What’s in a Word? Why It Matters How Your Advisor is Paid

By Eve Kaplan, CFP®

The public is confused…and no wonder. The financials industry sports a growing number of indecipherable titles. And almost anyone can call him or herself an Advisor. Advisors of all types offer an extensive range of services and can be paid in many different ways for their time and efforts.

The SEC, The Financial Planning Association, The National Association of Personal Financial Planners (NAPFA) and the Certified Financial Planner Board of Standards all are weighing in on the subject to educate the public about “choices” and “standards of professionalism” in financial services. However, the public remains confused about what Advisors do and how they’re compensated.

To help cut through this confusing thicket, here are some key things to note about Financial Advisors:

1. Does Your Advisor Look at Your Big Picture or Only a Corner of the Picture? Investment Managers and Financial Planners are both “Financial Advisors” but Investment Managers typically handle investments only – while Financial Planners look at the big picture and can provide guidance on investments as well as insurance matters, estate planning, tax issues, education funding, etc.

2. Why It Matters How Your Advisor is Paid: Does your Advisor sell products? (example: A, B or C mutual funds, insurance, annuities?). Or is he/she Fee-Only? (no products sold by the Advisor — fees are determined by the amount of assets managed,
for example). Or is your Advisor “Fee-Based” – meaning a combination of the two? Fee-Only sounds an awful lot like Fee-Based but they’re quite different – not only is the public confused about this but journalists and even financial planners routinely use these terms interchangeably.

3. Does Your Advisor Have a Fiduciary Responsibility Toward You – or To Him/Herself? Fiduciary responsibility is a buzz-word in the financials industry but it’s not well understood by the public. To put it baldly – is your Advisor obligated to put your needs before his or her own or is it the other way around? Advisors who sell products “muddy the water” on this issue because they sell products and earn commissions. In doing so, it’s not always clear to the client if a product is being sold because it’s a good fit with a client’s needs or if the motive is to generate a commission for the Advisor.

4. How Is Your Advisor Credentialed? With the alphabet-soup of designations (ChFP, CMA, ChFC, CLU, CFA, CFP, etc) it’s hard for the public to keep it all straight. Some credentials take years to earn (e.g. CPA, CFP, CFA) and some take a few days or week of class work to earn.

So what’s best for you? Everyone has different needs, but we think it’s better to pay a professional to look at the “whole picture” instead of one puzzle piece (investments only). That’s the role a Financial Planner can play – preferably one who carries the Certified Financial Planner ™ credential recognized as the gold standard in the industry. We also maintain it’s better to seek advice from a Fee-Only (no products sold) Financial Planner than from a Broker or other Advisor who sells products to earn a living. When Advisors sell products AND give advice at the same time, motives for recommending a product may become unclear. Certainly everyone is entitled to earn a living but in my experience the public generally is unaware of the fee structure it buys into when dealing with Advisors who sell products. As a result, there’s tremendous confusion about how Advisors charge for financial advice and what the fiduciary
consequences are. In our opinion, it’s best to have an advisor who is required to uphold a Fiduciary Responsibility to put YOUR interests before his or her interests.

For more information on the pros and cons of Fee-Only financial planning, visit www.napfa.org To paraphrase a local clothing advertiser, “The Educated Consumer is our Best Client.” Make it your business to become better informed about what your options are!

Copyright © 2007 by Eve Kaplan

Eve Kaplan, CFP® is a Fee-Only Certified Financial Planner. Kaplan Financial Advisors, LLC is a Registered Investment Advisor in NJ and NY. She can be reached at: 908-898-0549.