

## Need financial advice? Know who you're talking to

Posted by [mgraves](#) June 27, 2009 08:02AM

A kind reader sent me an e-mail recently that set off more alarm bells than Southern California in fire season.

It wasn't her question about college finances that worried me but why she hadn't run it by a financial planner.

"We do have a planner," the reader wrote, "but I have to say she hasn't really advised us in the area of long-term planning, just suggested and invested in mutual funds."

Any financial planner worth her salt should help clients prepare for watershed financial moments, not just pick funds.

This underscored how we don't think enough about the conflicts of interest the people who manage our money might have. A 2006 RAND Corp. [study](#) found most people don't understand key differences between broker-dealers and financial advisers. As Bernie Madoff showed us, even the highfalutin don't give it as much thought as they should. (*Get more help picking a money manager or planner [here](#) and weigh in on [our poll](#)*).

President Barack Obama does. As part of his financial industry overhaul announced this month, Obama wants to require that stockbrokers and dealers put the client's interest ahead of their own.

No more pushing products or making trades at the expense of their customers' pocketbook or well being. They would have to abide by the same "fiduciary" standard that the U.S. Securities and Exchange Commission holds financial advisers and planners to.

This change is long overdue, especially since the differences between those professions have blurred in the public's mind. The Securities Industry and Financial Markets Association spokespeople say the trade organization is still forming its position. You can be sure, however, it will fight this.

It used to be that the lines between the titles were clear. Brokers bought and sold securities for others. Dealers bought and sold securities for their own accounts. Investment advisers recommended securities. Financial planners charted futures and (most) advised as well.

Anyone can call himself a financial planner. And over the last two decades, anyone has. Broker-dealers have become "planners." So have bankers. They're going to do even more "planning" in the future.

Be warned. If an adviser or planner doesn't have an RIA or CFP next to their name, they don't abide by the stricter fiduciary standard.

An RIA, Registered Investment Adviser, must register with state securities regulators. Or with the SEC, if they manage more than \$25 million in assets.

A CFP, or Certified Financial Planner, must pass a tough exam and chalk up three years' experience to claim the designation. If they manage assets, they also must register with authorities. Even if they're only providing advice, they must come under state supervision, said John Carr, a Lake Oswego attorney who represents advisers and planners.

These pros live with the following prescript as they manage someone's finances: "You can personally be liable for an innocent, negligent mistake," Carr said.

Broker-dealers don't. They're self-regulated by the Financial Industry Regulatory Authority, not the SEC. They're held to

a less rigorous "suitability" standard -- buying and selling only what is suitable for their client's financial status and needs.

Yet, "suitability doesn't mean cheapest," noted Tamar Frankel, a professor of securities law at Boston University. "It doesn't mean for my benefit." A broker-dealer can invest someone's money in a fund that earns them a commission over a competing fund with lower expenses and fees, without really spelling out the differences to the client.

What's more, clients cannot take broker-dealers to court over bad advice. Mandatory arbitration agreements force broker-dealer disputes before an arbitrator, who may have been a former broker-dealer himself. The Obama administration also plans to review the fairness of this arrangement.

There are ethical brokers out there, I'm sure. There are many ethical investment advisers who disclose commissions up front and who deposit clients' money with a separate custodian -- something Madoff did not do.

I'm partial to fee-only advisers and planners. They get paid either by the hour, the service they provide, on retainer or by a percentage of the assets they manage -- or some combination of those methods. They most often are members of the National Association of Personal Financial Advisors, which promotes their fiduciary duties.

Even they have potential conflicts. If you want to liquidate some of your investment holdings to pay off your house, their revenue goes down. Others charge by the hour or service, so they theoretically could drum up work to boost revenue.

"There are always going to be conflicts of interest." said Susan MacMichael John, a CFP and NAPFA board member .

The best thing you can do is be aware of them. Ask your prospective money manager to go over any potential conflicts and pay arrangements before you hire them. Ask them, too, if they'll warn you when a conflict arises in the future, before you make any investment decision.

