

WHO IS A FINANCIAL PLANNER?

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Note that I didn't ask the question, "What is a financial planner?" That's because the corollary is equally important: "Who is not a financial planner?"

Let's start with the official definition of financial planning from the CFP Board itself:

Financial planning is a collaborative process that helps maximize a client's potential for meeting life goals through financial advice that integrates relevant elements of the client's personal and financial circumstances.

A lot to unpack there. So let me give you my definition:

Financial planning is a process that seeks to help clients make good financial decisions and avoid making really stupid financial decisions in order to achieve their long term goals in life.

The important thing about both definitions is that financial planners look at the whole picture of a client's life and connect the dots. For more information on what that means, refer to a blog I wrote previously:

<http://www.lotusfinancialsvcs.com/files/90145/THE%20FINANCIAL%20LIFE%20PLANNING%20PROCESS.pdf>

So who is not a financial planner?

Sales reps at banks and brokerage houses.

Banks and brokerage house hire sales reps to sell their products. It's not the job of a sales rep to help customers make good decisions and avoid bad decisions. Rather, it's the job of a sales rep to make money for the shareholders of his or her employer. (Remember when Wells Fargo got caught doing what everybody does?)

Because sales reps are compensated for enhancing shareholder value, they cannot and do not operate under the fiduciary standard. Again quoting the CFP Board:

The fiduciary standard of care requires that a financial adviser act solely in the client's best interest when offering personalized financial advice.

The sales reps at banks and brokerage houses will tell you that they operate under the fiduciary standard. And their ads on TV and radio will claim that as well. (See <http://www.lotusfinancialsvcs.com/files/90145/AS%20SEEN%20ON%20TV%21.pdf> for more on that subject.) But how can they? Will a car salesman at Toyota tell you that a Ford will better suit your needs? Of course not. Nor will a sales rep tell you to put your money somewhere other than under his or her management.

I have lots of stories. I recall one 65 year old woman one year before retirement who hadn't been funding her tax-deductible 401K because her sales rep told her it was better that he manage her money in a taxable brokerage account, ignoring the tens of thousands of dollars in taxes she paid as a result. Another client was sold a whole life insurance policy, even though no one would be financially harmed by his early demise. A couple in their late 50s came to me with a quarter million in credit card debt. I created a plan for getting rid of that debt, but it involved some tough choices and tradeoffs. They decided to work with a sales rep who told them everything would be fine if the couple worked with her because she would not require them to change anything. (Their credit card debt subsequently grew by another ten thousand.) A friend of mine was told by his sales rep to take social security early so he wouldn't draw down the assets under the sales rep's management. One client was shocked when I showed her that her sales rep was trading stocks on margin in her account (making money on both commissions and interest). She didn't even know what "trading on margin" meant.

I'll say it again. The big difference between financial planners and sales reps is that financial planners are planners and sales reps are salespeople. Obvious? Not to a lot of people. And this is a classic example of how what you don't know you don't know can really harm you.

There were 101 topics on the CFP exam. All dealt with helping people make good decisions and achieve their goals in life. None dealt with selling or marketing.

I talked to someone who went through the training program of one of the larger brokerage firms. He said that 90% of the training was how to sell. Looking out for the best interests of the clients was an afterthought of little importance.

When a client works with a planner, the relationship is an advisory one. When a customer works with a sales rep, the relationship is a transactional one. For more on what I mean by this:

<http://www.lotusfinancialsvcs.com/files/90145/TRANSACTIONAL%20VS%20ADVISORY%20RELATIONSHIP.pdf>

Let's talk about a third entity: the Money Manager.

In my experience, there is no overlap among what a financial planner does, what a sales rep does, and what a money manager does.

And yet, in many people's minds, they are interchangeable.

The money manager is important to both the financial planner and the sales rep. While the planner is focused on helping her clients make good decisions in order to achieve their long term goals in life, she needs a money manager to help on the investment side. There are many good money managers to choose from such as Fidelity, Blackrock, Vanguard, and American funds to name a few. The planner will choose the money manager most likely to achieve goals consistent with the plan. I do not believe that a good long term comprehensive financial life planner can focus on both the client AND the client's money. Those are two very different skill sets.

The sales reps must also rely on money managers. They cannot sell AND manage money at the same time. The banks and brokerage houses have their own money managers and often use the same money managers as the planners, but with high fees tacked on (to transfer wealth from you to their shareholders).

Why is all this important to you? You know the difference between a physician and a pharmaceutical or medical equipment sales person. To which would you entrust your physical health?

Similarly, to whom would you entrust your financial future, a trained professional financial life planner looking at all aspects of your life and working under the fiduciary standard? Or a salesperson who is paid to sell you his company's products?