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Money Guide: How to Pick a Planner

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Feb. 13, 2006 issue - Financial planning is *hot*. The more people worry about their money, the more they look for experts to help them straighten things out. Supply is rising to meet demand. The planning process attracts not only young graduates and financial professionals, but a slew of career changers—business people, teachers with a knack for numbers and retirees. Certified financial planners number 50,377 today, up almost 40 percent in the past five years—and that's just the serious side of the field. Plenty of phonies strut their stuff, sprinkling bad investments everywhere.

How do you sort out the good advisers from the poor ones? Here's a short guide.

What do you need a planner for? At a minimum, they serve as a double-check on the everyday decisions we make. Do you need more term life insurance? Are you spending too much? How much should you save for your retirement? You can probably answer these questions yourself, with the help of books, Web calculators and common sense. But a two- or three-hour "tuneup" session, with an experienced planner will almost certainly give you several good ideas. Many planners also manage money for people who don't want to go it alone.

Who qualifies as a "genuine" planner? For me, it's a certified financial planner. Not all CFPs are good at their work, but this is at least your starting place. To earn the title, planners have to take a wide range of personal-finance courses, sit for a two-day exam, practice for at least three years after taking the exam and keep up with their education. They're taught to look at your finances holistically—talking you through your goals, as well as advising on the details of your financial life.

There are other titles: ChFC (chartered financial consultant—a planner focused on insurance products), PFS (personal financial specialist—a certified public accountant with tax-planning expertise), CFA (chartered financial analyst—for securities analysis) and RIA (registered investment adviser). Any of these is fine; the more expertise, the better. The RIA is essential if you're looking for investment advice. But you should view all these titles as an addition to the CFP, not as a substitute. Your planner has to know how to think broadly about your personal values and needs.

Beware the alphabet soup of new designations! Many are trumped-up titles from self-proclaimed "institutes," mainly to give cover to high-pressure salespeople. The North American Securities Administrators Association warns, in particular, against the various types of "elder" or "senior specialists." For "training," they're dipped briefly into a few one-hour courses at a seminar or online. Their main mission: selling high-cost investments to older people. Both Massachusetts and Pennsylvania have brought actions against some salespeople with a CSA (certified senior adviser) designation. Massachusetts calls the title "a mockery of genuine financial planning." Dan Danbom of the Society of Certified Senior Advisors says that the society "has never had any charge made against it." Its 13,000 CSAs, he says, aren't supposed to claim "any functional expertise."

You should check out the meaning and source of any unfamiliar designation at **nasd.com**, the Web site of the National Association of Securities Dealers (look under Investor Information, then Investor Protection). If a novice can get a title based on a few hours of study, it's not worth much.

Do you need a written financial plan? Probably not. A true plan takes many hours of talk and analysis to develop. It's costly and not worth your while unless you work with the planner over the long term to see it through. Most advice these days is dispensed on a project basis. Full plans evolve if you continue to see the same person, asking different types of questions every time.

Beware of the \$500 "plan" offered by commissioned salespeople. It's designed to ferret out your resources so that the firm can sell you something—probably tax-deferred annuities, variable life insurance, the firm's own mutual funds and other high-commission products.

Which type of CFP is best? Someone whose livelihood doesn't depend on selling financial products. This rules out CFPs who take sales commission. They may be lovely neighbors, but they can't make a living (or keep their jobs) unless they can persuade you to buy.

Instead, you want what's known as a "fee-only" planner. These advisers sell no products and earn no sales commissions. They charge only for their services. You might pay \$150 to \$300 an hour for tuneup advice, a flat fee per project, an annual retainer or 1 percent of assets for money management. Where do you find fee-only CFPs? Try these sources:

1. *The National Association of Personal Financial Advisors* (800-366-2732; **napfa.org**), which limits its membership to fee-only planners. The roster is up to 1,019, covering

every state except North Dakota and West Virginia. Most of them seek clients with a high net worth, meaning \$250,000 and up to invest. But 282 list themselves as open to "middle-income clients." To find a local NAPFA member, enter your ZIP code on the site.

2. *The Financial Planning Association* (800-647-6340; **plannersearch.org**). Of its 27,000 members, 7,000 report that they're paid only in fees, FPA president Dan Moisand says. Search its Web site for planners who post a fee-only promise.

3. *The Garrett Planning Network* (**garrettplanningnetwork.com**). It currently includes about 250 fee-only planners in 41 states, most of whom target beginners and do-it-yourselfers. They offer "as-needed" advice—tips for specific situations, charged hourly. Many Garrett planners aren't yet CFPs, although they all have to be working toward the designation.

4. *The American Institute of Certified Public Accountants*, which offers a designation called personal financial specialist (**pfpa.aicpa.org**). You'll find 3,445 PFSs in 50 states. Most (but not all) are fee-only; many (but not all) are also CFPs. Look for a local practitioner online, or call 201-938-3828. CPAs specialize in tax planning and can be especially helpful to small businesses.

Be alert to planners calling themselves "fee-based" or "fee offset." They charge sales commissions as well as fees, and commissions are generally where the real money lies. You're safest with planners who sell no products at all.

What else should you know about a fee-only CFP? Look for people with at least five or six years' experience—you don't want them learning their trade on you. Read their biographies to see what they've done with their lives (did they switch to planning because they failed at something else?). Do their backgrounds suggest that they know what they're talking about? Do they work with a lot of people like you (doctors, retirees, young families, whatever)? For basic problems, such as managing spending or getting a mortgage, a one-person office may be fine. Those with higher net worth will want a firm that also has expertise on taxes, insurance, investments and trusts.

Should your CFP be an RIA? Absolutely yes, if you want investment advice. RIAs have passed certain exams and are duty-bound to look after your best interests. Those who manage \$25 million or more register with the Securities and Exchange Commission; smaller firms register with the state. All RIAs have to file a form called an ADV, which details their education, employment history, conflicts of interest, any disciplinary history

and how they're paid. A copy should be part of the package the planner sends to potential clients. You can also find it at sec.gov (click on Check Out Brokers Advisers).

Stockbrokers, by the way, are *not* investment advisers, no matter what it says about "consulting" or "advising" on their business cards. (Charles Schwab's "Advised Investing," for example, is merely a brokerage account.) This peeves real advisers, who think some investors have been misled. Brokers have no legal obligation to look out for your interests, nor do they have to provide you with their histories or disclose commissions. The FPA is suing the SEC over this broker loophole. To learn more about a broker, including any recorded disciplinary actions, go to nasd.com and click on the BrokerCheck tab, or call 800-289-9999. It's a jungle out there, but careful investors can find the facts they need.

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