WHAT IS A
FEE-ONLY ADVISOR?

Q. What Is A Fee-Only Advisor?

A. The National Association of Personal Financial Advisors (NAPFA) defines a Fee-Only planner as one who, in all circumstances, is compensated solely by the client, with neither the advisor nor any related party receiving compensation that is contingent on the purchase or sale of a financial product. A Fee Only Advisor may not receive commissions, rebates, finder's fees, bonuses or any form of compensation from others as a result of a client's implementation of the individual's planning recommendations.

Q. Why is Fee-Only Compensation of Critical Importance?

A. A financial planner who has a financial stake in the course of action that he/she recommends to a client faces an inherent conflict of interest and cannot be considered objective and unbiased. This is true even if the planner truly believes that he/she has only the best interests of the client at heart. Unfortunately, the vast majority of financial advisors in the United States are sellers of financial products. Some or all of their income may be dependent upon their ability to steer their clients to a limited number of the thousands of financial products available today. These advisors include stockbrokers, analysts, insurance agents, accountants and attorneys, as well as financial planners. Many of their clients are not aware of their advisors' dependence on selling products, or do not recognize its difference.

NAPFA believes that many of the problems that beset Americans today in their financial affairs – including the mismanagement of debt, failure to protect retirement assets and poor allocation of savings and investments – relate directly to the conflicts of interest that pervade the marketplace.

Q. What is the Fiduciary Oath?

A. The advisor shall exercise his/her best efforts to act in good faith and in the best interests of the client. The advisor shall provide written disclosure to the client prior to the engagement of the advisor, and thereafter throughout the term of the engagement, of any conflicts of interest, which will or reasonably may compromise the impartiality or independence of the advisor. The advisor, or any part in which the advisor has a financial interest, does not receive any compensation or other remuneration that is contingent on any client's purchase or sale of a financial product. The advisor does not receive a fee or other compensation from another party based on the referral of a client or the client's business.

Q. Why is competence important in financial planning?

A. Unlike the professions of medicine, law, and accounting, the field of financial planning does not yet have a broadly accepted definition of superior quality. It has numerous certification programs that show that a person has been trained in certain relevant subject areas. The public deserves to have this crucial issue settled so that individuals can turn to financial advisors who have the equivalent of an MD, JD, or CPA in education, training, ethical requirements, and practice methods.

A NAPFA-Registered Financial Advisor must submit a financial plan for peer review and complete continuing education in six subject areas every two years. Additionally, his/her government-mandated disclosure document (Form ADV) must be reviewed annually.

Q. What is a holistic approach to financial planning?

A. NAPFA-Registered Financial Advisors provide holistic financial planning services to those they serve. Most of the nation's financial advisors pay lip service to holistic planning but few actually provide it. In recent years, the practice and public perception of financial planning tended to be overly focused on investments in general, and stocks in particular – a trend encouraged and reinforced by the fact that most providers of financial advice benefit from the sale of financial products.

As a result, many members of the public have received a painful reminder frequently forgotten: the value of investments can fall as well as rise. If they were relying on a financial advisor who was merely providing investment advice, they are probably surprised by and poorly prepared for the current economic downturn.

Why? If an financial advisor doesn't understand the client's full picture, the quality of advice in any one area, including investment advice, can suffer significantly. Competent and informed investment decisions must take into account all the other factors that comprise an investor's financial profile, including tax, estate planning, insurance, risk tolerance, specific family circum-stances and ultimate financial goals. A financial plan built holistically includes much more than investment advice. It is an all-purpose tool that enables planner and client, working together, to make better financial decisions because each individual decision is made within the context of the full picture.

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A financial advisor held to a Fiduciary Standard occupies a position of special trust and confidence when working with a client. As a Fiduciary, the financial advisor is required to act with undivided loyalty to the client. This includes disclosure of how the financial advisor is to be compensated and any corresponding conflicts of interest.

Compensation – NAPFA members are compensated solely by their clients, and do not receive any outside inducements for recommending investments or financial products.

Loyalty – An advisor who is loyal to only his or her clients will not be swayed by outside forces to recommend investments with higher commissions or payouts.
Disclosure – People must understand how their financial advisor is being compensated and whether or not any potential conflicts may impede an advisor's ability to provide truly independent advice. Disclosure must be made before a client works with an advisor or implements any of his or her advice.