

Chapter 1

Skills and Training

To succeed as an independent financial consultant, you're going to need additional skills and training regardless of whether you're currently a financial professional. But before you decide to run off and take courses in asset management or financial planning, you've got to examine whether you've got the personality characteristics to succeed in this field.



Do you have the personality to succeed in this field?

TEMPERAMENT

The best independent financial consultants share some common personality characteristics.

First, they like helping people. They tend to be outgoing. They enjoy interacting with people and feel comfortable with them. They tend to be amiable. Secondly, they're all self-starters. They can work comfortably on their own, setting their own goals and schedules and sticking with them, when no boss is looking over their shoulder. They enjoy being an entrepreneur and running their own show.

The best financial consultants also have a kind of contagious enthusiasm about what they do. They believe in it. And they're comfortable being in the limelight, promoting themselves and their business. It's tough

to succeed if you're too shy and retiring! If they were not naturally born salespeople, they've learned to hone their sales skills. They don't mind the challenge of prospecting and constantly looking for business.

Of course, they are also very hard workers. They don't mind putting in long days and weekends if necessary. And it is necessary, especially when a consultant is first starting out. In addition, they relish learning, constantly improving their knowledge and expertise. They have to, in order to keep up with ever-changing financial and insurance products, stock market developments, tax and estate laws, pension law developments, state and federal regulations, and so forth.

But the best consultants also usually enjoy teaching, and they're good at it. That's because educating clients is vital to their success. Consultants must be able to talk about complex financial concepts in a way that laypersons can understand. A good financial consultant also enjoys the challenge of solving client problems. And they're ethical people. In an industry where anyone can call himself or herself a financial consultant, the best ones know that the way to keep clients—and get new ones—is always to put the client's interests first.

Because they're running their own business, financial consultants can't afford to get lost in detail. They're the kind of people who can see the big picture each day and constantly bring their focus back to the most critical, important things that they need to do in order to succeed. Not only that, but they're not easily discouraged by the ups and downs that come when you run your own business.

They're willing to put in a sustained effort, even with no tangible success in sight. They're tenacious and positive, and they don't give up. They see difficulties as stepping-stones, not as stumbling blocks. In most cases, they know that it took several years for their consulting business to become profitable. And they know that they're in a highly competitive business. So they keep plugging away.

WHO WON'T SUCCEED?

Some kinds of people are attracted to the world of financial services because they like being able to measure things, to come up with precise numerical answers. That may be the reason they enjoyed studying accounting or engineering, or entered government service. They like being able to use formulas to solve problems.

But that's definitely not what it feels like to be an independent financial consultant.

“Not everyone can make it in this business,” warned Cynthia Meyers, CFP, MBA, who is a Certified Financial Planner. “And I think those who are not going to be comfortable are people who don’t like the risk of having their own business, who want to know answers all the time. But there are no answers! Everything is creative.”

For example, when a financial consultant talks about how quickly an investment will grow, or where you should put your money, it’s an art, not a science. If you think you can make financial consulting into an exact, precise science, you’re wrong.



Financial consulting is an art, not a science.

In any consulting business, you often have to be flexible and resourceful to survive. You may often have to improvise to solve your business problems. And you won’t have the security of a regular paycheck.

“With most financial planners,” advised Meyers, “you will be owning your own business. You have to have a temperament that can live with the downside of that—I guess you would call it the uncertainty. In other words, there’s no paycheck every week or every month, as in a regular job. Your income is different every year. And you have to live with that. If you can’t live with that, stay where you are.”

It is clear from speaking with financial consultants that if you want predictability, stability, and guarantees, then this probably isn’t the business for you.



Can you live with the uncertainty of owning your own business?

“You also have to be someone who is interested in ongoing education about financial planning, and about having your own business, and about the world,” Meyers told me.

