NAPFA
THE POWER OF TRUST

CONSUMER TOOLS

How do you sift through the hype when looking for a financial advisor? Will a firm with a huge advertising budget do the best job helping you meet life's financial goals?

Financial Advisor Comparison Tool

Is your advisor the right one for you?

TV ads may talk about your hopes and dreams, but ultimately salespeople focus almost exclusively on getting you to purchase their products. When it comes to your finances, the situation is the same. Many financial services professionals are paid by your buying their insurance and investment products. Your financial situation is complex; a true financial advisor will analyze your current condition, make prudent recommendations and support you along the way.

The **Financial Advisor Comparison Tool**, created by the National Association of Personal Financial Advisors (NAPFA) is a thorough questionnaire you can use to evaluate a financial advisor. The questions and popular answer key will help you make an informed decision based on the responses a financial advisor provides. Before hiring a financial planning professional, perform this simple diagnostic. If the advisor's answers do not follow prudent core values, you may not be speaking with the right advisor for you.

Services

1. Financial planners provide a range of services. It is important to match your needs with services provided. Do you offer advice on? (check all that apply)

   - ☐ Goal setting
   - ☐ Cash management & budgeting
   - ☐ Tax planning
   - ☐ Investment review & planning
   - ☐ Other: _____
   - ☐ Estate planning
   - ☐ Insurance needs
   - ☐ Education funding
   - ☐ Retirement planning

2. Do you provide an analysis of my financial situation and specific recommendations?
   ☐ Yes ☐ No

3. Do you offer assistance with implementation with the plan?
   ☐ Yes ☐ No

4. Do you offer continuous, on-going advice regarding my financial affairs, including advice on non-investment related financial issues?
   ☐ Yes ☐ No

5. Other than receiving my permission to debit my investment account for your fee, do you take custody of, or are you able to withdraw my assets?
   ☐ Yes ☐ No

6. If you were to provide me on-going investment advisory services, do you require "discretionary" trading authority over my investment accounts?
   ☐ Yes ☐ No

7. How many clients do you work with?_____

8. Are you currently engaged in any other business, either as a sole proprietor, partner, officer, employee, trustee, agent or otherwise? (Exclude non-investment related activities, which are exclusively charitable, civic, religious or fraternal and are recognized as tax-exempt.)
   ☐ Yes ☐ No

9. Will you or an associate work with me?
   ☐ I will ☐ An associate ☐ Work as a team

10. Will you provide me with references from other professionals?
    ☐ Yes ☐ No

Education

11. What is your educational background?

College Degree: ☐ Yes ☐ No Area of Study:_____

Post Graduate Degree: ☐ Yes ☐ No Area of Study:_____

12. What are your financial planning credentials/designations? (Check all that apply)

☐ Certified Financial Planner (CFP)
☐ Certified Public Accountant/Personal Financial Specialist (CPA/PFS)
☐ Chartered Financial Consultant (ChFC)
☐ Other:_____
☐ Other:_____
☐ Other:_____

13. How long have you been offering financial planning services?

☐ Less than 2 years ☐ 2-5 years ☐ 5-10 years ☐ 10+ years

Objectivity

Financial planning costs include what a client pays in fees and commissions. Comparison between advisors requires full information about potential total costs. It is important to have this information before entering into any agreement.

14. How is your firm compensated and how is your compensation calculated?

☐ Fee-Only (as calculated below):

Hourly rate of $_____/hour
Flat fee (Range and Explanation)_____
Percentage_____% to_____% of_____ (AUM, Net worth, etc.)

☐ Commissions only; from securities, insurance, and/or other products that clients buy from a firm with which you are associated

☐ Commission and Fee

☐ Fee Offset (charging a flat fee against which commissions are offset). If the commissions exceed the fee, is the balance credited to me? ☐ Yes ☐ No

15. Do you have an agreement describing your compensation and services that will be provided in advance of the engagement?

