

SmartMoney

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10 Things Financial Planners Won't Tell You

1. "I got this gig on a whim."

There's a huge market of consumers out there desperately seeking financial guidance—especially in the wake of the 2008 market crash. And a wealth of advisers are eager to serve them. In the early 1990s, only about 25,000 people called themselves financial planners, according to Boston-based research firm Dalbar, but by 2006 that number had climbed to around 650,000. Part of the reason for the boom is that anyone can present themselves as a financial planner—one of several generic titles for someone who provides advice to clients about how best to handle their money. (As opposed to money managers, for example, who actually manage your accounts.) And since there's no required training or experience necessary, why not hang out a shingle and tap into the profit?

But it can get even trickier than terminology—many of those seeking to provide you with financial advice are actually trying to sell you something. Bank-employed pitchmen are often called "personal financial consultants," for example, while insurance salesmen may present themselves as "financial advisers." Indeed, "The bulk of people who market themselves as financial advisers are salespeople," says the Consumer Federation of America's director of investor protection, Barbara Roper.

How can you be sure you're hiring a qualified pro? You can start by narrowing the field to one of the 56,000 Certified Financial Planner licensees out there (visit www.cfp.net). In contrast to run-of-the-mill planners and advisers, CFPs do have to meet specific requirements: Their license means three years' minimum experience and passing a comprehensive 10-hour exam. Next, grill candidates on how much real planning they've done. Wind Lake, Wis.-based CFP Jim Cantrell says he's met advisers who claim to have 10 years' experience, "then you find out that they became a planner only a year ago and spent eight years as a bank manager."



2. "I'm a jack-of-all-trades and master of none."

James Eccleston, a Chicago-based securities lawyer, recalls a client of his who met with disaster when a financial planner failed to advise him about the tax ramifications of exercising stock options. Instead, the planner convinced the client to buy a second home, Eccleston says, using the stock as collateral for the mortgage, "and the coffin was sealed, because this was a 100-percent position in Cisco." When Cisco stock tanked during the tech-bubble fallout, the client's portfolio plunged, from \$1.7 million to about \$5,400. He was forced to liquidate all his shares and take a \$100,000 second mortgage on his primary home to meet margin calls—then got whacked with a \$400,000 tax bill.

A good financial planner should work alongside outside professionals— accountants, lawyers, insurance brokers— to offer you the best service. However, at some firms, like the one Eccleston's client used, the planner tries to do everything himself. Beware. "If they're claiming that they have the expertise to do it all, I would seriously question that," Roper says. Like tax planning, estate planning poses great risks, says Eccleston, since flaws might not show up until the client retires or dies. His advice: Doublecheck anything your financial planner says about taxes or estate planning with a lawyer or CPA.



3. "I have ghostwriters draw up your plan."

So you met with a planner, outlined your goals, and left feeling that your financial future was in good hands. It might come as a disappointment, then, to learn that this wonderful planner won't be finishing the job. Outsourcing financial plans to a secondary firm or freelancer is a growing trend, especially among big firms, enabling planners to spend more of their time wooing new clients. "It's the current corruption in financial planning," says John E. Sestina, cofounder of the National Association of Personal Financial Advisors. But when a plan is done by outsiders, Sestina says, the information gets stale; there is less intimacy and more room for error. "You can't act on issues as soon as they crop up," he says.

And don't assume the planner will offer up this detail without prompting, says Sherry Rhoades, a Plano, Tex., certified financial planner who says she doesn't outsource. "[There's] no need for the client to know."



4. "I'm a high-pressure sell in disguise."

The majority of financial planners work on commission, which doesn't mean they're bad people but can make for some bad financial planning. When Laguna Hills, Calif.-based Certified Financial Planner Scott Dauenhauer worked at a few big-name brokerage firms during the '90s, he says he was constantly being pushed into selling the firm's proprietary—and often poorly performing—mutual funds, variable annuities, or wrap accounts. "We got pressured to sell them because the payout was higher," says Dauenhauer. "But there was no talk of whether it was right for the client."

To avoid such conflicts of interest, shop for a planner through the National Association of Personal Financial Advisors (www.napfa.org), a strictly fee-only group (no charge-backs, kickbacks, trails, or other hidden commissions) with more than 1,700 members. NAPFA planners have to sign an oath stating that they'll never receive commissions and promising to put their clients' best interests first. Along with having three years' experience, they must take 60 hours of continuing education every two years and submit sample plans for review by other NAPFA members.



5. "Am I 'fee-only' or 'fee-based'? Um, let's not split hairs."

As the public's suspicion of commission-driven planners has grown, so has the market for "fee-only" planning—in which financial planners charge for the advice they provide but don't get any commission on the products they sell. The popularity of the approach has inspired some financial planners "to clothe themselves in the 'fee' word," says New York-based CPA and former NAPFA Chairman Gary Schatsky. Indeed, more than 40 percent of certified financial planners now call themselves "fee-based," which means that they charge you an upfront fee and collect commissions on products they recommend, according to the Certified Financial Planner Board of Standards.



According to the most recent statistics from the CFP Board, fee-based revenue for registered representatives had climbed to roughly 33 percent of total revenue in 2004, versus 10 percent of total revenue in 1996—and the trend is still going strong. To be sure that your "fee-only" or "fee-based" planner is true to his claims, ask for a written breakdown of fees, especially those associated with each investment product, suggests Virginia-based CFP Randall Kratz. "If someone doesn't have what he makes in writing, I wouldn't work with him," he says.

6. "Once I've done the plan, I'm outta here . . ."