A lot of people in financial services are interested in getting into this area. But are there certain kinds of financial services people who won’t do well in this business? Perhaps they don’t have the people skills;

or perhaps they want to go into business for themselves, but are hopelessly disorganized, and don't have the money to hire someone to delegate all the details to.

"Hopelessly disorganized—that won't work!" Meyers agreed, "Unless you can learn to be organized. I think that's a good example, and not just in financial planning. There are all different levels. But maybe you're someone who wants to have a bigger firm, and have a lot of staff and other financial planners working for you, and build that. That takes a different type of person, with a different ambition—and different skills."

Obviously, if you want to have others working for you, you've got to develop management skills. You've got to be comfortable and effective supervising others.

DO YOU HAVE WHAT IT TAKES?

So where do you fit in? Do you have the temperament to be an independent financial consultant?

It's time to sit down and get reacquainted with your own most important asset—yourself.

How well do you really know yourself? When was the last time you took an honest, written inventory of all your strengths and weaknesses? Can you quickly tell me what kind of work tasks you really enjoy doing, and which ones you hate? What kinds of things generate stress or discomfort for you? How well do you handle pressure?

If you don't sit down to think about these questions, and write out your answers, you really won't know if being an independent financial consultant is for you. And if you do decide to pursue a career as an independent financial consultant, a personal inventory will be even more valuable—because it will guide you in tailoring your practice to your unique strengths, weaknesses, likes, and dislikes.

No one can be good at everything. To build a successful practice as a financial consultant, you'll have to emphasize your strengths, and support yourself in the areas where you have less strength, talent, or expertise.

So take the time to think about the questions in Figure 1.1, and write down your answers. Consider which parts of the business you can do well, will enjoy, and should handle yourself. Also list those things you don't like, or don't handle well. You'll need to delegate those, or find some way to work around them.

**FIGURE 1.1 Personal Inventory:
Do You Have What It Takes?**

Here are 26 important questions to ask yourself. They point toward some key personal attitudes and skills that you will need to succeed. Start a financial consulting project notebook, to help plan your move into the profession. Your first step is to write down your answers to these questions. Do them at your own pace.

This personal inventory will enable you to spot where you may need extra support, training, or help as you move into the profession. What areas are they?

1. Am I a risk taker?
2. Am I a problem solver, a positive thinker who enjoys constant new challenges? Or do I prefer a more predictable life? Do I see life's difficulties as stepping-stones, or as stumbling blocks?
3. What are my major strengths and weaknesses?
4. Am I comfortable working alone for long periods of time, or would I rather be part of a team?
5. Would I be uncomfortable not knowing what my income will be from one year to the next, from one month to the next?
6. Can I live with uncertainty? Or would a life with a lot of ups and downs bother me?
7. Am I a positive person, with a lot of tenacity? Or do I get discouraged easily?
8. Do I like people? Do people like me? Am I easy to get along with?
9. Do I enjoy interacting with people, and helping them? Am I outgoing?
10. Do people like to confide in me and ask my advice?
11. Am I a self-starter, comfortable with working on my own without any supervision?
12. Would I mind working long hours, including evenings and weekends, to make my business successful?
13. How well do I handle pressure and stress? At work, what generates the most stress for me?
14. Am I a good teacher and communicator? Can I make complicated financial concepts easy for others to understand?
15. Would I enjoy the challenge of solving clients' financial problems? Am I always looking for better ways to do things?

(Continued)

FIGURE 1.1 (Continued)

16. Am I a good listener? Do I enjoy listening, or am I more concerned with expressing my own ideas?
17. Am I sensitive to the needs and moods of other people? Do I read people well?
18. Am I comfortable and skilled at supervising others?
19. Can I ask colleagues for help when I don't know the answer to a problem?
20. Do I enjoy constantly studying and learning new things, or do I find it a burden?
21. When I'm working, do I often get lost in details and lose sight of the big picture?
22. Do I instinctively focus on the most critical tasks needed to make any project succeed?
23. Am I comfortable being in the limelight, and constantly promoting myself?
24. Do I have a commonsense, practical, down-to-earth personality?
25. Do I have sales skills? If not, how can I learn them?
26. How much do I know about actually running a business?

