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ENCORE Section: Money Matters

Alphabet Soup

Financial advisers are adding more titles to their business cards.
Do any of these labels really matter?

By KAREN HUBE
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Many people looking for financial advice these days are running into a big hurdle: deciphering the letters that appear after financial planners' names.

What's the difference, say, between the financial-planning designations CFP, CLU, ChFC, AFC, PFS, MSFS or CFS? Or the estate-planning credentials CEP, CEA or AEP?

Such designations, which are meant to reflect expertise on financial topics, have proliferated in recent years as planners seek to distinguish themselves in a booming field.

"When you're trying to build a practice, the more commitment you can show to your field the better," says Doug Mollin, a CFP (certified financial planner), ChFC (chartered financial consultant), CLU (chartered life underwriter) and CFS (certified fund specialist). Mr. Mollin says he collected his credentials partly as a way to continue to educate himself in the financial planning, insurance and investing fields, and partly to help market himself.

Behind the Letters

There are at least 35 different designations in the financial-planning, investment-advisory and tax areas. Some of the newer ones are for niche concerns, such as the CAP (chartered adviser in philanthropy), CCPS (certified college planning specialist), and CASL (chartered adviser for senior living).

For consumers, however, the myriad designations can be confusing and -- at worst -- misleading. Of course, anyone would rather use a financial planner who is credentialed, but even after you know what the letters stand for, you have to wonder what it took to earn them. In some cases, planners can earn a few letters after their names with a two-course program and a fee. In others, it takes a multilevel intensive educational program followed by a challenging exam with a high failure rate.

Making matters more confusing, people holding designations might call themselves a financial planner, broker or investment adviser. "The average person usually can't distinguish between them," says Barbara Roper, director of investor protection for the Consumer Federation of America in Washington, D.C. Yet their basic functions are quite different.

A financial planner looks at all facets of a person's financial life and comes up with a plan to coordinate all the pieces -- from insurance and tax concerns to how to invest in a 401(k). An investment adviser gives investment advice. And a broker is licensed to buy and sell securities on your behalf.

"In some cases, you have people wearing all three hats," says Seth Lipner, a lawyer at Deutsch & Lipner in Garden City, N.Y. "And the more hats they wear, the more potential there is for a conflict of interest."

Avoid the Sales Pitch

As a good rule of thumb, Ms. Roper says, steer clear of planners who sell products -- like insurance or annuities -- if you're looking purely for financial advice.

Start by looking for someone with broad training in the financial-planning field. The most widely recognized designation for a generalist is a certified financial planner, or CFP, a designation held by some 50,000 people in the U.S., according to the Certified Financial Planner Board of Standards, a group that oversees CFPs. A CFP's training covers everything from taxes and insurance to investing and estate planning, and the course work usually takes about two years to complete.

"We rarely see a CFP sitting across the table from us," says Christopher Tovar, a lawyer who specializes in investor complaints at Shephard Smith & Edwards in Houston. "And if we do, we hold them to a higher standard because there is a perception that they are more knowledgeable and responsible."

Other highly regarded planning designations are the ChFC (chartered financial consultant) and the PFS (personal financial specialist). The coursework and exams for both are about as comprehensive as the CFP program. To be a ChFC, you must have three years of experience in the financial industry. The PFS is sought by certified public accountants who want to broaden their training into financial planning.

Getting Specific

If you are interested in getting advice on a specific area -- say, estate planning, senior issues, long-term care or investing -- look for a planner who also has credentials in that area.

Some of the niche designations have much lighter course and examination requirements than the CFP and other broad financial-planning designations, but they are intended to be added by professionals already established in financial planning.

For instance, to become a registered financial gerontologist, or RFG -- someone focused on the financial issues of older people -- you must already have some kind of license or designation in advisory services. And you must pass six courses. The credentials are given by the American Institute of Financial Gerontology, a partnership between Widener University in Chester, Pa., and the American Society on Aging in San Francisco.

Don Haas, president of Haas Financial Services in Southfield, Mich., recently received the RFG designation. "Having gone through the program, I can better represent my clients," says Mr.

Haas, who also is a CLU, ChFC, CFP, RFC (registered financial consultant) and AEP (accredited estate planner). He also has an MSFS (masters of science in financial services).

At the very least, Mr. Haas says, his multiple designations reflect that "I've done my homework."

Little Oversight

One problem with finding a reliable financial planner is that the field is largely unregulated. Unlike brokers and investment advisers, who must be registered with the National Association of Securities Dealers and adhere to its regulations, the financial-planning field doesn't have a single official governing body.

"There's no cop on their beat -- any misconduct is brought to light by complaints," says Mr. Lipner, the lawyer.

The groups that issue credentials often do have standards and ethical codes they require people to follow, and they'll take disciplinary action -- revoke a credential, perhaps -- if the codes are violated. But the groups vary in how effective they are at screening out the bad apples.

The CFP Board of Standards has been fielding consumer complaints and dispensing disciplinary action for 20 years. They investigated 460 cases last year and took action in 66 cases ranging from a warning to revocation of the CFP designation.

Another issue: Make sure all those credentials are the real deal.

Mr. Lipner says that one of his recent clients, a retired physician, gave all of his money to a supposed registered investment advisor, who invested it through a brokerage firm. "Turns out, he's not an RIA," says Mr. Lipner. "The accounts were horribly mismanaged, and this retiree lost all of his life savings."

To make sure a planner has actually earned a listed designation, ask for the name of the organization that issues the designation and run a quick check.

Generally, financial planners get paid in one of two ways: fees or commissions. Fee-based planners charge by the hour or a percentage of your assets, while the others sell financial services or products and collect a commission.

In recent years, fee-only planning has become more popular because of its supposed transparency. Because such advisers don't collect commissions, they are less inclined -- or so the thinking goes -- to sell you something you don't need.

Well, yes and no.

Conflicts of interest can arise, too, among financial planners whose compensation is based on the assets they manage. The classic example involves 401(k)s. Your fee-only planner might be pushing you to move your investments from your 401(k) to an individual retirement account. And with good reason. An IRA, among other advantages, gives you access to many more investment options. But having the money in an IRA also means that your financial planner gets the opportunity to manage those assets and, thus, collect a fee. (A 1% management fee each year on a

\$1 million nest egg is \$10,000.) He or she collects nothing, beyond an hourly bill for advice, if your savings are sitting in a 401(k).

Yes, seeking out a fee-only relationship can be a good early step in evaluating financial planners and their credentials. But you still have to understand all the ways in which such advisers can profit from that relationship.

--Ms. Hube is a writer in Westport, Conn.