You can also push Washington to adopt Obama's proposed changes. Sen. Jeff Merkley, D-Ore., sits on the chamber's Banking, Housing and Urban Affairs Committee.

Or, pay a planner or adviser for just that --planning and advice. But manage your money yourself.

Then you'll have only yourself to blame.

And any columnist you choose to heed.

*Brent Hunsberger does not give individual financial advice but welcomes questions and comments about his column or blog. Reach him at 503-221-8359 or [brenthunsberger@news.oregonian.com](mailto:brenthunsberger@news.oregonian.com).*

Categories: [Consumer Protection](#), [Investing](#), [Saving](#)

## Comments

**evergreencap says...**

Brent,

Great article! Keep up the good work!

You are right that even financial columnists have something to sell. I would also throw in financial authors of books such as, "How to Get Rich Doing This..." etc., etc. Therefore, authors and column writers have a conflict of interest as well. Yours is to sell papers and keep your job and the authors' is to sell books. In all cases, we are all trying to make a living in our own way.

I am writing a book on how to select an excellent financial advisor. Too often the advice is the kind that only fits into a short column and cannot attempt to explain the different financial designations, the different types of business models (including financial columnists and authors), the different types of compensation structures, and other issues. There is much more to selecting an advisor than looking them up as a CFP designee or "fee-only" which Bernie Madoff was.

My requirements for an excellent advisor would eliminate Bernie Madoff for several reasons. It would also rule out Suze Orman, Ric Edelman, Adam Bold, or any other mass media financial personality (sorry Oprah).

Trust is going to be key but the trust needs to be based on more than just an emotional reaction. The recipe for trust should include experience, professional education, and many other ingredients that I am incorporating into the book.

It is a challenging but rewarding profession that certainly needs better standards. Almost anyone can call themselves a financial planner or even write about financial issues. We need to elevate the requirements and mentoring needed to be able to give people high quality advice in this very important part of their lives.

Obama doesn't know the first thing about our business or profession and I am not sure everyone in the profession needs to have a fiduciary standard. Pure bond salespeople who don't give financial planning advice should not necessarily have a fiduciary standard of care. They are just selling bonds to whoever wants them.

For those who are planning or advising, yes, the fiduciary standard is necessary and it should always have been so. Many of us in the profession have called for that standard for years.

Again, excellent article. Thanks!

Posted on 06/27/09 at 10:51AM

**evergreencap says...**

BTW, a financial advisor is not supposed to use the acronym RIA after their name. It is not a professional designation nor does it confer any special knowledge or skill.

It simply stands for "registered investment advisor" and only means you are registered, not competent.

Posted on 06/27/09 at 4:12PM

**pdxcfp says...**

Brent,  
Your article does a good job pointing out some the important considerations when selecting a financial advisor.

The National Association of Personal Financial Advisors (NAPFA) website includes a [Tips and Tools](#) page with a Financial Advisor checklist and a Financial Advisor Diagnostic tool. The Diagnostic provides interview questions to help consumers determine the education, experience, compensation model, services offered, and regulatory compliance history of a prospective Advisor. the Diagnostic also explains many of the answers an Advisor might give.

Tim Kober, CFP®  
Cedar Financial Advisors

Disclosure: I am a Registered Investment Advisor and a NAPFA member

Posted on 06/27/09 at 6:55PM

**benutley says...**

Hi Brett,

You said, "Be warned. If an adviser or planner doesn't have an RIA or CFP next to their name, they don't abide by the stricter fiduciary standard."

Your readers should be warned that there is no "fiduciary standard" which is part of what's wrong with the industry. There are plenty of crooked CFP's, and many RIA's are dually-licensed: they manage money AND sell products.

The first question a reader should ask is, "How are you paid?" (as differentiated from "How much do you charge?"). There are only a few answers: a flat fee, a percentage of assets \*managed\* (not sold), a retainer, an hourly fee, a commission or sales charge, or a combination of any of these.

If a reader can't get a straight, clear answer to this question, they should walk away.

Dealing with a fee-only advisor does tend to align the interests of the advisor with the interests of the client. It's not guarantee, but it means far more, ethically speaking, than the CFP mark or the RIA registration.

