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What The ChFC is a CFP®? And How Can You Ever Afford One?

Many people find managing their financial lives to be a daunting prospect because there is so much you need to know, the amount of information can be overwhelming and there is the fear of making a costly mistake. A competent financial planner can help most people work on and improve their financial lives. There are many things a financial planner can do for people. This includes preparing a comprehensive financial plan where a client's entire financial life is analyzed and recommendations are suggested for improvements. Or, a planner may assist in selecting investments, determining how much to save for retirement or help work on a budget. A common misconception is that you need money to hire a financial planner and yes that is true for some financial advisors but many financial advisors today work with middle-income and even low-income people to help them grow their assets and achieve their goals.

To make things confusing, there are various terms (financial planner, financial advisor, investment advisor) for someone who provides financial advice and essentially they all mean the same thing and are frequently used interchangeably. There are basically three types of advisors and they are defined by how they are compensated. Advisors working on commission are typically brokers who will provide financial advice for free. They are paid on commission by selling products – mutual funds, stocks, annuities, life insurance. Their primary focus is on sales and the financial advice is typically secondary to the product sales. If all you are seeking is help in choosing a couple of mutual funds or a “quick and dirty” retirement projection it might be worth considering a commission broker.

Fee-based financial advisors provide financial advice for a fee and then also earn commission upon the sale of products. Fee-only financial advisors provide financial advice for a fee and do not sell any products. There might be less conflict of interest in fee-only advisors recommendations because the advisor isn't recommending a product that he will also be paid to sell. Fee-based advisors fees however might be lower because they also expect to earn some commissions by selling you the products they recommend.

Choosing a financial planner can be challenging because there are not only various ways they are compensated but there is an alphabet soup of financial planning designations an advisor may have. The Certified Financial Planner™ (CFP®) has become the premier financial planning designation. Advisors who have a CFP® certification had to pass five courses and a 10 hour, two day comprehensive exam. The Chartered Financial Consultant (ChFC) is another common designation and it requires passing eight classes, five of which are the same courses required for the CFP® mark. Both the CFP® and the ChFC

certifications require the professional to agree to a code of ethics, have at least three years of experience and complete 30 hours of continuing education every two years. A NAPFA-Registered Financial Advisor is a fee-only financial planner who has completed five courses, has at least three years experience and must complete 60 hours of continuing education every two years. An advisor may hold multiple professional certifications but you can assume that a planner who has at least one certification should have at least a basic knowledge of the financial planning issues.

The most important criteria however, when choosing a financial planner is to find someone who is competent, trustworthy, has a high degree of integrity and provides objective advice. Obviously it is difficult to determine whether an advisor has these characteristics after just one meeting so ask other professionals such as accountants and attorneys as well as family and friends whom they would recommend. You can search for advisors holding the CFP® designation at www.fpanet.org and you may search for NAPFA-Registered Financial Advisors at www.napfa.org. Most financial advisors provide an initial get-acquainted meeting at no charge so meet with a couple of advisors to get an idea who you would feel comfortable working with and who listens to your needs and concerns. Many advisors will provide client references so take a few minutes to speak with other clients about their experiences.

Financial advisors are required to be registered with either the SEC or their state security agency as an investment advisor, depending upon the total amount of assets they manage. They must provide you with Part II of their Form ADV and you may view Part I on-line. The Form ADV explains an advisor's business structure, background, experience and any disciplinary actions taken against them. You may also call the state security agency in which the advisor is registered to ask about any public client complaints and to verify that the advisor is properly registered.

Finally, remember that you don't need to be wealthy to work with a financial advisor and the most important issue is to find someone whom you feel comfortable working with and can trust.