if you go this path.

The advisor develops an asset allocation strategy that is tailored to your risk tolerance and capability. The asset allocation is nothing more than a formula for determining how much of your overall financial portfolio will be split across various asset classes. For example, more risk cautious individuals will have a higher concentration of government bonds, certificates of deposit (CDs), and money market investments. In contrast, those who are more risk-averse will have a higher concentration of equities, corporate bonds, and maybe even investment in real estate. Your asset allocation will be changed based on your age and the amount of time you have until you retire. When purchasing and selling financial assets, each financial advising business is expected to invest in line with the law and its corporate investment policy.

How to Pay a Financial Advisor?

Primarily, there are two kinds of structure to pay a Financial Advisor- Fee-Only & Fee-Based. It's a frequent misconception that fee-only and fee-based financial advisors are the same thing. Although they have a similar sound, they are not interchangeable. In many ways, the two are dissimilar to one another.

Before hiring a financial advisor, you should understand the distinctions between fee-only and fee-based financial consultants.

Consider the following essential distinctions between fee-only and fee-based financial advisors:

Fee-Based Financial Advisors
Fee-based advisors are paid an annual fee that is proportional to the assets they manage. Their price might be based on a proportion of the support they manage (AUM). For example, if you entrust the management of Rs 1 crore in assets to a fee-based financial advisor, she may charge an annual fee of 1% to 2% (Rs 1 lakh to Rs 2 lakh in this case) of the assets entrusted to her.

The advisor's fees may or may not be based on the success of your portfolio. However, even if your portfolio loses money, the advisor will charge you a price. Clients may connect with the advisor on a monthly, bi-monthly, or quarterly basis. India's Securities and Exchange Board (SEBI) classifies all fee-based financial advisors as Registered Investment Advisors (RIAs). Therefore, customers are authorized to purchase straight plans from them.

Choosing a Fee-Based Financial Advisor can have certain drawbacks. One of the most significant drawbacks of using a fee-based advisor is that the advisor may prefer to service customers based on the size of their portfolio. This may prevent your portfolio from receiving the attention it requires, and consistency in client care may be lacking with this type of advising service.

Fee-Only Financial Advisors
Regardless of whether the portfolio is worth Rs 50 lakh or Rs 5 crore, fee-only financial advisors impose a fixed fee on all transactions. As a result, we may anticipate more regularity in customer service from fee-only financial advisors than from fee-based advisors. This is due to the fact that the cost is the same for all consumers.

The fee-only structure outperforms the fee-based system. Fee-only advisors, unlike fee-based advisors, do not give direct plans. Instead, they provide assistance with the execution of investments in instruments chosen by the customer. They are usually paid on an hourly basis.

<u>Specific things to be aware of when opting for Fee-Only Financial Advisors-</u>

a. Fiduciaries are fee-only advisors. They have a legal or ethical obligation to their clients, in other words.

b. The cost structure is easy to understand and understandable.

c. They hold certificates such as NISM, CWM, and CFP and are highly competent. Financial planners that work on a fee-only basis have real-world experience.

d. It's a good idea to inquire about and check references from previous clients, as well as solicit comments.

e. The frequency of portfolio assessment should be discussed with your advisor.

Distributors of Financial Instruments

Recall that we mentioned there are three types of Financial Advisors. Distributors are involved in selling various investment instruments. In many instances, the sale of such instruments is based on a financial plan that they helped you with or following instructions per a financial plan you have received elsewhere.

Their income is generated from the commission that is generated by selling those investments.

FINDING THE RIGHT FINANCIAL ADVISOR FOR YOU

Hiring a financial advisor is the same as hiring a CFO for yourself or your family. You want to take a systematic approach to identify someone you can collaborate with for a long period of time. It may take a little longer to find the perfect individual or business, but the time invested will be well worth it in terms of your peace of mind.

Here are seven ways to find the best financial counsellor for you.

Understanding the Types of Financial Advisors & Choosing a Suitable Candidate
Some financial advisors can help with financial planning but not with investment management. Others handle investments but don't provide much in the way of financial planning. Some people specialize in retirement income planning for people who are approaching or have reached retirement age. Others concentrate on accumulating wealth for those who will not retire for another 10 or 20 years.

To choose the most acceptable financial advisor for your needs, you must first determine the sort of financial guidance you require and a potential advisor's services.

Here's a quick rundown of the three most common sorts of service offerings:

Financial planning considers all elements of your economic life, including how much you should save and what kind of insurance you require. It's not simply about the money you've put in.

Investment consulting services concentrate on making judgments about which investments to own in which accounts. Only as part of a long-term financial planning process is the most acceptable assets chosen.

The purpose of **retirement income planning** is to align all of the parts, such as Social Security, taxes, investments, pensions, retirement date, and more, so that they all work together to generate a lifetime retirement payout.

Seek financial advisors with a proven track record
Look for financial advisors with a proven track record of services and clientele. Look for the certifications and suitable degrees as mentioned in the last section. Not all credentials are created equal. For a charge, several companies provide easy-to-obtain certificates so that salespeople may appear to be experts by obtaining one. Passing a test demonstrating subject matter expertise is required to earn credentials. An advisor must follow an ethical policy and complete continuing education requirements to keep their certification.

Understand how financial advisors are paid
Financial advisors can charge in a variety of ways. You'll need to understand all of the ways a possible financial advisor might be rewarded, such as charging an asset-based charge, an hourly fee, or sharing in commissions, in order to pick the best financial advisor.