BASIC KNOWLEDGE: DO YOU HAVE IT?

Of course, having the right temperament is only the beginning. Let's look at the basic knowledge you need to succeed in this profession.



Having the right temperament is only the beginning.

To begin with, all financial consultants must first have a basic knowledge of the stock market and of investments. It is beyond the scope of this book to teach you all you need to know in this area, because this book is primarily concerned with educating you about the business of financial consulting. But never fear, there are many good courses and books on the subject of investments—for both the novice and the more sophisticated reader.

For the novice, or someone not already working in the financial ser-

vices industry, I can particularly recommend *Getting Started in Stocks*, by Alvin D. Hall (John Wiley & Sons, 1997). For those already working in financial services, or who have already mastered the information contained in Hall's book, there is the widely respected book by Harold R. Evensky, *Wealth Management: The Financial Advisor's Guide to Investing and Managing Your Client's Assets* (Irwin Professional Publishing, 1996). And the Appendix of the book you are now reading lists additional books and resources that you may find useful.

If you prefer a more formal approach, colleges and universities offer a variety of courses that teach the fundamentals of investing. In addition, you'll find that the topics of investing are covered if you study to obtain the different kinds of financial consultant certification that will be discussed later in this chapter.

Your road to becoming a financial consultant begins with the kind of knowledge that a sophisticated investor has, or perhaps a good full-service stockbroker has. For example, they understand how the stock market works. They know the differences between different kinds of stocks, including growth stocks, income stocks, straight preferred stocks, convertible preferred stocks, large and small cap stocks, blue chip stocks, penny stocks, and others.

In addition, the broker and the experienced investor understand the different risks and benefits of each kind of investment. They know the mechanics of how and when to buy or sell them. They know how to use fundamental analysis to see how accurately a stock reflects the value of the company that issues it. They can read, understand, and analyze a stock's prospectus. And they are familiar with the use of technical analysis to try to predict the short-term movements of a stock's price. They know how to set investment goals, and use asset allocation strategies to reach them.

The stockbroker must also be proficient in the various kinds of investment strategies that are in use today, including buying and holding a stock, using dollar-cost averaging, buying on margin, and the risky strategy of selling short. Hopefully, the broker also knows about other kinds of investments: mutual funds, corporate bonds, municipal bonds, Treasury bonds and notes, options, rights, warrants, futures, REITs (real estate investment trusts), and more.

This is only the beginning of your education as an independent financial consultant, however. A financial consultant has to do more than simply make recommendations about buying and selling stocks, bonds, and other investments. In addition to offering investment advice, many consultants actively manage clients' investment portfolios and assets. Because that is where an investment consultant makes his or her money.

The financial consultant who manages clients' assets must understand how investments behave, and how to construct a portfolio of investments. This involves knowledge of modern portfolio theory, what is called Efficient Frontiers: gaining the optimum return with a given level of risk, using diversification. According to Jeffrey B. Mershon, CPA, CFP, director of curriculum development at the College for Financial Planning in Denver, Colorado, a consultant applies the concept of Efficient Frontiers as he or she diversifies a client's portfolio.

"Let's say you start out with 100% stocks or equities," Mershon said, "and you gradually add, say, more bonds. Ultimately, you get to a point where you get an optimum return with a given level of risk. It just proves the adage that diversification can minimize your risk, and still give you a decent return. So there's an Efficient Frontier. If you graph this, you'll get out to a point on this graph where you've optimized the blend between the securities. If you go beyond [the optimum number of securities], you may be taking on more risk, and not improving the return."

