EX-SEC CHIEF LEVITT ON MARKET CHALLENGES AHEAD • 36

Bloomberg

September 2001

Bloomberg Personal Finance

HOW TO SPOT A TECH STOCK TURNAROUND 23

ARE SMALL FUNDS RIGHT FOR YOU? 34

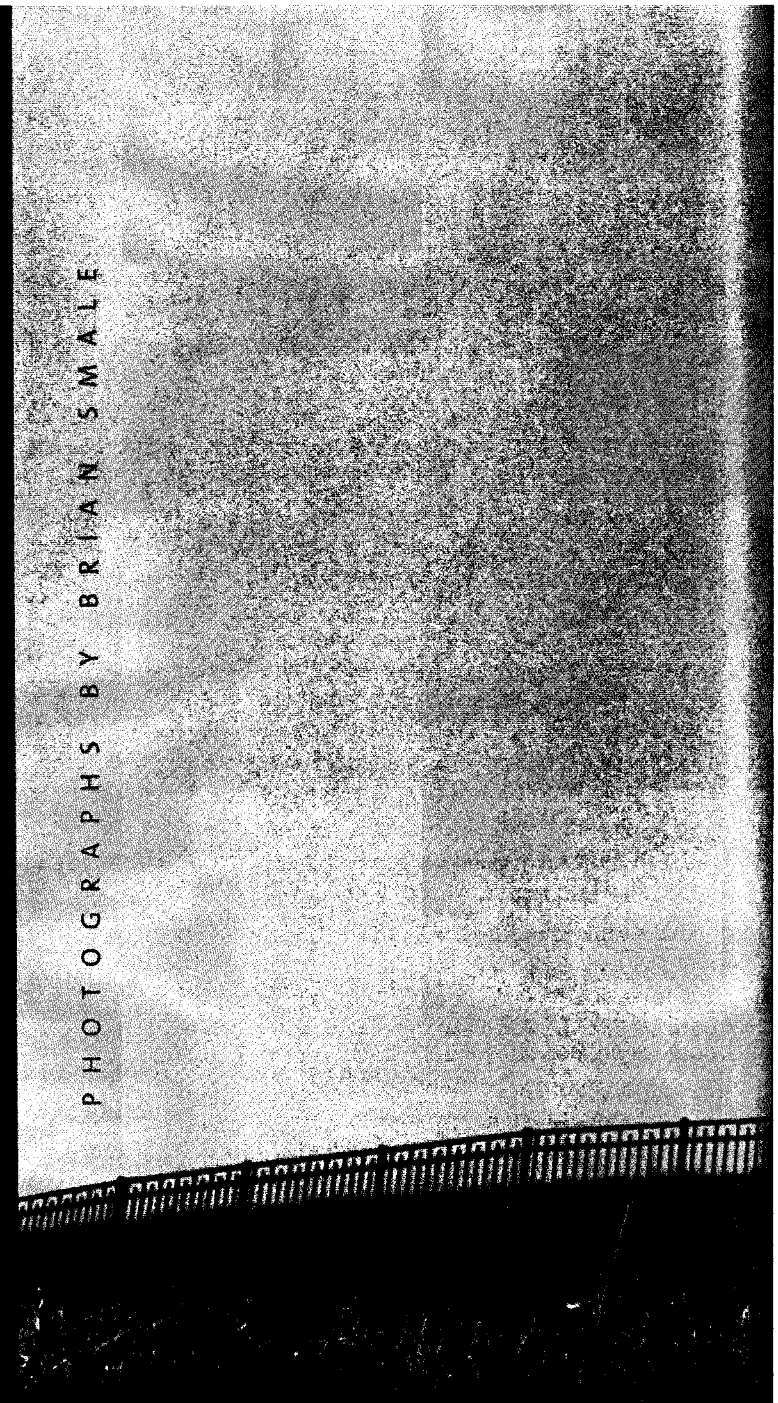
WHAT'S SAFE NOW

Rescue Profits With 13 Strong Stocks

PAGE 56

09>
0 71896 47223 3

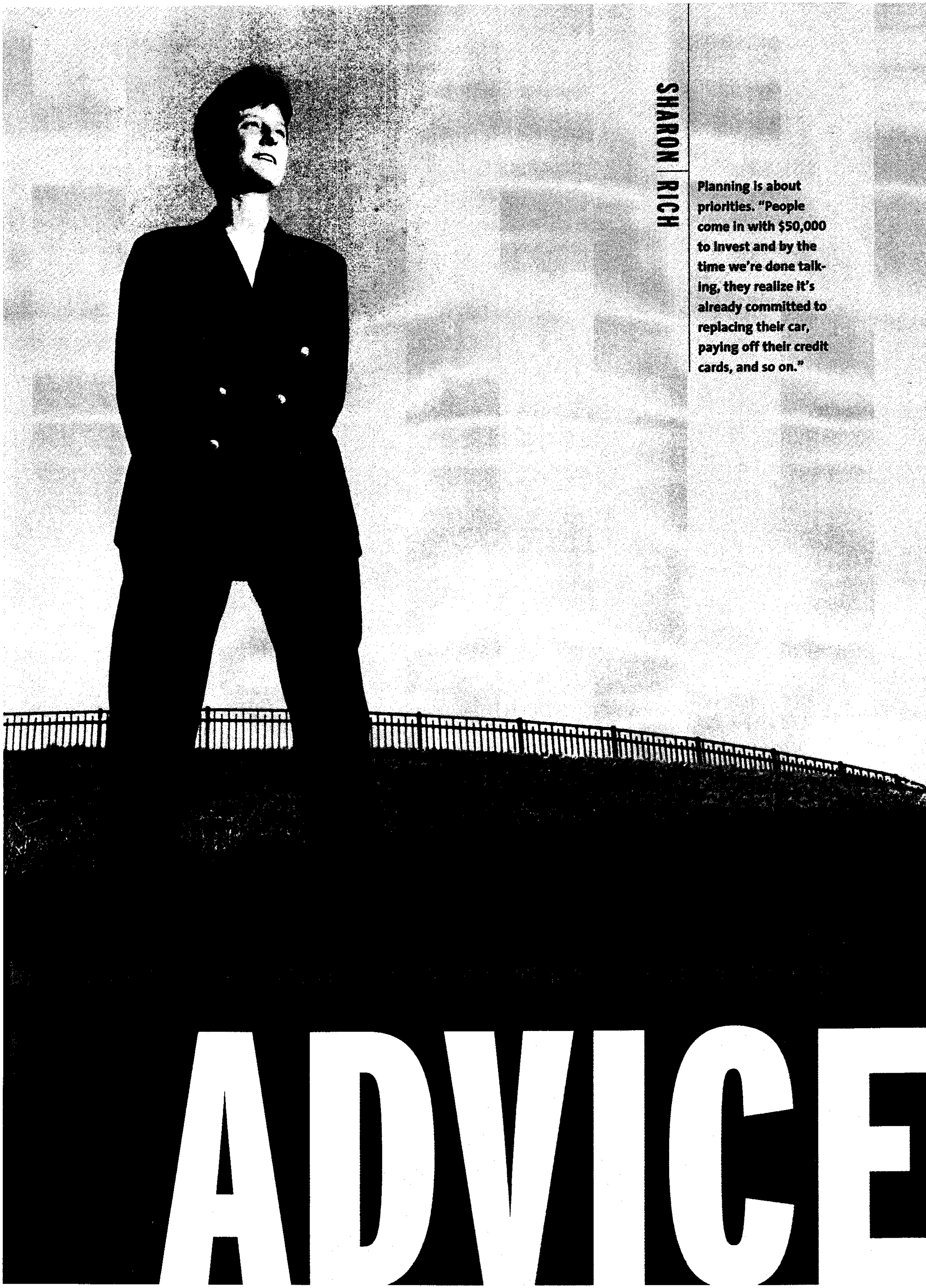
WHETHER YOU EARN $50,000 A year or $500,000, there's already at least one financial planner in your life: you. In today's world, just being an adult saddles you with duties like cash-flow and debt management, benefits analysis, retirement planning, investment and tax strategizing, and perhaps a little estate work. Every household decision raises money issues. Can you afford your usual vacation this year? What should you do with your 401(k)? Do you need to update your insurance? What's the best way to save for the kids' college costs? If you think it's time to enlist the help of a professional in these decisions, you're not



PHOTOGRAPHS BY BRIAN SMALE

FINANCIAL PLANNERS

THE



SHARON | RICH

Planning is about priorities. "People come in with $50,000 to invest and by the time we're done talking, they realize it's already committed to replacing their car, paying off their credit cards, and so on."

