Picking the Right Planner

It Takes Homework To Choose From A Confusing Array

By Kathleen Day
Washington Post Staff Writer
Sunday, August 27, 2006; Page F01

Working single mom Kathy A. Gambrell has had no problem finding a lawyer to write her will or a certified public accountant to prepare her taxes -- professionals she found by asking friends and family for recommendations.

But a four-year quest to find a financial planner has left the editor of the District-based Congress Daily baffled, angry and, worst of all, unenlightened on how to find someone good to help her manage her money. Three weeks ago, she fired her latest adviser after he recommended she quit her job, fire her babysitter and yank her child from Montessori school -- then let him manage the money she would save, along with a small inheritance she's about to receive.

"As if!" says Gambrell, 46. "He had no idea what I was about."

Many people are comfortable handling their own investments. But many others, such as Gambrell, lack the time, expertise or inclination to go it alone. Unfortunately, finding the right adviser can seem as confusing as trying to navigate the complex world of financial investments did in the first place.

Much of what makes hiring a financial planner so bewildering is the motley nature of the industry. There are more than 80 certifications or degrees advisers can place next to their names. Most were created since the 1980s, when financial planning came into its own, but only a few carry widespread recognition.

"It's a joke," says Ellen Turf, chief executive of the National Association of Personal Financial Advisors, an industry trade group. "Our goal is to have financial planning be a profession, but it's not quite there yet. We don't have a system like doctors or lawyers or accountants, where you know what to look for."

The absence of a uniform industry standard means that consumers must do their homework before they hire anyone. Experts say it is essential to know whether a prospective adviser accepts commissions that could influence which products he recommends. And equally important: Consumers should also ask whether that adviser is the kind that by law must put his client's profit ahead of his own. And consumers should check with federal and state regulators to see if that adviser has registered and whether he has been the subject of any recent complaints or disciplinary actions.

Planning for the Times

Once a service aimed primarily at wealthy families, financial planning has gone mainstream as the number of people invested in the stock market has grown, experts say. Fifty percent of households today have a stake in the market, compared with 19 percent in 1983, according to the Employee Benefit Research Institute.

At the same time, workers increasingly must shoulder a greater responsibility for managing their retirement savings. More companies have shifted away from traditional pensions, known as defined-benefit plans, where workers are promised a specified monthly amount at retirement based on their salary and years of service. Instead, companies have shifted to defined-contribution plans -- the 401(k) is the best known -- where an employee and often the company contribute specified amounts from each paycheck to a savings plan. That money is invested in mutual funds or other investments, as directed by the employee, who then gets the pool of money at retirement, whatever it is worth at the time.

The pension reform law signed by President Bush this month will likely spur the trend because it provides for companies to start enrolling new employees in 40 1(k) plans automatically, unless the worker specifically opts out. And it will complicate choices for many workers because it allows investment firms that manage 401(k) plans for companies to also advise individual employees on how to invest that money.

For all these reasons, more people than ever are seeking professional advice on meeting their financial goals, and they come from all stages of life: a college graduate at his first job facing decisions about a 401(k) plan, new parents wanting to start a college fund, newlyweds deciding whose health plan and other insurance policies to cancel, an older worker uncertain if she can afford to retire, retirees intending to pay for grandchildren's college.

Many people say it simply boils down to a question of time. Rosanne Greco, a retired military intelligence officer who lives in Bowie, says she turned to a financial planner because she was too busy with work to sufficiently research what she should be doing. "I had been investing for years, but I didn't know what I was doing," she says. "I didn't have time, being in the military and traveling all over the world."

Credentialed Confusion

Financial experts and consumer advocates recommend looking for a planner whose services match your needs and level of wealth. Advisers often specialize in one area, such as retirement planning, and many have minimum asset requirements.

For help in finding a planner, consumers can ask friends and colleagues for referrals. Lawyers, bankers and other financial professionals may also be good sources for names of planners. And several financial trade groups also operate Web sites that list advisers by Zip code and area of expertise.

As consumers wade through lists of prospective advisers, they will encounter many professional credentials. Three of the best-known designations are certified financial planner, or CFP; certified public accountant/personal financial specialist, or CPA/PFS; and chartered financial consultant, or ChFC.

Each of these credentials requires its bearer to complete an approved course of financial-planning studies, pass a certification exam and attain a minimum level of experience. But these designations, just as in any other profession, don't guarantee that someone is good or will act with your best financial interest in mind, consumer groups and government financial regulators caution.

As they look for a planner, consumers should remember two key legal designations created by the federal government. The first is that of *registered investment adviser*. With one important exception, this is anyone who charges money for giving advice on which securities to buy or sell. They must file as a registered investment adviser with state or federal securities regulators, and by law they are what is known as a "fiduciary." A fiduciary can recommend only those investments she believes are in your best interest - - even if she might make more money by selling you something else.

