

# **Frequently Asked Questions About NAPFA & NAPFA-Registered Financial Advisors**

## **What is NAPFA?**

NAPFA, the National Association of Personal Financial Advisors, is an organization through which Fee-Only financial planners can further enhance their professional skills, market their services and become part of a collective, influential voice on matters that affect them and their clients. Founded in 1983, NAPFA currently has more than 900 members nationwide.

## **What Is the Significance of the Term NAPFA-Registered Financial Advisor?**

It indicates that a financial planner adheres to the industry's most demanding practice requirements, including Fee-Only compensation, and meets NAPFA's rigorous standards, as outlined below. We believe that, through our NAPFA-Registered Financial Advisor program, we have created the financial planning industry's clearest message about the level of responsibility and care that must be exercised on behalf of each client.

## **What Is A Fee-Only Planner?**

NAPFA defines a Fee-Only planner as one who, in all circumstances, is compensated solely by the client, with neither the advisor nor any related party receiving compensation that is contingent on the purchase or sale of a financial product. A NAPFA member or affiliate may not receive commissions, rebates, awards, finder's fees, bonuses or any form of compensation from others as a result of a client's implementation of the individual's planning recommendations.

## **Why is Fee-Only Compensation of Critical Importance?**

A financial planner who has a financial stake in the course of action that he/she recommends to a client faces an inherent conflict of interest and cannot be considered objective and unbiased. This is true even if the planner truly believes that he/she has only the best interests of the client at heart. Unfortunately, the vast majority of financial advisors in the United States are sellers of financial products. Some or all of their income may be dependent upon their ability to steer their clients to a limited number of the thousands of financial products available today. (Putting aside the conflict-of-interest factor, this limiting of choices, in and of itself, often is enough to impact the quality of the investment advice.) These advisors include stock-brokers, analysts, insurance agents, accountants and attorneys, as well as financial planners. Many of their clients are not aware of their advisors' dependence on selling products, or do not recognize its significance.

NAPFA believes that many of the problems that beset Americans today in their financial affairs – including the mismanagement of debt, failure to protect retirement assets and poor allocation of savings and investments – relate directly to the conflicts of interest that pervade the marketplace.

## **What Does NAPFA Stand For In Addition To Fee-Only Compensation?**

Of equal importance to Fee-Only compensation is an advisor's ability to prove competence in financial matters as well as a commitment to a comprehensive approach to financial planning. NAPFA has pioneered a set of standards of advisor education, training, and method of practice that truly serve the public interest, emphasizing objectivity, comprehensive planning, and broad training and experience.

### **Competence**

Unlike the professions of medicine, law, and accounting, the field of financial planning does not yet have a broadly accepted definition of superior quality. It has numerous certification programs that show that a person has been trained in certain relevant subject areas. The public deserves to have this crucial issue settled so that individuals can turn to financial advisors who have the equivalent of an MD, JD, or CPA in education, training, ethical requirements, and practice methods.

NAPFA's requirements exceed those of any other financial industry association. The NAPFA program not only requires one of the basic educational certifications, but much more. A NAPFA-Registered Financial Advisor must submit a comprehensive financial plan for peer review and complete continuing education in six subject areas every two years. Additionally, his/her government-mandated disclosure document (Form ADV) must be reviewed annually by an independent third party. Also, a NAPFA-Registered Financial Advisor must sign and abide by our Fiduciary Oath, a commitment to working solely in the client's interest at all times. NAPFA developed the Fiduciary Oath as a service to consumers. It is available to the public for use with any financial planner whether or not the planner is a NAPFA-Registered Financial Advisor.

### **Comprehensive Planning**

NAPFA-Registered Financial Advisors are primarily engaged in providing comprehensive financial planning. Most of the nation's financial advisors pay lip service to comprehensive planning but few actually provide it. In recent years, largely because of the runaway stock market of the 1990s, the practice and public perception of financial planning tended to be overly focused on investments in general, and stocks in particular – a trend encouraged and reinforced by the fact that most providers of financial advice benefit from the sale of financial products. As a result, many members of the public have received a painful reminder frequently forgotten: the value of investments can fall as well as rise. If they were relying on a financial advisor who was merely providing investment advice, they are probably surprised by and poorly prepared for the bear market.

Why? If an advisor doesn't understand the client's full picture, the quality of advice in any one area, including investment advice, can suffer significantly. Competent and informed investment decisions must take into account all the other factors that comprise an investor's financial profile, including tax, estate planning, insurance, risk tolerance, specific family circumstances and ultimate financial goals. A truly comprehensive financial plan, therefore, is much more than investment advice. It is an all-purpose tool that enables planner and client, working together, to make better financial decisions because each individual decision is made within the context of the full picture.

## **In Summary**

For too long, many Americans have relied on financial advisors who had improper motivations or a limited view of their responsibilities to their clients. NAPFA has pioneered a set of standards of advisor education, training, and method of practice that truly serve the public interest, emphasizing objectivity, comprehensive planning, and broad training and experience. Our goal is to set the bar high and make these standards commonplace in the practice of financial planning.

### *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.*

### *NAPFA'S MISSION*

*To promote the public interest by advancing the profession of financial planning based upon all our core values, thereby improving the quality of clients' lives.*