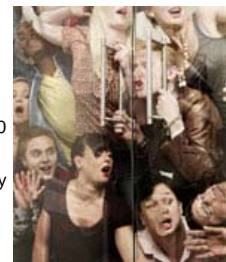
Financial planners like to give you the sense that they'll be with you every step of the way through important financial decisions. But in reality, many clients find that a once-attentive planner becomes increasingly elusive as time wears on. When Kratz worked for a financial advisory firm several years ago, he says he adopted more than 1,000 clients who had been discarded by colleagues, usually because they no longer produced adequate income to keep their planners interested. "Typically, the first year was an intense relationship, but clients complained that they stopped hearing from the adviser after that," he says. The reason? The commissions had dried up—a lot of products, especially insurance products, are based on one year of commissions before they drop off, says Kratz.



To avoid a shutout, ask prospective financial planners at the interview stage how often you should expect to be in touch. A good reply, says Coupeville, Wash., Certified Financial Planner Kathleen Cotton, is about four times in the first three months to hammer out a plan, then at least once or twice a year after that.

7. ". . . especially if you're not so well-to-do."

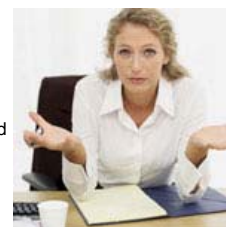
The past decade has seen a big push among planners to target high-net-worth clients, and many planners today have a minimum asset requirement—typically \$100,000. Considering that, according to the 2004 Census by the U.S. Census Bureau, American households have a median net worth of about \$44,000, that leaves a lot of folks out in the cold.



Luckily, middle-class clients do have some alternatives. The Garrett Planning Network (www.garrettplanningnetwork.com) is a ring of 260 planners across the nation who work primarily with the \$100,000-and-under income set, charging hourly fees for periodic advice. Similarly, John Sestina has his own network of 20 planners scattered around the U.S.; he says they can even handle some clients entirely over the phone (www.sestina.com). "There's a large influx of middle-class retirees that have assets that need to be put somewhere, so more and more companies are trying to tap into this market," says Percy E. Bolton, committee member of the Certified Financial Planner Board of Standards and founder of Pasadena, Calif.-based Percy E. Bolton Associates. "There are two waves of change today—the planners that are going after the super-rich and those that are going after the middle- and upper-middle-class clients."

8. "Confused? That's the point."

Many clients meet with planners only to leave with more questions than answers. "It's like going to the doctor—you think you understand when you're there, but then you walk out and think, What was it they said?" says Madeline Moore, a Portland, Ore.-based financial planner. Unfortunately, this confusion is often used to manipulate you.



Sherry Fabricant and her husband, of Plano, Tex., started investing \$120,000 with a financial planner at an area brokerage firm at the end of 1997. The planner told them that withdrawal of funds before a five-year period would incur a sliding fee (5 percent of assets in the first year, 4 in the second, and so on). However, not only did the planner put them in high-fee funds without their understanding but he didn't explain that with any additional investment transaction, the five-year restriction would begin anew. "Recently, we made a huge sell and a huge purchase," says Fabricant, "and it wasn't explained that our five years would then start over."

How can you protect yourself? Ask plenty of questions and write down the responses, and if you don't get straight answers, move on. "Remember, they work for you," says Sestina. "So if you never understand what they're saying, fire them."

9. "In fact, I don't even understand your plan."

There's a plethora of computer software today designed to help financial planners with clients' asset allocation, cash flow, retirement planning, and so on. These tools make for quick results, but they can also cause problems—especially when planners don't understand how the software works.

When Scott Dauenhauer worked at one major brokerage firm, he and his colleagues churned out boilerplate documents that, he says, all looked alike and usually had glaring mistakes—everything from a wrong age (which can render the entire plan wrong) to a misunderstanding of the client's goals. The danger was that most of his fellow advisers had little training in planning, "so you have a document that's probably wrong and an adviser who can't tell you why," Dauenhauer says.



Cotton suggests that you quiz your planner about any computer-generated plan to make sure he really understands it. You could ask,

say, whether the software assumes a flat rate of return on investments or how it deals with taxation issues. You can also test your CFP's plan against the free service at Financeware.com, which analyzes plans using real stock market returns—and is therefore more realistic than the flat rate used by most planners' programs.

10. "Good luck busting me for malpractice."

Since the financial-planning industry is so loosely organized, it's not surprising that there are no firm regulations regarding consumer grievances. The CFP Board enforces a code of ethics, "but given the limitations of a voluntary certification program, it's kind of after-the-fact enforcement," says Roper. So what can you do if you get cheated? If your planner, like most, holds a securities license, you go to FINRA, the Financial Industry Regulatory Authority. But be prepared to wait. Although the majority of arbitration cases are settled in around six months, if your case goes to a hearing, it could take up to 16 months to get a decision.

Even then, there's no guarantee you'll get a favorable outcome: In 2007, only 37 percent of investors who had a hearing recovered any money. Also, since arbitration can cost between \$15,000 and \$50,000, it makes sense only if you've lost more than \$30,000. If you're out less than that, start by writing a formal letter of complaint to the supervising manager, then write one to FINRA, the Securities and Exchange Commission, or your state securities regulator. You're unlikely to get any money back, says Eccleston, but the adviser might face disciplinary action. Even better: Protect yourself in advance by checking out a prospective financial planner's record. The SEC lists client complaints and regulatory violations on its website (www.adviserinfo.sec.gov), where you can also get details on both SEC- and state-registered planners.



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