ADVICE

alone. It may be a snap to buy a no-load mutual fund or low-cost term insurance, but more and more often, those of us grappling with choices posed by stock options, IRA rollovers, inheritances, divorce, or retirement are paying for expert assessments of our specific situations. The financial planning business is booming—the National Association of Personal Financial Advisers got more than 27,000 calls for assistance last year, a 35 percent increase over 1999—and a survey of certified financial planners (CFPs) shows that, far from being limited to the very wealthy, the median client has an income of $75,000 and a net worth of $390,000.

"The phones ring and ring," says Karen Altfest, a New York City fee-only financial adviser. "Last year was our busiest for new calls in 19 years. All my colleagues say the same thing." Advice is in plentiful supply, too. An estimated 200,000 to 500,000 people now call themselves financial planners—bankers, brokers, and insurance agents all seem to have added planning to their list of services. But finding a good adviser—well, that's another matter. "It would be hard to imagine a field where more people offer help yet haven't the slightest qualifications for the job," notes Frank Armstrong, chief financial strategist for DirectAdvice, an online financial planning service, and author of "Investment Strategies for the 21st Century." And even among qualified advisers, levels of expertise—not to mention fees—vary widely. But somewhere out there is a smart, honest, affordable adviser who can help you make informed decisions and avoid costly mistakes. How do you find that person? Here's a road map.

Narrowing the Search

Here's how to get the names of certified financial planners in your area:

◆ Call The Financial Planning Association at 800-282-7526. Its Website is www.-fpanet.org.

◆ Call the National Association of Personal Financial Advisors at 888-333-6659. Its Website is www.napfa.org.

◆ Visit the CFP Board of Standards online at www.cfp-board.org—where you can also verify that a CFP licensee is still in good standing.

Skip Websites promising to match you with advisers based on your answers to generic questionnaires. Some of the questions are downright counterproductive, and the planners' credentials generally aren't disclosed online. At www.therightadvisor.-com, for instance, you're invited to agree or disagree with the statement: "I want a professional who will deal only with the issues that I raise." That's crazy: It's a good planner's job to spot opportunities and flag problems you haven't identified. But do visit the Maryland Attorney General's Website at www.oag.state.md.us. Click on "Securities Division," then "Publications," to download an excellent checklist we've excerpted on page 70.

Many CFPs are registered to sell securities or insurance products. Make sure any adviser you're considering has a clean record by checking with:

◆ The National Association of Securities Dealers Regulation (NASDR) at 800-289-9999, or www.nasdr.com.

◆ The North American Securities Administrators Association (NASAA) at 202-737-0900, or www.nasaa.org.

◆ The Securities and Exchange Commission (SEC) at 202-942-7040, or www.sec.gov, for links to state securities regulators.