☐ Yes ☐ No

16. Do you have a minimum fee?

☐ Yes ☐ No

If yes, please explain:_____

Objectivity

17. If you earn commissions, approximately what percentage of your firm's commission income comes from:

_____% Insurance products
_____% Annuities
_____% Mutual funds
_____% Other:_____

_____% Stocks and bonds
_____% Coins, tangibles, collectibles
_____% Limited partnerships

18. Does any member of your firm act as a general partner, participate in, or receive compensation from investments you may recommend to me?

☐ Yes ☐ No

19. Do you receive referral fees from attorneys, accountants, insurance agents, mortgage brokers, or others?

☐ Yes ☐ No

20. Do you receive on-going income from any of the mutual funds that you recommend in the form of "12(b)1" fees, "trailing" commissions, or other continuing payouts?

☐ Yes ☐ No

21. Are there financial incentives for you to recommend certain financial products?

☐ Yes ☐ No

22. Will you sign the following Fiduciary Oath?

☐ Yes ☐ No

Fiduciary Oath

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 party 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.

Following the NAPFA Fiduciary Oath means I shall:

- Always act in good faith and with candor
- Be proactive in disclosing any conflicts of interest that may impact a client
- Not accept any referral fees or compensation contingent upon the purchase or sale of a financial product

Signature _____

Regulatory Compliance

Federal and state laws require that, under most circumstances, individuals or firms holding themselves out to the public as providing investment advisory services are required to register with either the U. S. Securities & Exchange Commission (SEC) or the regulatory agency of the state in which the individual/firm conducts business.

23. Have you ever been cited by a professional or regulatory governing body for disciplinary reasons?
☐ Yes ☐ No

24. My firm is registered as an Investment Advisor?
☐ Yes ☐ No

SEC registration? ☐ Yes ☐ No

State registration? ☐ Yes (In the following states _____) ☐ No

Please provide your Form ADV Part II or brochure being used in compliance with the Investment Advisors Act of 1940. If not registered with either the SEC or any state, please indicate the specific reason (regulatory exemption or other reason) for non-registration.

Please Note: A yes or no answer requiring explanation is not necessarily a cause for concern. We encourage you to give the advisor an opportunity to explain any response. Information geared to the investing public can be found on the Securities & Exchange Commission website (http://www.sec.gov) under the "Investor Information" section.

25. Do you have a business continuity plan?
☐ Yes ☐ No

This form was created by the National Association of Personal Financial Advisors (NAPFA) to assist consumers in selecting a personal financial advisor. It can be used as a checklist during an interview, or sent to prospective advisors as part of a preliminary screening. NAPFA recommends that individuals from at least two different firms be interviewed.

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Comparison Tool Answer Key

Once you have a completed Comparison in hand it's time to evaluate the responses. NAPFA provides the following Answer Key based on the long-standing ideals of the organization:

Question #1 – The financial advisor that you engage should be willing and able to provide you with a written analysis of your current financial situation as well as appropriate corresponding recommendations to help you accomplish your objectives. This written analysis can serve as the starting point for beginning your client/advisor relationship.

Question #2 – The development of a financial plan is the initial step to properly assessing your finances. A plan, however, has little value until it is implemented. As opposed to 'going it alone', consider having your financial advisor implement the plan. Fee-Only advisors can often reduce your investment costs by investing in assets with reduced annual expenses and no related sales commissions.

Question #3 – Some consumers find regular or periodic reviews and on-going communication necessary to remain on track toward achieving financial objectives. If this level of involvement is important to you, make sure the financial advisor you hire provides this ongoing support.

Question #4 – Many financial professionals loosely use the term "Comprehensive" in describing their range of financial planning services. Financial planning is generally much more than simply developing a plan for primarily short-term objectives and reviewing the plan when appropriate. Financial planning typically covers a wide range of both short- and long-term financial issues and addresses your personal goals, objectives and significant life cycle events. The more services your financial advisor provides, the greater your odds of receiving truly holistic financial planning.

