The NAPFA Comprehensive Financial Planning Diagnostic:

Helping consumers understand what comprises truly comprehensive financial planning

Consumers today are confused…and rightly so. With so many financial services companies getting into the financial planning game, consumers are left scratching their heads wondering, "Which financial advisor is right for me?" This confusion is compounded when the term "Comprehensive Financial Planning" is used so loosely by financial service providers who do not practice truly comprehensive financial planning.

Comprehensive Financial Planning is more than the active management of investments. It is more than the creation of a retirement plan and it goes well beyond regular check-ups of a portfolio. Truly Comprehensive Financial Planning is the act of planning for, and prudently addressing life events. It addresses everything from buying a new car or home, to planning for a child's education, preparing for eventual retirement or creating a plan for your estate. But it goes well beyond these basic life events…it also addresses potential events that can drastically alter your long-term financial security. This is truly Comprehensive Financial Planning.

So, you need to ask yourself, "Is my financial advisor truly comprehensive?" This sounds easy enough, but very few consumers know the questions to ask to make this determination. That is why the National Association of Personal Financial Advisors (NAPFA) has created this Comprehensive Financial Planning Diagnostic – a thorough questionnaire that consumers can use to choose a financial advisor.

Consumers can make an informed decision based on the responses a financial advisor provides. For those who need assistance in deciphering the results of the Diagnostic, NAPFA will provide an "answer key" to show how a truly comprehensive, strictly Fee-Only advisor might answer the questions. If the answers stray significantly away from how NAPFA recommends these questions are answered, it may be time for you to reconsider the relationship with the advisor.

If you have any questions regarding this information, please contact NAPFA by calling 800-366-2732.

The NAPFA Comprehensive Financial Planning Diagnostic

Before engaging in a relationship with a financial planning professional, perform this simple diagnostic. If the advisor's answers do not follow NAPFA's core values, you may not be engaging the right advisor for you.

1. What is your educational background?

   College Degree Area of Study: ____

   Graduate Degree Area of Study: ____

2. What are your financial planning credentials/designations and affiliations?

   - NAPFA-Registered Financial Advisor _____
   - Certified Financial Planner (CFP) _____
   - Chartered Financial Consultant (ChFC) _____
   - Certified Public Accountant/Personal Financial Specialist (CPA/PFS) _____
   - Financial Planning Association (FPA) _____
   - Other: ____

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

   - Less than 2 years _____
   - 2-5 years _____
   - 5-10 years _____
   - More than 10 years _____

4. Will you provide me with references from other professionals?

   - Yes _____
   - No _____ (If no, please explain)

5. Have you ever been cited by a professional or regulatory governing body for disciplinary reasons?

   - Yes _____ (If yes, please explain)
   - No _____

6. How many clients do you work with? ___________________________________

7. 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 _____ (If yes, please explain)
   - No _____

8. Will you or an associate work with me?

   - I will _____
   - An associate will _____
   - Act as a Team _____

   If an associate will be my primary contact, complete questions 1-8 in the Background & Experience section for each associate as well.

9. Will you sign the Fiduciary Oath below?

   - 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.

   What the Fiduciary Oath means to you - the client

   - I shall always act in good faith and with candor.
   - I shall be proactive in my disclosure of any conflicts of interest that may impact you.
   - I shall not accept any referral fees or compensation that is contingent upon the purchase or sale of a financial product.

   ____

   Signature

10. Do you have a business continuity plan?

- Yes _____
- No _____ (If no, please explain)

COMPENSATION

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.

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

- Fee-Only (as calculated below):
  Hourly rate of $_______/hour
  Flat fee of $ _____________
  Percentage______% to ______% of ________
- Commissions only; from securities, insurance, and/or other products that clients buy from a firm with which you are associated.
- Fee and Commissions (fee based)
- 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 _____

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

- Yes _____
- No _____

13. Do you have a minimum fee?

- Yes _____ (If yes, please explain)
- No _____

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

___________% Insurance products
___________% Annuities
___________% Mutual Funds
___________% Limited Partnerships
___________% Stocks and bonds
___________% Coins, tangibles, collectibles
___________% Other: ________________________________

15. 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 _____

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

- Yes _____
- No _____

17. 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 _____

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

- Yes _____ (If yes, please explain)
- No _____

SERVICES

Financial planners provide a range of services. It is important to match your needs with services provided.

19. Do you offer advice on? (check all that apply)

- Goal Setting _____
- Cash Management and Budgeting _____
- Tax Planning _____
- Investment Review and Planning _____
- Estate Planning _____
- Insurance Needs _____
- Education Funding _____
- Retirement Planning _____
- Other: ____

20. Do you provide a comprehensive written analysis of my financial situation and recommendations?

- Yes _____
- No _____

21. Does your financial planning service include recommendations for specific investments or investment products?

- Yes _____
- No _____

22. Do you offer assistance with implementation with the plan?

- Yes _____
- No _____

23. Do you offer continuous, on-going advice regarding my financial affairs, including advice on non-investment related financial issues?

- Yes _____
- No _____

24. Do you take custody of, or have access to my assets?

- Yes _____
- No _____

25. If you were to provide me on-going investment advisory services, do you require "discretionary" trading authority over my investment accounts?

- Yes _____
- No _____

REGULATORY COMPLIANCE

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

26. I am (or my firm) is registered as an Investment Advisor?

- Yes _____ (In the State of __________________________)
- 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 allowable reason for non-registration.

Signature of Planner: ____

Firm Name: ____

Date: ____

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. www.iard.gov

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

The NAPFA Comprehensive Financial Planning Diagnostic Answer Key

Now that you have provided your prospective financial advisor with the Comprehensive Financial Planning Diagnostic, you are probably asking yourself, "How should an advisor respond to these questions?" There is a right way and wrong way in which these questions can be answered, but the answers will provide you with a better understanding of the advisor, and help you determine whether that advisor is the right match for you.