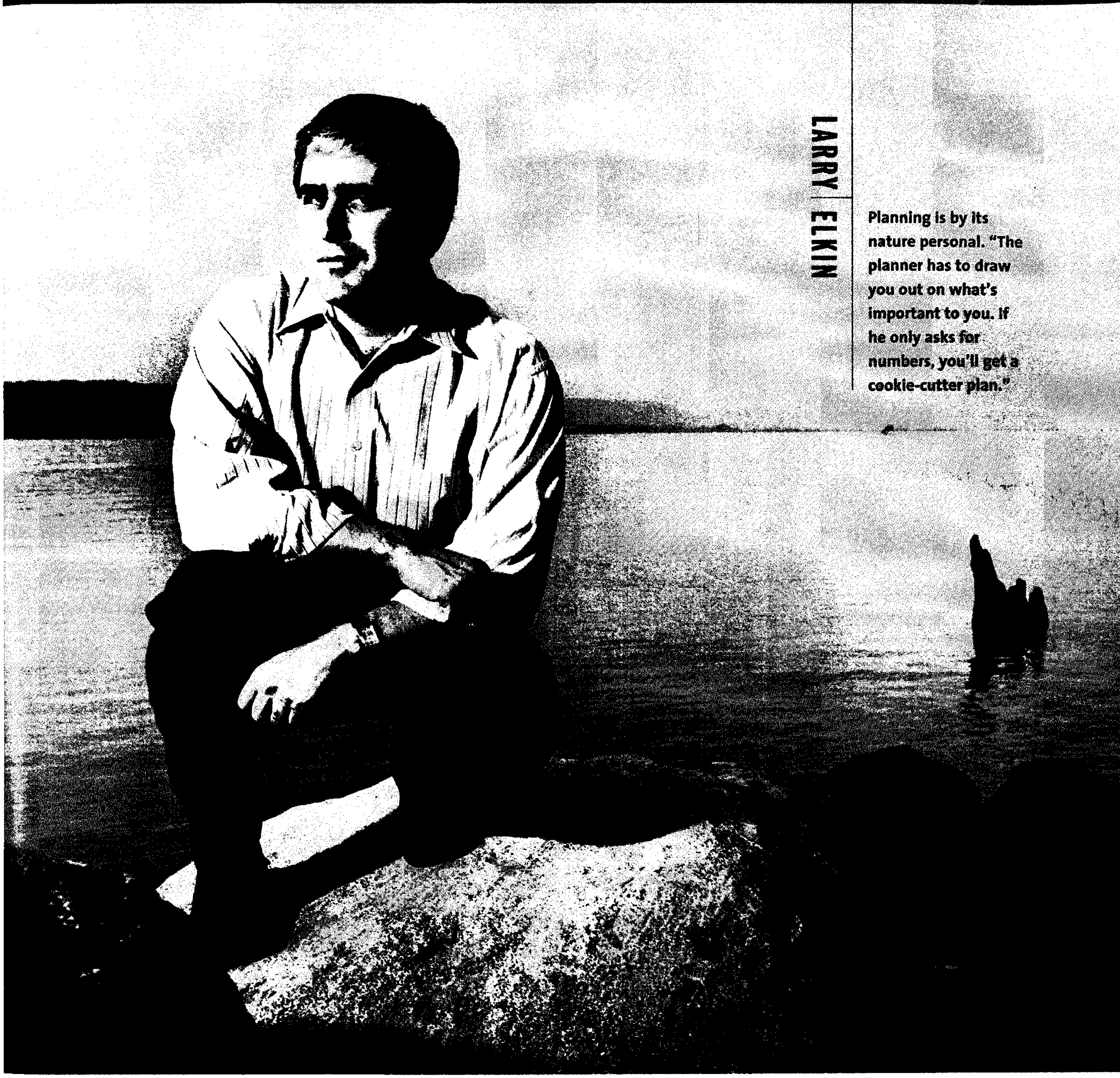
◆ The National Association of Insurance Commissioners (NAIC) at 816-842-3600, or www.naic.org, for links to state insurance regulators.

Advisers who manage more than $25 million must register with the SEC; those who manage less should be registered with your state attorney general. It only takes $150 to become an SEC Registered Investment Adviser. Even convicted felons are eligible. Every RIA must provide prospective clients with a copy of SEC Form ADV, Part II, which discloses his or her services and fee structure. The SEC does not require the adviser to give you a copy of Form ADV Part I, which discloses educational background and any prior convictions or problems with regulators. But no honest adviser should refuse to give you one. If you're too shy to ask, you can get it from the SEC (for 24 cents a page) or from your state securities regulator. —*LB*

Job requirements Start by limiting your search to the nation's 38,000 certified financial planners. Although this designation is awarded by a professional association, not a government agency, CFPs must pass a two-day exam, meet a continuing education requirement, and agree to abide by a code of ethics. Sure, there are good advisers with other credentials, but increasingly, CFP is the designation of choice. Besides, you have to start somewhere—and this process is time-consuming enough without trying to evaluate an alphabet soup of designations, many of doubtful significance.

You can easily get the names of several CFPs in your area, and—somewhat more laboriously—check their bona fides (see sidebar at left). But you'll get more appropriate candidates and have more productive interviews with them if you first figure out what you're looking for. If you merely want to turn over your portfolio to a wizard who will jump-start your returns, you want a money manager, not a financial planner. (And unless you're worth millions, your choice is pretty much limited to mutual fund portfolio managers or brokerage "wrap" account managers—private money managers who run pools of money for the brokerage's clients.)

