

Working with financial advisers

Much like running a business, personal wealth management is best approached with the counsel of trusted advisers. Working with a team of financial advisers assembled to suit your specific needs enables you to take a controlled and strategic approach to your own unique wealth management goals.

Managing personal wealth is, in many ways, like running a business. Successful business leaders develop strategic plans for growth in consultation with a group of advisers such as a board of directors, and individuals should manage their financial matters—including investments, taxes, charitable giving, and so on—in the same way. Working with either a financial adviser or a team of advisers lets individuals take a more controlled and strategic approach to all aspects of wealth management—from meeting growth goals and reducing risk to managing taxes and planning for future generations.

Creation and operation

Develop your financial goals

The first step in creating a relationship with a financial adviser is to understand your own personal financial goals. In the short term, do you want to better manage your taxes? improve your investment strategy? contribute to financial security in retirement? Also think about long-term goals for yourself and your family: how do you plan to transfer your wealth, both during and after your life? Even if you have only a general idea, discussions with your adviser can help you arrive at a clearer, more detailed understanding of what you want your financial plan to achieve.

Research your options

Once you know your general financial goals, you can do some research to find an adviser whose skills will support those goals. Personal recommendations from people you trust are helpful as a starting point, but the decision requires careful and dedicated consideration. You should analyze a potential adviser as you would any major business decision.

- / Review the adviser's resume, qualifications, background, years of experience, and referrals.
- / Request the tax and income profiles of the adviser's other clients. Reviewing those profiles will indicate whether your circumstances fall into a profile the adviser is accustomed to addressing.
- / Determine what services the adviser provides.

- / Find out how the adviser approaches financial planning so you can get an idea about the process used.
- / Ask how the adviser is paid for services.

You should also determine whether you want to hire a financial adviser to serve as part of a team or to serve two roles: filling one spot on the team as a tax specialist and also serving as the team's point person.

Structure your team

To successfully create and monitor a financial management plan, you need a team working on your behalf. The team should include yourself, your spouse and your spouse's advisers, a tax adviser, a lawyer (perhaps multiple lawyers depending on real estate needs, estate/gift tax needs, etc.), an insurance adviser, an investment adviser, and, if applicable, a trustee. As indicated earlier, you want one team member to serve as point person. Another way to think of this is that the point person is your "board" CEO, and you are the chairperson. The point person's job is to help articulate your strategy, develop the plan, and direct the utilization of the other team members toward achieving your goals. This financial adviser will, ideally, fill one specific role on your team—often, people find that the tax adviser in that role is effective because taxes tend to touch everything in your plan—but also offers enough expertise in the other areas of your plan to effectively manage the team for your purposes. This approach lets you focus on the vision and priorities for managing your wealth and enables the experts to ensure effective implementation.

Developing a true and trusted adviser relationship with someone who is able to place your needs in the contexts of all of the different tax/strategy/investment/risk management products and instructions is the best way to achieve overall wealth management success. To this point, it is important to use your street smarts when considering a financial adviser. Is this a person you can trust? Does the perspective the financial adviser is offering in creating your road map feel right to you?

Build trust with your adviser/adviser team
Advisers should earn your trust. They should neither be given it nor expect it. Your trust should not be given up front based simply on a recommendation. As you start working with your adviser/adviser team, provide them with your goals and ideas and then see what results they deliver: this should be your measurement for building trust. Prioritize your needs and have the adviser/adviser team start by addressing the goals one at a time (consider starting with something lower on your list), thereby giving you the chance to assess how the adviser/adviser team works with you.

It is useful to set expectations early on: How often do you want to communicate with your adviser? What kind of reporting do you expect? Financial planning is very personal; there is no cookie-cutter approach, so you should not hesitate to build a unique framework that makes you feel comfortable and in control.

Attend to timing and adjustments
Once you've established a trusted adviser relationship, you should meet with your adviser or team at least quarterly. Over time, you'll become better able to assess the frequency of ongoing meetings and/or discussions based on how your plan is progressing and on how things may change. The meetings should follow an agenda: start by addressing old business, and then move on to new business based on what's happening in the marketplace, throughout the legislative landscape, and within your family or family business. Significant changes that impact your financial situation, goals, and overall financial well-being should be discussed with your adviser/adviser team in a timely manner.

Exercise patience
People tend to be quick to hire an adviser because they want to get it over with, but this is ill-advised. Again, the process should be approached with the same dedication and due diligence you would bring to a major business decision. Exercising patience in building your financial adviser team can bring tremendous long-term benefits: Think of it as

selecting a board of directors. This group will drive your financial plan, growing and maintaining your wealth throughout your life and into future generations. You want to build as competent a team as possible.

Tax implications

The tax law provides that a deduction is allowed on an individual income tax return for expenses paid or incurred that are ordinary and necessary expenses “for the production or collection of income; for the management, conservation, or maintenance of property held for the production of income; or in connection with the determination, collection, or refund of any tax.” Examples of some common deductible financial adviser expenses are:

- / Fees for investment advice and management, including service charges on dividend reinvestment plans
- / Custodial fees for individual retirement accounts (IRAs), Savings Incentive Match Plans for Employees of Small Employers (SIMPLEs), simplified employee pension plans (SEPs), and self-employed qualified plans if paid with funds from outside the plan
- / Fees for tax preparation, planning, and advice
- / Fees for estate planning (related to tax matters only)

Because a financial adviser may provide both deductible and nondeductible services, it's important to request from your adviser an itemized bill that gives a detailed explanation of the services performed.