To help you decipher the responses you receive, NAPFA provides the following Answer Key:

Question #1 – A comprehensive 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. Many advisors who originally received degrees in other, unrelated disciplines have gone on to become highly effective financial planners. If you prefer to work with someone with an extensive background in finance, for example, you should examine this answer thoroughly to make sure s/he has the educational background you desire.

Question #2 – 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 Hours every two years
- Certified Financial Planner (CFP) = 30 Hours every two years
- Chartered Financial Consultant (ChFC) = 30 Hours every two years
- Certified Public Accountant (CPA) = 60 Points every three years
- Personal Financial Specialist (PFS) = 60 Points every three years
- Financial Planning Association Member = No Hours required

Question #3 – 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 comprehensive financial planning may be a better fit for you, especially if you have a complicated financial situation.

Question #4 – 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. Don't expect to receive a list of client references.

Question #5 – 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 #6 – 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 #7 – 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 #8 – 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 you will be directly serviced by an associate, ask to meet that person and review his/her qualifications to be certain the associate has the credentials and experience necessary to serve your needs.

Question #9 – 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 may still make recommendations that are imprudent or conflicted. NAPFA requires all of its members to sign a Fiduciary Oath; this helps to ensure that each client's best interests, not the advisors', are always a priority. If a prospective financial advisor states that she/he will not sign such an oath, consider retaining another advisor who will agree to put your interests first and will sign this simple yet compelling statement.

Question #10 – 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? Your prospective financial advisor should have a plan in place to address any potential situations whereby she/he might no longer be able to help you achieve your financial goals.

Question #11 – How a financial advisor is compensated for the advice and recommendations you will be provided can tell you a lot about the quality and objectivity of that advice. Advisors who accept commissions can tell you they are not conflicted, but the fact remains they are in a position to encourage you to invest in vehicles offering them higher commissions. How should a financial advisor charge for services? The members of NAPFA firmly believe that financial advisors should charge Fee-Only to limit conflicts in any advice you may be provided.

Question #12 – Prior to formalizing a relationship, a financial advisor should always provide you documentation which clearly outlines his/her compensation model. Ask for this documentation; how an advisor gets compensated should be transparent to all parties.

Question #13 – Financial advisors may charge a minimum fee for services they render. If you have a limited 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.

Question #14 – Financial advisors who are compensated based on commissions should be able to identify what percentage of their income comes from various investment vehicles. While NAPFA encourages you to consider using a Fee-Only Financial Advisor, you may instead select an advisor who accepts commissions. Take a thorough look at the percentages that will be paid to your advisor; if the majority of his/her compensation stems from stock trading, the advisor's role for you may be no more than that of a broker.

Question #15 – If your prospective financial advisor has close ties to specific investments (i.e. is compensated by only one mutual fund company), the advisor should disclose that relationship before you engage his/her services. Failure to disclose that potential conflict of interest should give you reason to seek a relationship with a different financial professional.

Question #16 – 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 from whom they receive a referral fee. If your prospective financial advisor indicates that she/he receives compensation for recommending clients to another professional, you may consider finding your own professionals. Advisors who recommend other professionals solely because they receive compensation from those referrals are not ethical and do not have your best interests in mind.

Question #17 – A financial advisor who receives 12(b)1 fees or “trailers” is not a Fee-Only Financial Advisor. A professional who accepts such fees may be conflicted in the advice they will provide you since certain investments carry higher levels of fees or trailers that will be more beneficial for the financial advisor, not you.

Question #18 – 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. Fee-Only advisors do not have this conflict of interest; they are able to recommend investments based solely upon your specific needs.

Question #19 – Many financial professionals loosely use the term “Comprehensive” in describing their range of financial planning services. Financial planning is much more than simply developing a plan for primarily short-term objectives and reviewing the plan when appropriate. Comprehensive financial planning 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 comprehensive financial planning.

Question #20 – Your financial advisor should be able and willing to provide you with a comprehensive written analysis of your current financial situation as well as appropriate recommendations so you can reach your life's goals. In turn, this analysis will serve as the starting point for beginning your client/advisor relationship.

Question #21 – The recommendations provided by the financial advisor should provide insight into the specific investment vehicles the advisor recommends.

Question #22 – The development of a comprehensive 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 #23 – Regular and periodic reviews and on-going communication are necessary to ensure you remain on track toward achieving your financial objectives. The prospective financial advisor should provide you with this ongoing support.

Question #24 – Having “custody of assets” means that an advisor can make withdrawals from your account and transfer funds to another account. Typically when you use a Fee-Only advisor an unaffiliated brokerage firm will have custody of your investment assets. You should never grant authority to an advisor to have custody of your assets unless the advisor is also acting as a trustee for the account. (If you're unsure on this matter, discuss it with your attorney.)

Question #25 – 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, you should have a detailed, written Investment Policy Statement prepared ahead of time. You should also 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 #26 – Any advisor offering comprehensive financial planning services should be a Registered Investment Advisor and should be registered either with the U.S. Securities and Exchange Commission (SEC) or with the regulatory agency within the advisor's state. If the advisor manages over $25M, s/he should be registered with the SEC. If the advisor is registered with the SEC, take the time to read Part I of the advisor's Form ADV (see www.iard.gov). Only those advisors registered as Registered Investment Advisor have a duty to uphold a fiduciary relationship with you, the client. An advisor who is registered only with the National Association of Securities Dealers (NASD) is primarily a broker licensed to sell investment products and has no obligation to put the client’s interests first.