Of course, many financial planners



also manage money. So what's the difference? "A money manager doesn't want to know about you or your needs. He wants to be left alone to run the money," says Ed Stuart, a wealth manager at Bugen Stuart Korn & Cordaro, a Chatham, New Jersey, financial planner. By contrast, a planner's primary focus will be on your needs—and he'll expect you to help him figure out what they are. "An amazing number of people, to an amazing degree, think, 'Now I've hired someone; I don't have to do anything anymore,' " says Stuart. "Financial planners need you as a willing participant. We have to know a lot about someone to give good advice."

In other words, a financial planner should be someone in whom you can comfortably confide your hopes and fears as well as your financial data. He or she should also have the expertise to address the issues most important to you. "Financial planning is exceptionally fragmented," says Larry Elkin, founder of Larry M. Elkin & Co., a fee-only adviser in Hastings-on-Hudson, New York. "At a brokerage, 'financial planning' and 'investment planning' are used interchangeably. To an insurance agent, financial planning solves insurance problems; to a CPA, it's how to cut taxes; to a lawyer, it's drafting a new will. In truth, financial planning includes all these things."

Any good certified financial planner should be able to help you figure out where you stand financially, clarify and prioritize your goals, and give you advice on how to meet them. But bear in mind that many successful planners focus primarily on one or two disciplines—and that to an adviser whose main tool is a hammer, everything is apt to look like a nail. Are you looking for a generalist to provide broad investment, tax,

LORETTA NOLAN

Planning is pragmatic. "Part of my job is breaking the news that it may not be possible to meet goals without making trade-offs."

insurance, and estate planning advice? Do you need expert counseling on how to handle a specific situation or problem, like a divorce, a terminal illness, or a complex stock option plan? (The CFP certification exam covers 101 topics.) Do you want an adviser to manage your money or to make recommendations you then implement yourself?

What level of service do you need—and what can you afford? (See sidebar, p. 69.) In exchange for about 1 percent a year of your assets under management, the most expensive planners offer ongoing, comprehensive service: cash and risk management; investment, tax, and retirement planning; and a host of concierge services as well, like changing the title, license, and registration on a car you've inherited or pulling together your grandmother's financial records for her application for admission to an assisted-living residence.

This kind of adviser, who usually requires assets under management to be in seven figures, is expected to respond quickly to virtually any financial problem. Stuart, for example, was recently called by a client about to sign the papers on a home equity loan. "She's refinancing, but I know that she also has her house up for sale," he says. "This loan carried an up-front 1.5 percent fee on jumbo mortgages—in her case, that was more than $8,000. We don't do mortgages, but I asked her to wait just a couple of hours, while I called a few banks I know. I got her the same rate but with no points." At R.W. Rogé & Co., a fee-only planning firm in Bohemia, New York, the annual asset management fee covers everything from talking clients out of ill-advised investments (like an unnecessary life insurance product with a $25,000 annual premium) to weekly telephone calls offering moral support to

A FINANCIAL PLANNER SHOULD BE SOMEONE IN WHOM YOU CAN CONFIDE YOUR HOPES AND FEARS AS WELL AS YOUR DATA

those who are dealing with an emotional crisis. "Helping clients cope with life is part of the service," says Ron Rogé.

Or you may prefer an adviser like Sheryl Garrett, whose Overland Park, Kansas, firm gives financial advice on an as-needed basis for $150 an hour. "The most common statement I hear from new clients is, 'I just want to know if I'm doing things right,' " says Garrett, who left a firm that caters to clients' every need to create a service "for people like myself—do-it-yourselfers who want periodic checkups." She has since licensed her business model to 75 other advisers. At Garrett Financial Planning, the typical client spends $500 to $1,500 for an initial financial review and recommendations, and calls back for checkups ($300 to $400) or to ask specific questions (charged in six-minute increments).

Sharon Rich, a Belmont, Massachusetts, adviser who like Garrett works on an hourly basis, thinks consumers who buy comprehensive planning often pay for more than they need. "But an hourly planner must ask a broad range of questions," she adds. "Even a very specific question, like 'Can I afford to send my daughter to private school?' has ripple effects on your long-term security."