Question #5 – While allowing an advisor to debit your investment account for her/his fee is fairly typical, you should avoid permitting an advisor to have physical "custody of your investment assets", or the ability to make withdrawals or transfers from your account(s) without express specific prior written consent prior to each such withdrawal or transfer. Generally, advisors who don't accept commissions will not expose their clients to these "custody" type situations. When you use a Fee-Only advisor, an unaffiliated brokerage firm will usually maintain physical custody of your investment assets.

Comparison Tool Answer Key

Question #6 – If you grant an advisor "discretionary" trading authority over your investment account, the advisor can place orders to either buy or sell securities without consulting with you ahead of time. If you have granted your advisor "non-discretionary" trading authority, the advisor must obtain your approval prior to making any transactions in your account. If you are going to grant "discretionary" authority to your advisor, prior to making the initial investments, it is advisable to have a written document setting forth the terms and conditions of the discretionary engagement (usually set forth in an Investment Management Agreement). Additionally you should receive a corresponding written document setting forth the investment parameters for the accounts to be managed (i.e. investment objectives, percentage allocations, restrictions, etc.), often referred to as an Investment Policy Statement. Of course, you should always continue to monitor the activity within your investment account to make sure that transactions are within the parameters of an agreed-upon investment policy.

Question #7 – Personal attention is important when engaging a financial advisor. The number of clients an advisor works with will help you better understand how much attention she/he will be able to devote to you and your situation. If the number of clients seems excessive, ask how advising that many clients will affect your relationship.

Question #8 – By knowing what other business ventures a financial advisor is involved in, you will better understand if there are any conflicts of interest with regard to the advice that you might receive. This is especially important if the advisor is involved with any other investment related entity. If there is a relationship in place with another conflicting organization, ask for a detailed account of how that relationship will impact the advice she/he will provide you.

Question #9 – When engaging a financial advisor, you will want to know whether you will be working with that person directly or another qualified professional who is part of a team. If the advisor indicates that an associate will primarily work with you, ask to meet that person prior to commencing the relationship.

Question #10 – If you request, the financial advisor filling out the Diagnostic should also be willing to share the name of another financial professional with whom he/she has worked. By talking with another financial professional who is familiar with the prospective financial advisor you might be better able to learn more about their abilities and strategies for recommending prudent courses of action. Privacy laws severely limit an advisor's ability to share client information.

Question #11 – Although not currently required by applicable regulatory authorities, NAPFA believes that a financial advisor should have an advanced education in financial planning topics such as investments, taxes, insurance, or estate planning in addition to a college degree. Also, NAPFA believes that your planner should be required to participate in continuing professional education to keep his/her knowledge base current.

Comparison Tool Answer Key

Question #12 – There are a number of professional certifications or designations financial advisors can obtain, and each requires a different level of Continuing Education requirements to maintain. It is important to take the Continuing Education requirements into account when selecting an advisor, since one may assume the more Continuing Education required by the governing body she/he belongs to, the more knowledgeable the advisor. Continuing Education also helps advisors stay on top of trends in the industry, which should help them make better recommendations for your financial situation.

•NAPFA-Registered Financial Advisor	=	60 hrs every 2 years
•Certified Financial Planner (CFP)	=	30 hrs every 2 years
•Chartered Financial Consultant (ChFC)	=	30 hrs every 2 years
•Certified Public Accountant/ Personal Financial Specialist (CPA/PFS)	=	60* hrs every 3 years (min)
•Certified Public Accountant (CPA)	=	120 hrs every 3 years
•Chartered Financial Analyst (CFA)	=	40 hrs every 2 years

Requirement ranges between 60 and 135 hours every three years based on total hours of business experience.

Question #13 – Just because someone has one of the above listed designations does not by itself mean that person is a truly competent financial advisor. You should carefully examine a person's background and experience when choosing an advisor; someone who has been in the industry longer and provides inclusive financial planning may be a better fit for you, especially if you have a complicated financial situation.

