

Ameriprise Financial
Paul A. Pouliot & Associates
Paul A. Pouliot, CFP®, ChFC®,
CASL®
Senior Financial Advisor
116 South River Road
Coldstream Park, Building E
Bedford, NH 03110
603-296-0030
888-810-8590
paul.a.pouliot@ampf.com
www.ameripriseadvisors.com/paul.a.pouliot

Working with a Financial Advisor



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The world of 50 years ago was a lot different than it is today. An individual often worked at the same job all his or her adult life, lived in the same house, and stayed married to the same spouse. In those days, too, one spouse could support a family, paying for college ordinarily didn't require taking out a second mortgage, and people could look forward to retiring on Social Security and possibly a company pension.

Today, your hopes and dreams are no different. Like most people, you probably want to buy a home, put your children through college, and retire with a comfortable income. But the world has become a more complex place, especially when it comes to your finances. You may already be working with financial professionals--an accountant or estate planner, for example--each of whom advises you in a specific area. But if you would like a comprehensive financial plan to help you secure your future, you may benefit from the expertise of a financial advisor.

Services a financial advisor may provide

Even if you feel competent enough to develop a plan of your own, a financial advisor can act as a sounding board for your ideas and help you focus on your goals, using his or her broad knowledge of areas such as estate planning and investments. Specifically, a financial advisor may help you:

- Set financial goals
- Determine the state of your current financial affairs by reviewing your income, assets, and liabilities, evaluating your insurance coverage and your investment portfolio, assessing your tax obligations, and examining your estate plan
- Develop a plan to help meet your financial goals which addresses your current financial weaknesses and builds on your financial strengths
- Make recommendations about specific products and services (many advisors are qualified to sell a range of financial products)
- Monitor your plan and periodically evaluate its progress
- Adjust your plan to help meet your changing financial goals and to accommodate changing investment markets or tax laws

Some misconceptions about financial advisors

Maybe you have reservations about consulting a financial advisor because you're uncertain about what to expect. Here are some common misconceptions about financial advisors, and the truth behind them:

- Most people don't need financial advisors--While it's true that you may have the knowledge and ability to manage your own finances, the financial world grows more intricate every day. A qualified financial advisor has the expertise to help you navigate a steady path towards your financial goals.
- All financial advisors are the same--Financial advisors are not covered by uniform state or federal regulations, so there can be a considerable disparity in their qualifications and business practices. Some may specialize in one area such as investment planning, while others may sell a specific range of products, such as insurance. A qualified financial advisor generally looks at your finances as an interrelated whole, and can help you with many of your financial needs.
- Financial advisors serve only the wealthy--Some advisors do only take on clients with a minimum amount of assets to invest. Many, however, only require that their clients have at least some discretionary income.
- Financial advisors are only interested in comprehensive plans--Financial advisors generally prefer to offer advice within the context of a client's current situation and overall financial goals. But financial advisors frequently help clients with specific matters such as rolling over a retirement account or developing a realistic budget.

- Financial planners aren't worth the expense--Like other professionals, financial advisors receive compensation for their services, and it's important for you to understand how they're paid. But a good financial advisor may help you save and earn more than you'll pay in fees.

How are financial advisors compensated?

When it comes to compensation, advisors fall into four categories:

- Salary based--You pay the company for which the advisor works, and the company pays its advisors a salary
- Fee based--You pay a fee based on an hourly rate (for specific advice or a financial plan), or based on a percentage of your assets and/or income
- Commission based--The advisor receives a commission from a third party for any products you may purchase
- Commission and fee based--The advisor receives both commissions and fees

You'll need to decide which type of compensation structure works best for you, based on your own personal circumstances.

When is it time to consult a financial advisor?

In many cases, a specific life event or a perceived need may prompt you to seek professional financial planning guidance. Such events or needs might include:

- Getting married or divorced
- Having a baby or adopting a child
- Paying for your child's college education
- Buying or selling a family business
- Changing jobs or careers
- Planning for your retirement
- Developing an estate plan
- Coping with the death of your spouse
- Receiving an inheritance or a financial windfall

In these situations, a financial professional can help you make objective, rather than emotional, decisions.

However, you don't have to wait until an event occurs before you consult a financial advisor. A financial advisor can help you develop an overall strategy for approaching your financial goals that not only anticipates what you'll need to do to reach them, but that remains flexible enough to accommodate your evolving financial needs.

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