At both ends of the spectrum, the difference between good advice and first-rate advice is the same: "A good planner gets the numbers right," says Altfest. "A great planner understands what the numbers mean in your life and explains your choices and the possible side effects of each choice."

Financial planning firms range from giant institutions to one-person companies. If you're considering a sole practitioner or a very small firm, ask about continuity. What are the adviser's future plans for the business? Technology has done a great deal to level the field between national firms and individual planners, says Loretta Nolan, a fee-only adviser who after three years at Coopers & Lybrand and another seven years at Clarfeld, a mid-size New York City firm, now runs a solo operation in Old Greenwich, Connecticut. "But you should always ask a sole practitioner 'What happens if you die or become disabled?' " she adds.

A very big company assures you of broad resources and financial stability, but size isn't really predictive of anything else, says Elkin, who now owns a 10-person firm but spent six years at Arthur Andersen before hanging out his own shingle. "All firms are small from the client's perspective," he points out. "The individuals you work with are the firm to you. They leave, and what have you got?"

Indeed, a key question to ask at any multiperson firm is: If you ever leave this company, can I go with you? Even at mid-size companies, planners often are asked to sign "non-compete" agreements making it prohibitively expensive for them to retain clients when they leave a practice. Other vital questions: Who will I deal with besides you, and what's his or her background and training? In a firm that provides comprehensive, ongoing service, check the number of professionals

How Much Do They Charge?

Good financial advice is expensive, no matter how you pay for it. All the more reason not to pay for more than you need. Understanding the planner's fee structure is vital, and unfortunately the common labels can be confusing: "fee-only" and "fee-based" don't tell you exactly how advisers charge.

◆ **Fee-only** advisers may charge flat fees, a retainer, hourly fees, a percentage of assets under management, or all of these. Hourly fees range from $100 to $250 or more. Fees based on assets under management are typically 1 to 1.5 percent a year. Many successful fee-only planners have made asset management their core service; their charges for managing your money cover all their other services.

Depending on your needs, it may be more sensible to pay $150 an hour to a planner than to hire one like Ron Rogé, whose firm has a 1 percent asset management fee covering all its services but requires a $12,500 first-year minimum. With a fee-only adviser, you're less likely to be sold an inappropriate product. "Often, people come in with $50,000 to invest—and by the time we're done talking, they realize it's already committed to replacing their car, paying off their credit cards, and so on," says Sharon Rich.

◆ **Fee-based** advisers charge a combination of fees and commissions—an hourly rate for consultations and a flat fee for creating a financial plan, for example, and commissions for selling investments and insurance.

This can make sense for someone who can't afford a fee-only planner, if the adviser has honestly evaluated your needs and is selling you appropriate products, says Ed Stuart. Before hiring a fee-based adviser, he suggests you ask how much of his or her revenue comes from fees and how much from commissions, and for what type of products. (Check the answer against the Form ADV, Part II.)

Bear in mind that commissions typically are invisible because they're built into product price. There's also more than one type of commission—among them, front loads, back loads, and annual 12b-1 fees. Look at it this way: Your adviser is always getting paid somehow, and you should always ask how much. And while it's true that planners often have access to excellent mutual funds otherwise closed to investors, most such funds have attractive counterparts that are open. "You have to know what it's costing you—and I mean dollars and cents, not just a percentage figure," says Sheryl Garrett. "Don't accept statements like 'The investment company pays me.' That's crap—it comes out of your investment."

◆ **Commission-only** financial planners are not financial planners—they are salespeople. If you don't buy the products they recommend, they don't get paid. —*LB* versus administrative staff, and ask how many clients they have. "I think you need 1 professional per 50 clients," says Rogé. And what's the employee turnover? "Almost nothing drives clients crazy faster than delegating a lot to an assistant who keeps changing, so that they keep reintroducing themselves to new people," says Elkin.

Ultimately, a firm's size is less important than whether it has other clients like you. "You don't want to be the first client with $1 million, or the first without $1 million," says Altfest. "You shouldn't be a trial case. Ask how often the planner has done the kind of work you need."

