

## 1.5: Financial Planning Professionals

### Learning Objectives

- Identify the professions of financial advisors.
- Discuss how training and compensation may affect your choice of advisor.
- Describe the differences between objective and subjective advice and how that may affect your choice of advisor.
- Discuss how the kind of advice you need may affect your choice of advisor.

Even after reading this book, or perhaps especially after reading this book, you may want some help from a professional who specializes in financial planning. As with any professional that you go to for advice, you want expertise to help make your decisions, but in the end, you are the one who will certainly have to live with the consequences of your decisions, and you should make your own decisions.

There are a multitude of **financial advisors** to help with financial planning, such as accountants, investment advisors, tax advisors, estate planners, or insurance agents. They have different kinds of training and qualifications, different educations and backgrounds, and different approaches to financial planning. To have a set of initials after their name, all have met educational and professional experience requirements and have passed exams administered by professional organizations, testing their knowledge in the field. Figure 1.17 provides a perspective on the industry classifications of financial planning professionals.

CPA	Certified Public Accountant	<ul style="list-style-type: none"> <li>• Qualified to audit publicly traded corporations</li> <li>• Often does accounting for individuals, especially tax accounting</li> <li>• Often helps with financial planning and advising, especially tax planning</li> </ul>	<ul style="list-style-type: none"> <li>• Certified by the American Institute of Certified Public Accountants (AICPA)</li> </ul>
CA (Canada)	Chartered Accountant	<ul style="list-style-type: none"> <li>• Canadian equivalent of a U.S. CPA</li> </ul>	<ul style="list-style-type: none"> <li>• Certified by the Canadian Institute of Chartered Accountants (CICA)</li> </ul>
CCA (UK; recognized globally)	Chartered Certified Accountant	<ul style="list-style-type: none"> <li>• UK equivalent of U.S. CPA</li> </ul>	<ul style="list-style-type: none"> <li>• Certified by the Association of Chartered Certified Accountants (ACCA)</li> </ul>
CFA (recognized globally)	Chartered Financial Analyst	<ul style="list-style-type: none"> <li>• Works in the investment professions or banking</li> <li>• Focuses on financial analysis</li> <li>• Often advises on personal strategies for building and managing wealth through an investment portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Chartered by the Chartered Financial Analyst Institute</li> </ul>
CFP (recognized globally)	Certified Financial Planner	<ul style="list-style-type: none"> <li>• Trained to assist with all aspects of the financial planning process</li> </ul>	<ul style="list-style-type: none"> <li>• Certified by the Certified Financial Planner Board of Standards, Inc.</li> </ul>
ChFC	Chartered Financial Consultant	<ul style="list-style-type: none"> <li>• Trained to assist with aspects of the personal financial planning process relating to life insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Chartered by The American College</li> </ul>
CLU	Chartered Life Underwriter	<ul style="list-style-type: none"> <li>• Trained to structure and sell life insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Chartered by The American College</li> </ul>
AFC	Accredited Financial Counselor	<ul style="list-style-type: none"> <li>• Assists with financial planning</li> </ul>	<ul style="list-style-type: none"> <li>• Certified by the Association for Financial Counseling and Planning Education (AFCPE)</li> </ul>
AEC	Accredited Estate Counselor	<ul style="list-style-type: none"> <li>• Specializes in the disposal of assets and wealth after someone's death</li> </ul>	<ul style="list-style-type: none"> <li>• Certified by the National Association of Estate Planners and Councils</li> </ul>
RIA	Registered Investment Adviser	<ul style="list-style-type: none"> <li>• Advises on investment management</li> </ul>	<ul style="list-style-type: none"> <li>• Registered with the Securities and Exchange Commission (U.S. government agency)</li> </ul>
EA	Enrolled Agent	<ul style="list-style-type: none"> <li>• Advises on tax issues</li> </ul>	<ul style="list-style-type: none"> <li>• Certified by the Internal Revenue Service (of the U.S.)</li> </ul>

Figure 1.5.1 : Professional Classifications



Figure 1.5.2 . © 2010 Jupiterimages Corporation

Certifications are useful because they indicate training and experience in a particular aspect of financial planning. When looking for advice, however, it is important to understand where the advisor's interests lie (as well as your own). It is always important to know where your information and advice come from and what that means for the quality of that information and advice. Specifically, how is the advisor compensated?