Common concerns about working with an outside adviser

Usually, people hesitate to work with financial advisers because of a lack of knowledge: they're unsure of exactly what services financial advisers provide, how to evaluate potential advisers, and how much they should expect to pay for the service. Personal finances, though, are just that—personal—and without sufficient information, it can be very difficult to trust an outsider with such an important aspect of one's life. So it's critical to understand not only what a

financial adviser does but also how to manage that relationship to best position yourself for future personal financial success.

What is a financial adviser?

What do financial advisers do? Are they tax planners? product sellers? investment strategists? The very definition of a financial adviser covers a wide range of skills and services, leading to confusion about what is expected in the role.

Ideally, a financial adviser is someone who specializes in one financial area (like taxes, financial products, or investment strategies), assists you in that area, and, based on the adviser's (or the adviser's firm's) resources, leverages additional resources to provide help in the other areas important to your financial well-being. Think of an adviser as the one getting you from point A to point Z by taking into consideration your goals, income, and financial assets and then crafting the road map that will keep you focused on achievement. A financial adviser bases that map on personal knowledge, on experience, and on ability to work effectively with other professionals who can contribute to your reaching your goals.

"I don't need a financial adviser; I can handle this myself."

A wide range of issues and considerations go into a sound financial plan, and financial advisers acquire specific certifications and qualifications to provide the specialized services that address those issues. For example, certified public accountants and Personal Financial Specialists have completed extensive study, passed examinations, and met levels of related professional experience in order to provide their services. That training enables these professionals to recognize certain benefits and risks associated with wealth management. A qualified financial adviser will also have the resources at hand to keep abreast of changes and developments in the laws

governing the financial-planning areas that cover taxes, estate and gift taxes, investments, charitable giving, and so forth. All of this makes these professionals far more qualified and capable of handling the complex task of financial planning.

"It costs too much to have a financial adviser."

A financial adviser typically utilizes one of several common payment structures:

- / Hourly rate
- / Flat fee
- / Fee based on a percentage of your overall account value
- / Commissions from products you buy from them, such as investment or insurance products
- / Combination of fees and commissions, which can be framed around certain projects/aspects of your plan or can cover a period of time, such as a retainer fee for ongoing services

Other considerations in the costs associated with a financial adviser are the benefits—such as an effective plan, sound advice, tax savings, and a more effective investment portfolio—attendant upon the successful application of the adviser's services to your wealth plan. In addition, as discussed earlier, there are several tax deductions available that reduce the related costs of working with a financial adviser.

"My business partner has a plan that works well. I'm just going to do that."

Money is an intensely personal issue, and each person's approach to and expectations of it are shaped by the person's unique personal beliefs, upbringing, cultural background, professional experience, and so on. Accordingly, there is a unique wealth management plan for every individual based on personal goals, income, investments, charitable involvement, business needs, age, savings—the list goes on. Only by taking into account these elements can an adviser develop a plan to best fit your individual needs. Simply copying someone else's financial plan is not going to create a long-term financial solution that is ideal for you alone.

“My family does not need to be involved in my work with a financial adviser.”

Most likely, your ideas about wealth management include members of your family in some capacity, whether it involves, say, wealth transfer, succession planning for the family business, or planned charitable donations. Including family members in the wealth management process is important for a number of reasons.

- / If you and your adviser do not know what the long-term goals of your individual family members are, you will not develop a plan structured to reach those goals.
- / The best way to ensure that your spouse and children will make savvy financial decisions is to provide them with hands-on financial education and to involve them in meetings—and decision making—with your financial adviser.
- / In the event of your illness or death, you want your family members to be aware of the current financial plan and to be acquainted with your adviser so they can continue the relationship.
- / The best legacy you might leave your family members is one that empowers them with the knowledge and skills to continue not only your family value system but also your family wealth management system.

Special considerations

Once you’ve undertaken the effort to create a relationship with a financial adviser/adviser team, there are additional steps you can take to make the relationship successful.

- / **Keep the control.** Through your communications and interactions with your adviser, make sure your goals are being met. If you’re unsatisfied with your adviser or a member of your adviser team, address the issue. Ask questions, and don’t shy away from challenging an idea if it doesn’t seem to support your overall goals.

- / Continue to play a lead role in setting agendas for adviser meetings, and clarify expectations as needed. Hold your lead adviser responsible for keeping your adviser team both objective and focused.
- / Consider setting performance goals for your adviser/adviser team. This type of reporting back to you as a client will help track (1) the relationship between you and the adviser/adviser team and (2) the progress of your financial strategy.

Conclusion

“If you don’t know where you are going, any road will take you there.” Lewis Carroll’s saying is very pertinent to working with a financial adviser and establishing your wealth management plan. Choosing an adviser is an important decision that will affect your long-term financial well-being. And financial planning is a personal process that is unique to each family and individual; clarifying your own goals and selecting the right adviser or team of advisers to help you achieve them will enable you to reach your chosen destination.

In some cases, establishing a family office may be the best approach. But in all cases, remember that wealth management is a fluid process. It is important to revisit aspects of your plan with your adviser on an ongoing basis and to take the steps that will enable you to maintain a trusting relationship that is flexible, timely, and in keeping with your personal wealth management vision.

For more information on working with financial advisers,
please visit pwc.com/pfs or contact:

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