The interview Telephone all the candidates, briefly describe what you're looking for, ask how they charge, and make appointments to meet them. Interview several people, even if you love the first one, advises Ross Levin, president of Accredited Investor, a fee-only firm in Minneapolis: "Interviewing only one adviser is like house hunting and making a decision after seeing one house." Often, there's no fee for this initial meeting; but ask in advance to be sure. (Advisers who charge expect to give you substantive advice at this meeting.) Also ask the adviser to send you her Form ADV (see sidebar, p. 66) and marketing materials, as well as her Website address. "A Website that anticipates and answers consumer questions is a sign of a good firm," says Garrett. Many firms also send a detailed questionnaire about your finances for you to complete and bring with you.

Expect a good financial planner to elicit a lot of personal information from you at this meeting. "Not just numbers but stuff—about your spouse, your parents, your kids, your hopes, dreams, and frustrations," says Elkin. "The planner has to draw you out on what's really important to you. If he only asks for numbers—what you're making, what investments you own, when you want to retire—you'll get a cookie-cutter

Interview Checklist

You may have met the right adviser when you feel comfortable asking anything. These questions are excerpted from the Maryland Attorney General's "Financial Adviser Interview Checklist." The full form, with space for prospects to submit their answers in writing, can be found at www.oag.state.md.us/forms/checklist.pdf. You'll need Adobe Acrobat to view it.

ABOUT THE ADVISER'S PRACTICE

1. How many clients do you currently serve?
2. What is your clients' most common investment objective?
3. What is your clients' most common age range?
4. What is your clients' most common income range?
5. Do you take discretionary authority over client accounts? If yes, how often is there an independent review of such accounts?
6. Will you provide me with references from clients?
7. Will you provide me with a sample copy of a plan or recommendations?
8. Please provide me with a current copy of your Form ADV, Part II, or disclosure document.

EXPERIENCE, LICENSES, EDUCATION

1. How long have you been offering financial planning services?
2. How long have you been registered as an investment adviser or investment adviser representative?
3. Where have you worked as an adviser or planner?
4. What licenses or professional designations are you eligible to use?
5. What educational degrees have you earned?

SERVICES AND PRODUCTS

1. What financial services do you provide?
2. Will you provide a written analysis of my situation and recommendations?
3. Will you offer continuous advice?
4. Do you take custody of assets? If yes, please provide proof of insurance.
5. Do you recommend specific investment products? If yes, what do you offer?
6. Do you provide assistance with implementation?

HOW THE ADVISER IS PAID

1. Are you compensated
   a) by initial fee, hourly fee, retainer, or percentage of assets managed?
   b) by performance fee?
   c) by commissions and loads for financial products purchased or sold?
   d) by ongoing fees for financial products purchased?
   e) by a flat fee that is offset by commissions earned?
   f) by salary?
2. Is your compensation calculated by hourly rate, a fee range, a minimum fee, and/or a percentage?
3. Are your fees negotiable?
4. Will you inform clients in advance of
   a) the commissions or loads they will pay on the purchase or sale of a product?
   b) any discounted sales charge related to a quantity purchase of a product?
   c) any special compensation you receive on the sale of a product?
5. Do you or any related party receive compensation from any persons or firms to whom I may be referred?

REGULATORY AND COMPLIANCE

1. Has any court ever entered a judgment against you in connection with any investment-related activity?
2. Have you ever been involved in an arbitration proceeding that was settled or decided against you?
3. Have you ever been the subject of an order issued by a federal regulatory agency, state regulatory agency, or self-regulatory organization?
4. Have you been discharged or permitted to resign because you were accused of violating industry standards or investment-related statutes?
5. Are you currently involved, directly or indirectly, in any regulatory investigation or action, customer complaint, civil litigation, or criminal proceeding?

YOU NEED AN ADVISER WHO SHARES YOUR INVESTMENT PHILOSOPHY. AN OFFICE GLEAMING WITH MARBLE SHOULD GIVE YOU PAUSE.

plan." And if you're looking for a full-blown financial plan, ask for a sample copy.

Ask how often the adviser will communicate with you—and in what manner. Will you be charged every time you telephone? Often the answer is no. "The problem with charging when the client calls is that it discourages calls," says Elkin. "In the long run, that's counterproductive." Instead, he charges a flat fee determined in advance. "If the client calls with a problem I can solve in 15 or 20 minutes, fine. If I can't solve it without additional work, I tell him what the fee will be for that work, and he has the opportunity to decide whether it's cost-effective for me to do it."

