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# The Power of Comprehensive Financial Planning, Part I: The Value of a CFP®

By Karen DeRose, CFP®, CRPC® & Anthony DeRose, JD*, MBA, CPA*

We meet with at least one new prospect per week, and we understand that there is a thought each and every prospect considers every time they meet with us: Are these the right planners to help me (and my family) achieve my financial goals? This is an important question, whose answer is vital to the work that we as planners have dedicated our lives to.

In **this article (Part I),** we will describe the main differences in both services and ethical standards between a Certified Financial Planner (CFP®) and other investment advisors/brokers. In **Part II (next month)**, we will take a deeper dive into the main areas in which a CFP® can be of service to their clients, with the exception of explaining the tenets of professional investment management, which we leave to **Part III (August)**.

## What is a "Financial Planner?"

The term "financial planner" is a ubiquitous term in our society. If you search for a "financial planner" in Google, you will run across a myriad of different advisors whose services differ dramatically. There is very little standardization in the definition of this term in my industry, and it is up to the investor to determine who is behind the curtain. Some "financial planners" are more aptly put investment advisors/brokers whose practice revolves around investment management only. Other "financial planners" offer a simplified financial plan as a gateway for the advisor to sell product – either insurance or investments. Others still offer hourly financial advice on a wide range of topics. As you can see, there are many different types of individuals who purport to be "financial planners."

I (Karen) began my career 23 years ago as a life insurance agent with my father. While I loved the idea of helping to financially protect families from a devastating loss, I would sometimes get asked financial questions that fell well outside my expertise as a life agent. I felt as though I was not fully able to guide my clients in the best way possible. This is when I discovered the career path of a Certified Financial Planner.

## What is a "Certified Financial Planner?"

On a high level, a CFP® is an individual who provides holistic financial planning, and thus has demonstrated a high level of technical proficiency and experience in the fields of financial independence (or retirement planning), estate planning, risk management and investment planning. CFPs® (such as myself) do not focus solely on investment planning; rather, we feel as though in order to satisfy the financial needs of our clients, we must provide advice by means of a written financial plan for all four areas (above) of a client's financial life. I do not want to belabor what a good CFP® specifically should do (and what I hope I do) with their clients – I am going to speak more specifically to this very topic in the next two articles.

## The Rigorous Requirements of Becoming a CFP®

In order to become a CFP®, an individual must first meet several rigorous requirements per the CFP® Board of Standards. First, the CFP board requires the candidate to earn a bachelor's degree from an accredited university and complete a college-level program of study in personal financial planning, including a financial plan development course. The CFP® Board also requires at least three years of professional experience in the financial planning process, or two years of apprenticeship with a CFP®.

Upon the completion of these steps, a candidate must then pass a rigorous six hour exam which is designed to assess the candidate's ability to integrate and apply a broad base of financial planning knowledge in the context of real life financial planning situations. According to the CFP® Board, the pass rate for the CFP exam in 2013 (the most up to date stats on the exam) was 63.3%.

The candidate's education does not stop here. After passing the exam, the newly minted CFP® must continue to meet continuing education requirements per the CFP board which includes 30 hours of approved courses (which include 2 hours of mandatory ethics) every two years.

Before becoming a CFP®, the candidate must agree to the CFP's® code of ethics, which includes seven principles:

- Integrity - Provide professional services with integrity.
- Objectivity - Provide professional services objectively.
- Competence - Maintain the knowledge and skill necessary to provide professional services competently.
- Fairness - Be fair and reasonable in all professional relationships. Disclose conflicts of interest.
- Confidentiality - Protect the confidentiality of all client information.
- Professionalism - Act in a manner that demonstrates exemplary professional conduct.
- Diligence - Provide professional services diligently.

If a CFP® violates one of these principles, they can be subject to discipline, including the suspension or revocation of the CFP's® license. While I do not want to downplay the Code of Ethics' importance, since it can lead to several dire consequences if not followed, the most serious consequences typically occur if the CFP's® fiduciary standard has been violated.

## Suitability Standard vs. Fiduciary Standard

An important question to always ask your financial planner is whether they are subject to a fiduciary standard or a suitability standard. The fiduciary standard afforded to clients in my field offers the greatest legal protection against harm at the fault of their financial planner. On the other hand, as you will see, the suitability standard falls short. This area may be a bit technical, but it is important to understand this difference.

Before we can even begin to discuss this important difference, we must first understand what type of standard your planner falls under. Investment Advisor Representatives (IARs) and CFPs® are the only two designations in the financial planning world who are subject to the high fiduciary duty standard. IARs are registered and regulated by the SEC and the Investment Advisors Act of 1940. In following their standard, an IAR's *investment recommendations* must meet the requisite fiduciary duty. A CFP's® fiduciary standard is governed by the CFP® Board, which states that those CFPs® who provide *financial planning services* must meet the requisite fiduciary duty.

In order to meet the requisite fiduciary duty, a CFP®/IAR must satisfy the prongs of the fiduciary duty - the duty of care and duty of loyalty. The duty of care primarily means that the CFP®/IAR will act prudently/reasonably when acting on behalf of their clients, take action to avoid misleading clients, and have a reasonable basis for investment/financial planning advice. The duty of loyalty means that the CFP®/IAR will act in the best interests of their client and place the interests of their client above their own – thus avoiding conflicts of interest.

If these duties have been broken, the SEC and/or the CFP® board can potentially suspend or revoke the planner's license, or lead the client to sue the IAR/CFP which can potentially lead to court/arbitration.

On the other hand, the suitability standard is significantly less stringent. Registered representatives or brokers working on behalf of a broker dealer must merely meet this standard. The suitability rule merely states that brokers must make recommendations that are consistent with the best interest of the client.

There are a few very important differences between the two standards. First, the suitability rule as required by FINRA does *not* require the broker to place his or her interest below that of the client as is required for CFPs®/IARs. This means that as long as the investment fits the needs of the client, the broker is free to pick the investment that pays her/him more money even though if may mean higher expenses for the client, a clear conflict of interest. Furthermore, brokers are not always obliged to tell you how they are compensated or who is ultimately paying them, which is a requirement for both CFPs®/IARs. Brokers are also paid primarily when a trade occurs. While a broker is subjected to churning rules, the fact remains that a broker has an incentive to trade an account, and so long as the broker can prove suitability, the standard has been met.

I hope I have helped to explain, at least on a high level, the main differences in services and ethical standards between a CFP® and the other types of brokers/investment advisors. In part II (next month), we will discuss specifically the types of services that a good CFP® offers to its clients.