To competently manage a client's assets, a consultant must also understand how to tailor investment goals to each client's tolerance of risk. The consultant must know how to measure investment risk, and how timing affects investment outcomes. He or she must understand the reasoning and methods of allocating client funds across different kinds of investments, to get superior returns. In addition, an investment consultant has to understand the importance of strategy in stock market investing, and how to apply those key strategies that have proven most effective over time.



A consultant must tailor investment goals to each client's risk tolerance.

What's more, the basic knowledge a financial consultant needs to manage a client's investment portfolio may be expanding—at least according to the College for Financial Planning. The college has established a special Wealth Management Program for investment professionals. And the college argues that the way the investment community does business is changing. That change is happening because of the investment field's current dual emphasis on building lasting client relationships and gathering assets under management. Today, the argument goes, a financial professional must be able to make his or her recommendations based on a long-term view that relates a client's investment needs to the rest of the

client's financial picture. The investment adviser must be able to spot and respond to investment opportunities that best fill the gaps in a client's portfolio.

So in its Accredited Asset Management Specialist Program, the college has included topics beyond traditional investing. One course discusses the taxation of investment products, the typical tax questions that investment professionals face, and the impact of taxes on investment decisions. Another required course discusses the investment opportunities offered by a client's retirement. And remaining courses cover special investment considerations for small business owners; investments for highly compensated executives (including qualified versus nonqualified plans, benefits, deferred compensation, and other topics); insurance products for investment clients; and estate planning for investment clients.

Will fierce competition force future investment advisers to delve into these specialized areas—to serve top executives, small businesses, and other vertical markets? Will tomorrow's investment advisers have to master advanced study in taxation, retirement planning, and estate planning?

There's some doubt that tomorrow's investment advisers (who may just pick stocks for clients) will have to learn all these things. But there's no doubt at all about today's financial planners. They must gain expertise in all those topics, and more.

ADVANCED KNOWLEDGE: FINANCIAL PLANNING

Independent consultants who are financial planners must master far more than a knowledge of investments and how to manage client portfolios. Financial planners advise clients on managing all the clients' financial resources—not just stocks and bonds. A planner's goal is to help the client create a better life, and not necessarily to find the best-performing stock or mutual fund. It makes no sense for clients to put all of their money into hot stocks or mutual funds if they have inadequate life insurance to protect their families, or are not saving enough for retirement. The clients' money could be put to better use.

Financial planning first involves assessing a client's current situation. And you also have to try to anticipate the client's future circumstances. That means you have to gather a lot of information from the client. Usually, the client fills out an extensive questionnaire about his or her financial life. Then, the planner and client must together establish reasonable personal and financial goals. All this is done before making any financial decisions or taking any action.

After analyzing the client's individual needs and setting goals, the

planner must then prepare a comprehensive, written financial program or plan. This plan should identify any financial problems the client has now, or is likely to encounter in the future. And any solutions the plan recommends must make sense in terms of the client's special life circumstances, individual financial goals, and unique personal goals.



A financial plan should identify a client's financial problems today—and in the future.

Does that sound like a big, complicated job? It is! Remember, the planner's program has to take into account both the client's current and anticipated assets and liabilities. You must plan for life events that haven't happened yet, but are likely to happen.

The plan covers several areas, including insurance, savings, investments, and retirement and employee benefits. A financial plan also recommends specific actions the client should take. For example, the planner may advise the client to buy insurance or to increase or decrease the insurance coverage already owned. Or the plan could recommend that the client set up an individual retirement plan (IRA) or Keogh plan, increase or decrease the money in savings accounts, or invest money in securities. A financial planner might also develop a plan to minimize the impact of taxes (tax plan), or maximize the amount of inheritance the client's heirs will receive (estate plan). However, some financial planners prefer to refer the client to an accountant or an attorney for sophisticated tax or estate planning.

The planner then helps the client carry out the plan's recommendations. Some financial planners actually manage clients' assets, and charge a percentage of the total assets under management. And some financial planners sell products. They receive commissions for peddling mutual funds or insurance policies—although this can obviously compromise the objectivity of their advice.