Question #14 – How should a financial advisor charge for services? The members of NAPFA firmly believe that financial advisors should charge using a fee for service model. Although NAPFA recognizes that financial planners can provide services on a commission basis, it is NAPFA's core position that a fee for service engagement removes the potential conflicts of interest that are inherent in a commission relationship.

Question #15 – Prior to formalizing a relationship, a financial advisor should always provide you information which clearly discloses how she/he will be compensated: Fee-Only, commissions, etc. Ask for this information prior to commencing a relationship, and if there are any corresponding conflicts of interest presented by the compensation arrangement.

Question #16 – Financial advisors may charge a minimum fee for services they render. If you have limited financial planning needs and/or a small portfolio, paying a minimum fee may not be in your best interests. If that is your situation, search for an advisor who will provide you professional advice on a flat-fee, project, or hourly basis.

Comparison Tool Answer Key

Question #17 – While NAPFA encourages you to consider using a commission-free Financial Advisor to minimize the potential for conflicts of interest, you may instead select an advisor who accepts commissions. Financial advisors who are compensated based on commissions should be able to explain how they are compensated and identify what percentage of their compensation is derived from the sale of various commission-based investment products and/or securities trading.

Question #18 – Ask your prospective financial advisor if she/he is limited to presenting certain types of investments or investment products to you. If so, inquire why she/he is limited, and how this might impact the success of attaining your goals and/or the amount of fees to be paid.

Question #19 – As you work with a financial advisor, other needs revolving around important financial issues will become evident. Certain advisors, for example, recommend attorneys, accountants, insurance agents, and mortgage brokers to their clients. You should inquire whether the financial advisor will receive a referral fee from the recommended professional. If the financial advisor does receive a referral fee or some other type of compensation from the professional(s) that she/he may recommend to you, you should seriously consider this conflict of interest prior to engaging the recommended professional.

Question #20 – Some mutual fund and investment product sponsors pay 12b(1) and similar fees. A financial advisor who receives 12(b)1 fees or "trailers" is not a Fee-Only Financial Advisor. Trailing fees may negatively impact you, because typically the product sponsor charges shareholders higher fees and then pays a portion of the money to the financial advisor on an ongoing basis.

Question #21 – Commission-based advisors may receive higher commissions on certain products they sell than on others. This may influence their decision to recommend investment products that are not in your best interest. Ask your prospective financial advisor how his/her recommendation might impact the success of attaining your goals and/or the amount of fees to be paid. Fee-Only advisors do not have this conflict of interest; they are able to recommend investments based solely upon your specific needs.

Question #22 – Accountability is important in financial planning. While there are many people in the financial services industry who profess to have the client's best interests at heart, they still may make recommendations that present a conflict of interest. NAPFA requires all of its members to sign a Fiduciary Oath; this helps to ensure that each client's best interests, not the advisor's, are always a priority.

Question #23 – Be wary of a financial advisor who has been disciplined by a professional or regulatory body. In many cases, financial advisors who are disciplined are being held accountable for imprudent advice or abuse. You should, however, give an advisor the opportunity to explain his/her side of the disciplinary incident.

Question #24 – NAPFA believes that any financial advisor offering financial planning services should be registered as an investment advisor with either the U.S. Securities and Exchange Commission (SEC) or with the state regulatory agency within the advisor's state. Information pertaining to both SEC registered investment advisors (and the vast majority of state registered investment advisors) is set forth on Part I of the advisor's Form ADV (see www.sec.gov). Unlike other investment professionals, only registered investment advisors owe a fiduciary duty under law to their clients (i.e. they are required to always act in the best interests of their clients and to make full and fair disclosure of all material facts, especially when the advisor's interests may conflict with those of the client).

Question #25 – A concern for many clients is they will retain the services of a financial advisor who might soon retire, pass away, or transition completely out of financial services. If any of these events were to occur, what would happen to you? You should ask your prospective financial advisor if she/he has a plan in place to address any potential situations whereby she/he might no longer be able to provide services.