There are no right or incorrect methods to reward an advisor. Your financial needs will determine what works best for you. For example, if you purchase an investment that you intend to own for a long time and will not require continuing guidance, paying a commission may be the best option.

Use Search Engine to screen for candidates
Online searches are an excellent approach to limiting the advisors in your region with the qualifications and billing structure to fit your needs. Financial advisor search engines allow you to enter particular parameters regarding the sort of advisor you want to find.

Many businesses, on the other hand, deal with customers remotely. If you don't need to meet face-to-face, you may choose an advisor based on skill rather than proximity. Working remotely isn't for everyone, so consider how crucial it is to meet someone in person rather than digitally.

Learn to identify fraud risks
When someone takes possession of your assets, fraud is easier to commit. To hold your funds, most respectable financial advisors will utilize a "third-party custodian." The advisor can conduct trades and provide account service, but the custodian is the one who reports transactions to you, validates signatures, and much more. Be wary of consultants or businesses with custody of your funds or possess a linked company that acts as the custodian.

When speaking with advisors or businesses that own other investments or firms that they are suggesting to you, take extra safeguards.

Also, stay away and be wary of those who:

a) Promise you guaranteed returns
b) Offer “Get-Rich Quick Schemes”
c) Recommend Investments without understanding your risk profile

Interview more than one candidate
It's okay if you don't click with the first advisor you speak with. You don't have to take the first option. Working with someone who makes you feel uneasy is never a good idea. You're not talking to the correct person if you're uncomfortable discussing your finances with someone. As a result, keep searching and interviewing. It's critical to locate someone who knows your objectives and requirements. A long-term connection with an advisor is standard. It takes time to plan, save, secure your money, and adjust to retirement. It is not a one-time occurrence. So, before you buy something, feel free to talk to a few people.

Check out Referrals
It's a good idea to inquire about the experiences of individuals who have worked with the advisor you're contemplating. You might feel a little uneasy at first. But, on the other hand, requesting recommendations is a standard practice that advisors and clients are delighted to assist with.

When speaking with a reference, you might want to inquire about:

- How long have you been working with the consultant?
- Have you been happy with the service you've received?
- How frequently do you receive communication from them? Who makes the first call, and what are the most common topics of conversation?
- Do they answer your queries and return your calls?
- Has your relationship shocked or disappointed you in any way?

By asking the right questions, you can identify a skilled advisor with whom you can work comfortably.

Question Your Financial Advisors!

As a customer, it's critical that you understand what your planner suggests and why. You shouldn't blindly accept an advisor's advice; it's your money, after all, and you should know how it's being spent. Keep track of the costs you're paying, both to your advisor and to any funds you've purchased.

Inquire with your advisor about why they recommend certain assets and whether they are compensated for selling you certain products. Keep an eye out for any conflicts of interest.

Financial goods are chosen to meet the client's risk profile, which is a similarity among organizations. For example, consider a 50-year-old individual who has collected sufficient net worth for retirement and is primarily concerned with capital preservation. Therefore, they may invest 45 percent in equities (which might include individual stocks, mutual funds, and exchange-traded funds (ETFs) and 55 percent in fixed-income assets like bonds. On the other hand, a 40-year-old investor with a lower net worth and a willingness to take on greater risk in order to grow their financial portfolio can choose an asset allocation of 70% equity assets, 25% fixed-income assets, and 5% alternative investments.

Your tailored portfolio will meet your demands while taking into account the firm's investing philosophy. It should be determined by how quickly you require funds, your investing horizon, and your current and future objectives.

Interviewing Potential Advisors

Here are some questions you might want to ask when you meet with the advisor for the first time. These are a starting point so feel free to create your own custom list.

About the advisor

1. How long have you been in business?
2. How are you registered, and do you have any professional designations?
3. Do you specialize in anything?

About their business

1. What does your organization look like?
2. How many clients do you work with at a time?
3. What type of clients do you typically work with?
4. How do you work with clients? In person/online/phone?
5. How often do you meet? If you meet in person, where do you meet? When are you able to meet?

About products and services

1. What kinds of products do you sell?
2. What kinds of products can you not sell?

3. What services do you provide? Do you need to have a certain asset level to access any of these services?
4. What is your area of expertise?
5. Do you do financial/retirement plans?
6. How often will you report back to me?
7. What is your preferred method of communication?
8. What is your service proposition?
9. How often will my portfolio be reviewed?

About investing

1. What is your investment philosophy?
2. What do you do for investment research?
3. How do you choose investments to buy?
4. When do you sell investments and why? What is your sell strategy?
5. How often do you trade? and why?
6. Do you have an example of a model portfolio?
7. How do you measure or judge performance?
8. Do you use performance benchmarks?
9. How does the risk vs return relationship work?
10. What measures do you use to evaluate risk?
11. What is your position on taxation of investments?
12. Will I have an investment plan?
13. What will that plan entail?
14. What is the process I will have to go through?
15. Do you use investment policy statements?

About compensation

1. How do you get paid?
2. What type of fees do you charge?
3. What total fees will I have to pay directly or indirectly?
4. Do the products you sell have embedded fees?
5. How do fees impact the return on my investments?
6. Do you receive commissions or referral fees? Do you pay commissions or referral fees?
7. Do you have a responsibility to put my interests ahead of your own, or those of your employer? Will you work in my best interests?
8. What are your fees? What is included in the fees, and what is extra?
9. What type of clients do you typically work with?

A good financial advisor will help grow, maintain and protect your financial health and wellbeing. By investing your time in finding the right one for you, you will be taking control of your financial future and getting the help and support you may need to realize your financial goals and dreams.