The second legal designation is that of *stock broker* , which the law defines as anyone who buys or sells securities for someone else. In general, brokers are not fiduciaries. They don't have to recommend a product that is best for an investor -- only one that is suitable. For example, three mutual funds might be suitable for you, given your investment goals and tolerance for risk. A broker could legally steer you to the one that will pay him a higher commission, even if its returns have not been as good as the other two.

To further confuse things, an adviser can be both a registered stock broker *and* a registered investment adviser. That means he or she could apply different standards at different points in your relationship, at times acting as a fiduciary recommending a mutual fund that will give you the best return, at others acting as a broker, recommending a fund that's suitable but perhaps a bit riskier.

An additional wrinkle was added last year, when the Securities and Exchange Commission decided to allow stock brokers, who traditionally have been paid with commissions and have given limited investment advice, to perform those same functions for a fee, without having to become fiduciaries by registering as investment advisers.

That decision angered many registered advisers, who argue that the policy allows brokers to appear to offer unbiased advice without in fact having to act in a consumer's best interest. One trade association, the Financial Planning Association, has sued the SEC over the issue.

Federal regulators, acknowledging the potential for confusion, require these fee-paid brokers to disclose potential conflicts of interest to customers. But a recent study by the SEC found that customers often don't understand such disclosures. The agency plans a larger study before it decides what to do next.

To cut through the clutter, Barbara Roper of the nonprofit Consumer Federation of America recommends that people hire a registered investment adviser. It provides an extra level of probability that the person will act in your best interest, she says.

Fees vs. Commissions

Advisers can be paid with fees, commissions or a combination of both. Someone paid by commission -- for example, by a mutual fund or an insurance company -- is acting as a salesman. Someone paid only a fee is acting more like a lawyer, charging you for his time and expertise; he will not make more money by steering you towards one product over another.

The commission system still appeals to many consumers who can't afford or don't want to pay upfront fees, says Robert E. Plaze, associate director in the SEC's Division of Investment Management. But clearly, experts say, the popularity of fee-based services is growing.

In the past, fee-only planners tended to cater to wealthier clients, charging a rate that was a percentage of assets, usually about 1 percent a year. Clients often had to have assets of $1 million or more. The less wealthy couldn't get in the door of such places. But that's changing.

In recent years, Plaze and others note, one of the fast-growing areas in the fee-only advisory industry has been in planners who cater to middle- and working-class clients, as well as to younger investors who don't have lots of money. These advisers typically charge $100 to $200 per hour and often will give a free initial consultation. They don't necessarily manage your money, leaving it up to you to carry out their recommendations.

Michel Dolivo, a retired engineer in Shelton, Conn., says he knew planners could be paid different ways, but he didn't focus on that until the succession of advisers he hired recommended the same annuity insurance products over and over, products on which they were earning fat commissions. Within a year he said, "Enough of this," and now is "very happy" with someone who accepts no commissions.

If you want a planner with no potential compensation conflicts and with a legal obligation to put your interests first, Roper and others recommend hiring a fee- *only* registered investment adviser[1]. Hiring a fee- *based* planner -- someone paid partly by you in fees and partly with commissions -- is also fine, as long as the person is a registered investment adviser.

Greco, the retired Navy officer, switched recently from a commission-based adviser to a fee-only one, and she says she's pleased with the results.

"Before, I didn't pay anything, but I didn't get what I wanted," she says. "I now know I have to pay for what I want."

Make a Match

Consumers should interview at least three prospective planners, preferably face to face, before settling on one. In addition to explaining how they might meet your individual needs, the advisers should disclose any potential conflicts of interest or prior complaints about their work.

Each planner's background should be thoroughly checked, consumer advocates and industry experts say. The SEC Web site provides information on how to look up whether

[1] Emphasis not in original document.

□

an adviser is registered federally or at the state level, and provides links to state regulators. The Better Business Bureau may list consumer complaints against a particular adviser.

The homework doesn't stop once an adviser is hired. A planner's recommendations must be evaluated regularly to see if they still meet a client's investment and financial goals, which change over time.

Most of all, rely on common sense. Experts say that if you don't like the way you are being treated or you think you are getting boilerplate recommendations, it's time to switch, as Wendy Raymond of Ann Arbor, Mich., found out.

She and her husband stuck with a fee-only planner for 15 years who they say ignored their worries about having enough money to send their three children to college. They switched to someone who accepts fees and commissions and found her much more responsive.

But failing to switch soon enough cost the Raymond family dearly. "We will truly have to cram to get the money together for our kids," Raymond says.