Posted on 06/27/09 at 7:23PM

**onlymoney says...**

Ben, great guidance. Wish I'd offered that and done it as concisely.

Evergreencap (Russ McAlmond), all good points. I don't sell papers anymore. And my mug isn't doing The Oregonian any favors. But I am conflicted, nonetheless. I want to be read. And I want readers as wise and participatory as you and Ben.

Thanks!

Posted on 06/27/09 at 10:28PM

**Howarth says...**

As a member of the NAPFA organization I'm a strong advocate of consumer education, and applaud your recent article that helps people gain a better understanding of the industry. I'd like to follow up on our recent conversation where I mentioned that I'm providing my clients with a more equitable fee arrangement. It's based on a mutually agreed upon annual return. After one year if I've met or exceeded the expected return then I'm compensated, otherwise I receive no compensation. It seems unfair to me for investors to see their portfolio values drastically decline yet the portfolio manager continues to receive a fee. Clients hire me to preserve their principal and to make a reasonable return and if I don't meet that obligation then I don't deserve to be compensated.

Gary Howarth, ChFC

(503) 475-7718

Posted on 06/29/09 at 9:42AM

**onlymoney says...**

This from Bill McGovern of BD Search in St Petersburg, Fla.:

I read your column about financial advisors, financial planners, et. al. and applaud your comments in an effort to educate the public.

I have been working in this industry for over 20 years and used to manage corporate and member services for what was at the time the International Association for Financial Planning, the IAFP which has morphed into the Financial Planning Association, the FPA. I am also familiar with NAPFA, the organization of fee-only financial advisors. Over the past 20 years I have spent much of my career working with financial advisors and helping them establish and build their businesses, most of the time as independent financial advisors.

I do agree that most of the investing public does not understand the distinctions between brokers, RIA, and CFP, etc., etc. and it would be nice if we could find ways to overhaul the regulatory infrastructure to help the public better understand how it works and insure they get what they pay for. The industry has wrestled with these issues for many years now and has not found an acceptable solution.

The fact is most all of the financial advisors are professional and already tend to do what is in the best interest of their clients. However, there are exceptions to the rule in each category. There are some who put their own interests ahead of their clients and Madoff is one of the most extreme examples of that. However, I am aware of fee only advisors who also get paid "due diligence" fees to review and recommend investment products. And it may be just a coincidence if these fees are close to what a commissioned advisors might earn for recommending and selling the same product. Most RIAs are fee based advisors and don't charge commissions however, they also can place trades in stock, bonds, mutual funds, and alternative products just like a commissioned broker does. Advisors with the CFP and ChFC generally have to take classes and pass some rigorous exams much like attorneys and CPAs. Most are very professional and ethical. And yet here are some who are better than others at what they do and some who are less ethical and professional than the rest.

It is difficult for the average investor to evaluate the value of a financial advisor, just like it is for us to evaluate an attorney, a doctor, and a CPA. They all seem to know more than we do about their area of specialization and consequently it is difficult for the public to evaluate their knowledge and expertise. Getting recommendations and referrals from satisfied investors would normally be helpful, but many investors were referred to Madoff by other 'trusted' advisors.

Perhaps it is time to either regulate them all as one with the same standards and fiduciary responsibility and/or to separate the "advisor," who provides information and advice, from the "broker," who places the trades and invests the money, and the "custodian" who holds the assets. However we do it, we clearly need to do something to restore the public's confidence in the markets, and the financial services industry. It has been damaged as severely as any time since the great Depression.

There is another side of this issue. Many of the financial advisors and brokers are trying to sort out the pieces of their life and their business. As independent recruiters of financial advisors, we hear war stories from brokers, financial planners and investment advisors. And they are trying to restore their own trust in the companies they have been working for. Many of them have been hurt by the actions of the few at the top of the corporate piles that made the decisions that lead to this fiasco in the first place. Meanwhile, their clients and their business has been severely impacted by the financial crises. And many of these advisors are not to blame for their clients' loss of principal over the past year. Most of the best CFPs and RIA who had followed the standard industry practice of financial planning, and asset allocation saw their clients assets decline right along with the market indices. Very few people escaped the wrath of the markets during this meltdown.