Some advisors just give, and get paid for, advice; some are selling a product, such as a particular investment or mutual fund or life insurance policy, and get paid when it gets sold. Others are selling a service, such as brokerage or mortgage servicing, and get paid when the service is used. All may be highly ethical and well intentioned, but when choosing a financial planning advisor, it is important to be able to distinguish among them.

Sometimes a friend or family member who knows you well and has your personal interests in mind may be a great resource for information and advice, but perhaps not as objective or knowledgeable as a disinterested professional. It is good to diversify your sources of information and advice, using professional and "amateur," subjective and objective advisors. As always, diversification decreases risk.

Now you know a bit about the planning process, the personal factors that affect it, the larger economic contexts, and the business of financial advising. The next steps in financial planning get down to details, especially how to organize your financial information to see your current situation and how to begin to evaluate your alternatives.

## References to Professional Organizations

The references that follow provide information for further research on the professionals and professional organizations mentioned in the chapter.

- American Institute of Certified Public Accountants (AICPA): <http://www.aicpa.org>.
- Canadian Institute of Chartered Accountants (CICA): <http://www.cica.ca>.
- Association of Chartered Certified Accountants (ACCA): [www.accaglobal.com](http://www.accaglobal.com).
- Chartered Financial Analyst Institute: <http://www.cfainstitute.org>.
- Certified Financial Planner Board of Standards: [www.cfp.net](http://www.cfp.net).
- Financial Planners Standards Council of Canada: [www.fpsccanada.org](http://www.fpsccanada.org).
- The American College: <http://www.theamericancollege.edu>.
- The Association for Financial Counseling and Planning Education: <http://www.afcpe.org>.
- The National Association of Estate Planners and Councils: <http://www.naepc.org>.
- U.S. Securities and Exchange Commission: <http://www.sec.gov>.
- Internal Revenue Service, U.S. Treasury Department: <http://www.irs.gov>.

## KEY TAKEAWAYS

- Financial advisors may be working as accountants, investment advisors, tax advisors, estate planners, or insurance agents.
- You should always understand how your advisor is trained and how that may be related to the kind of advice that you receive.
- You should always understand how your advisor is compensated and how that may be related to the kind of advice that you receive.
- You should diversify your sources of information and advice by using subjective advisors—friends and family—as well as objective, professional advisors. Diversification, as always, reduces risk.

## Exercises

1. Where do you get your financial advice? Identify all the sources. In what circumstances might you seek a professional financial advisor?
2. View the video “Choosing a Financial Planner” at <http://videos.howstuffworks.com/marketplace/4105-choosing-a-financial-planner-video.htm>. Which advice about getting financial advice do you find most valuable? Share your views with classmates. Also view the MSN Money video on when people should consider getting a financial advisor: [http://video.msn.com/?mkt=en-us&brand=money&vid=6f22019c-db6e-45de-984b-a447f52dc4db&playlist=videoByTag:tag:money\\_top\\_investing;ns:MSNmoney\\_Gallery;mk:us:vs:1&from=MSNmoney\\_8ThinsYourFinanicalPlannerWontTellYou&tab=s216](http://video.msn.com/?mkt=en-us&brand=money&vid=6f22019c-db6e-45de-984b-a447f52dc4db&playlist=videoByTag:tag:money_top_investing;ns:MSNmoney_Gallery;mk:us:vs:1&from=MSNmoney_8ThinsYourFinanicalPlannerWontTellYou&tab=s216). According to the featured speaker, is financial planning advice for everyone? How do you know when you need a financial planner?
3. Explore the following links for more information on financial advisors:
  1. National Association of Personal Financial Advisors ([www.napfa.org](http://www.napfa.org))
  2. U.S. Department of Labor Bureau of Labor Statistics on the job descriptions, training requirements, and earnings of financial analysts and personal financial advisors ([www.bls.gov/oco/ocos259.htm](http://www.bls.gov/oco/ocos259.htm))
  3. The Motley Fool’s guidelines for choosing a financial advisor (<http://www.fool.com/fa/finadvice.htm>)

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