But whether they manage assets or sell products, all financial planners are also responsible for periodically reviewing their financial plans and recommending any necessary changes.

WHAT MUST YOU LEARN?

The advanced knowledge that financial planners need to carry out their work covers several categories. They must understand the financial plan-

ning process and learn how to construct a personal financial plan. They must master the area of risk management (such as protecting a client's income) and insurance, understanding the different kinds of insurance products and knowing which ones are suitable for which clients. In addition, financial planners must acquire a solid knowledge of investment planning, income tax planning, retirement planning, employee benefits, and estate planning. Finally, a financial planner must learn to recognize when to refer a client to other professionals with specialized skills, such as accountants or attorneys. The planner then coordinates the efforts of this team of outside consultants, as they all work to meet the client's financial and personal goals.

Financial Planning and Insurance

For the basics of financial planning and insurance, I refer you to two good books: *The Fundamentals of Risk and Insurance*, 7th edition, by Therese Vaughan and Emmett J. Vaughan, (John Wiley & Sons, Inc., 1996); and *Time Value of Money: Concepts and Keystrokes*, edited by Mandell Winter (College for Financial Planning, 1999). In addition to understanding the financial planning process, one must also become familiar with the legal, ethical, and regulatory issues that affect financial planners. An aspiring financial planner must learn how to identify a client's exposures to risk, and how to choose the proper risk management techniques for each client—which involve things like minimizing risk, as well as insurance. The planner must be able to understand a basic insurance contract and know how to analyze a client's life insurance needs. Also, a planner must master the specific methods used to determine the type and amount of insurance that best suits each client's situation. Some of the insurance policies that a planner must be familiar with include property and liability insurance, such as homeowners and personal auto insurance. The planner should also be familiar with medical, disability, and long-term care insurance.



Financial planners must understand legal, ethical, and regulatory issues.

Investment Planning

A good source for information on investment planning is *Investments: An Introduction*, 5th edition, by Herbert B. Mayo (Dryden Press, 1996).

Studying investment planning, you learn about the many investment vehicles you can choose for a client's portfolio, such as stocks, bonds, mutual funds, insurance-based investments, futures, options, foreign investments, real estate, and tangible assets. Planners must learn about the tax implications of each type of investment, and how the economic environment affects investments. They must know how to analyze an investment in terms of risk versus return, and understand valuation methods for common stocks. In addition, they must understand asset allocation techniques (spreading a client's assets among various types of investments), and how to evaluate the performance of a client's investment portfolio. Finally, a would-be planner must learn how to construct a client's investment portfolio, and properly manage and monitor it.

Income Tax Planning

To learn more about the complex area of income tax planning, you can consult the latest edition of *Federal Taxes and Management Decisions*, by Sally Jones (Irwin/McGraw-Hill) and RIA's *Federal Tax Handbook* (edited by the staff of the Research Institute of America, Inc., New York, 1999). A planner should become familiar with the tax issues that both individuals and business clients must struggle with: the different tax implications for different types of businesses, how to plan for acquiring and disposing of property, tax-advantaged investments, and family tax planning, including divorce. Other tax issues include employee compensation and planning, the alternative minimum tax, and the self-employment tax. Another important subject area covers tax traps, penalties, and penalty taxes that can snare the unwary. A financial planner consultant must also understand how to do tax research, and the legal and regulatory concerns that govern those who give tax information.



Tax traps, penalties, and penalty taxes can snare the unwary client.