While we may be able to bring more sense to the way the markets are regulated and clients protected. We may never be able to prevent the kind of things that set the stage for and ultimately led to the breakdown's that occurred in this latest financial crisis. As long as the government is trying to make it possible for everyone to own a home or have a job, or get healthcare insurance the free markets will be manipulated. And as long as people are willing to take risk to make money, we will see these kinds of up and down cycles. It is only through our interest in learning and understanding how all this works, that we can protect ourselves from what can and sometimes does go wrong. And perhaps it is time we made understanding money, credit and investing part of our public education curriculum. It seems to be a lot more relevant and substantive than some of the other things we teach our children as we prepare them for the real world.

Posted on 06/29/09 at 9:44AM

### **onlymoney says...**

This from Mike Kelley, a Chartered Financial Consultant and Chartered Life Underwriter:

In your recent article to research financial planners you had failed to do very much research yourself. Had you taken the time, you would discover that individual planners whom have taken years to study through American College to achieve the CLU (introduced 1927) and the ChFC (introduced 1982) have every much as professional coursework and dedication to ethical practices as a the CFP designation. The CLU, ChFC graduate offers both a comprehensive knowledge of financial planning and a broad foundation of Life insurance of both personal and business nature. I am not saying, that one is better than the other. To the public, the CFP is much more well known. Within the industry, the CLU, ChFC is

well respected. Your statement "be warned. If an adviser or planner doesn't have an RIA or CFP next to his name, he doesn't abide by the stricter fiduciary standard" is not only untrue, but very insulting to those of us that live by the American College creed of ethics.

Posted on 06/29/09 at 9:48AM

**onlymoney says...**

This from Russell Shaver, an Enrolled Agent and Chartered Financial Consultant:

I applaud your article concerning financial planning and researching qualified financial planners.

In your article, you mention qualified professionals that hold the designations of Registered Investment Advisers or Certified Financial Planners. What about financial planners that are Chartered Financial Consultants? To become a Chartered Financial Consultant, a series of eight courses must be passed, with the final course testing the cumulative information. I would suggest, that this designation provides the planner with a knowledge base that is equal to that of a Certified Financial Planner.

Please consider this when writing similar articles in the future.

Posted on 06/29/09 at 10:57AM

**onlymoney says...**

This from Tim Kober, certified financial planner and registered investment advisor at Cedar Financial Advisors in Portland:

Your article does a good job pointing out some the important considerations when selecting a financial advisor.

The National Association of Personal Financial Advisors (NAPFA) website includes a Tips and Tools page with a Financial Advisor checklist and a Financial Advisor Diagnostic tool.

The Diagnostic tool provides interview questions to help consumers determine the education, experience, compensation model, services offered, and regulatory compliance history of a prospective Advisor. the Diagnostic also explains many of the answers an Advisor might give.

Posted on 06/29/09 at 11:13AM

**onlymoney says...**

On my omission of CLUs and ChFPs in the column:

Investopedia offers one guide on the difference between CFP, CLU and ChFCs:

<http://www.investopedia.com/articles/professionaleducation/08/CFP-CLU-CHFC.asp?viewed=1>

One big difference for me is that CFPs are required to go through a board exam. The others aren't. That exam, by all reports, is quite difficult.

A bigger difference is this: The CFP Board's Standards of Professional Conduct requires that "a certificant shall at all times place the interest of the client ahead of his or her own." Says one board certificant: "A CLU that sells insurance on

commission isn't going to have a fiduciary relationship with a client."

Here's a blog post on State Farm's apparent request last year that its agents to give up the CFP designation if they use one because a CFP's fiduciary standard is "not conducive to [their] business model."

<http://www.kitces.com/blog/index.php/?archives/36-State-Farm-backs-away-from-CFP-designation.html>

I'm sure there are CLUs and ChFPs that embrace the fiduciary standard. But bottom line is, consumers should be aware of these differences and pose their interview questions and evaluations accordingly.

Posted on 06/29/09 at 1:25PM

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