Is there any service the adviser doesn't provide? Anything at which the firm excels? Interestingly, many of the advisers we interviewed—including those for whom investment management is a core service—say they don't expect to discuss investment performance in this meeting. "If asked, we tell prospective clients that when making long-term projections, we use a 10 percent return for equities, between 4 percent and 6 percent for bonds, and 2 percent to 5 percent for money market returns," says Rogé. "Those are average long-term returns." He'd be wary of anyone who assumes a long-term equity return of 12 percent or more a year. Adds Stuart: "We are not in the business of trying to deliver the highest return. We don't put all the client's money in one spot. And we invest differently for an 87-year-old widow than for a 30-year-old neurosurgeon."

Still, you need an adviser who shares your investment philosophy. So ask how he manages his own money. You don't want someone who's trading pork bellies while you're in municipals, says Jane King, president of Fairfield Financial Advisers, a fee-only firm in Wellesley, Massachusetts. Don't hesitate to eliminate any candidate who is impatient or unresponsive. "If there's any question you're uncomfortable asking a prospective adviser, he's not right for you," she says. "It's okay to ask his net worth—he'll certainly ask you."

Your financial adviser should also understand your life. "One of my clients asked [in the first interview] if I had kids," King recalls. " 'It wouldn't make you a bad person if you didn't,' she said, 'but with so much of my money going to my children and grandchildren, I want someone who's been there.' " Among the best questions planners remember being asked by prospective clients: Do you do pro bono work? How would you define success? What are your favorite books? What do you drive? Maybe a red Porsche and an office gleaming with marble and mahogany should give you pause. "This is a zero-sum game," Nolan points out. "Unless he's a trust fund baby, the adviser's money all comes from client fees." But don't hire someone who's clearly struggling to make ends meet, either, warns King: "It's important to know that he doesn't have to make a big wad off you right away."

Ask advisers to describe their ideal client—and who they don't work well with. "I think people who want to find out who I am as a person will be the best fit," says Levin. "Those who aren't comfortable talking about their goals and objectives—who just want someone to run simulations—aren't good clients for us." If a planner says he's not the adviser for you, accept it, he adds. "Most planners will relent eventually if you push it—but their first instincts are usually good."

So are yours. Trust your gut. If an adviser seems arrogant, says King, he probably is. "To me, that means he'll be following his own opinion because he knows more than you and may not temper his advice to your risk tolerance or need for cash down the road." Remember: It's your money.

And do ask for references, although some advisers don't provide them, saying that it invades their clients' privacy. If you get a chance to speak to the adviser's clients, ask how long it takes him to return their phone calls. Unanswered calls are the No. 1 complaint among prospective clients seeking a new adviser, says Altfest. And if you're in the market for comprehensive ongoing service, Garrett suggests asking clients if the adviser really provides it: Has she ever called to alert them to an opportunity or a problem, or does she do that only at their regularly scheduled meetings?

Benchmarks When you hire an adviser, ask for an engagement letter that spells out the services to be provided. The letter is your overall benchmark for performance. But there are intangible measures, too—such as the quality of communications. You've got a good adviser if you understand both what she is recommending and why. "I don't want clients who say, 'I don't know what you're doing, but keep doing it,' " says King, who prides herself on educating her clients. "If they think it's magic on the upside, they'll be very upset on the downside."

Don't judge your adviser merely by whether you made or lost money last year. The key question is whether your investment returns matched your own reasonable expectations, based on your investment strategy. Says Elkin: "Were you up 25 percent because you consciously took on more aggressive investments? Were you down 5 percent when the market went down 10 percent because you were trying to reduce your portfolio's volatility?"

A good adviser keeps your expectations in line with reality. "Part of my job sometimes is breaking the news to clients that it may not be possible to meet their goals without making trade-offs," says Nolan. The final decision is yours. "We can provide all the information, and show you the advantages and disadvantages of each choice, and help you formulate your thoughts," says Rogé. "But no financial planner should make the choices for you." ■

Regular contributor Lynn Brenner is the author of Smart Questions to Ask Your Financial Advisers *(Bloomberg Press).*