Retirement Planning and Employee Benefits

Two good sources for information on retirement planning and benefits topics include *The Tools and Techniques of Employee Benefit and Retirement Planning*, 5th edition, by Stephan Leimberg and John McFadden (National Underwriter Company, 1997 [Cincinnati, Ohio]) and *Tax Facts I*, student

edition, edited by Deborah Miner also from the National Underwriter Company (get the latest edition). Financial planners need a solid knowledge of the personal tax-deferred retirement programs available in the workplace today, such as 401(k) plans. Obviously, one also must learn how to calculate the annual savings a client needs in order to reach his or her retirement goals. Financial planning consultants must also understand how qualified retirement plans are designed, and the advantages and disadvantages of different types of qualified plans for small and medium-sized businesses, who will most likely be the planner's clients. Planners must learn how to develop, fund, and maintain a retirement plan. In addition, a financial planner must also be knowledgeable about government-sponsored plans, such as Social Security and Medicare. Other employee benefits that a planner consultant must be familiar with include group life, health, and disability insurance and nonqualified deferred compensation. A planner should have enough knowledge to be able to choose an appropriate qualified retirement plan for the owner of a small business, and to analyze the tax implications of employee benefits.

Estate Planning

You can obtain a good overview of this topic by studying the latest edition of *Estate Planning and Taxation*, by Chris J. Prestopino, published by Kendall/Hunt Publishing Company, Dubuque, Iowa. The financial planner must know the fundamentals of federal estate and gift taxation, as well as specific exclusion and valuation techniques used to diminish the size of the gross estate. You must become thoroughly familiar with wills, intestacy (dying without a will), and the probate process—as well as trusts, property ownership forms, and will substitutes. In addition, you must learn how to minimize estate taxes by using life insurance and annuities, lifetime gifting, and coordinating the unified credit with the marital deduction. Estate taxes can also be reduced by proper use of charitable, intrafamily, and business transfers.

PEOPLE SKILLS

But even the most knowledgeable financial consultant won't succeed without some very special people skills.

“In terms of people skills,” Jeff Mershon told me, “the most important thing is listening. If you can't listen—as opposed to hearing—you won't succeed. Because clients say an awful lot of things, but sometimes not in words. And you can gather an awful lot of good information

which—if you listen to it—will keep you out of trouble, and keep your client out of trouble.”

And, since you’re in business for yourself, you’ll need to polish your sales skills. But the last thing you want is to try to turn yourself into an aggressive salesperson. Most of the time, you’ll only succeed in alienating your clients, according to Cynthia Meyers.

“If you think that there is a certain way that you have to speak, or a certain script, then you’re going to have problems,” Meyers told me. “Because there isn’t one.”

So don’t waste your time trying to learn traditional sales techniques.

“Customers are more street-savvy today,” Meyers explained, “because traditional techniques have been used on them before. [That approach has] been used on generations! And it also doesn’t work because our market, or world, is totally different. In the old days, people needed an intermediary to help them with the investment—because they had no access to investment information.

“Today, with computers, customers have access to all the investments, all the information they could ever want,” she pointed out. “And they’re more comfortable doing their own research. Now, there are pluses and minuses, just like in everything. Yes, they’ve got all the information. But that’s the bad news, too. How do you sort through all the information? How do you interpret what the information means? And that’s our key role as financial planners—to help them interpret that information, and to use that information in a way that’s going to have them live better lives.”

CERTIFICATION

At this point, you are probably thinking that understanding investments is just the beginning of the knowledge that an independent financial consultant must master. And you are right. So even financial professionals like stockbrokers, accountants, bankers, and tax attorneys feel compelled to pursue additional education—and certification of competency.



You’ll need additional education and certification—even if you’re already a financial professional.

However, there are other reasons why you should pursue additional education and certification, even if you are already an accountant, attor-

ney, stockbroker, or other financial professional. There are few formal educational and professional requirements for proclaiming oneself a financial adviser. Any charlatan can print up a business card saying “financial consultant”—and many do. Armed with this apparently impressive title, they proceed to peddle questionable or bogus investments to customers who have more money than knowledge.

And even if they are acting within the law, devious salespeople also often masquerade as financial advisers. Some of these self-proclaimed financial advisers will try to convince a customer that the insurance, hot stock, or mutual fund they sell is the sovereign solution to all the customer's financial problems.

All this has understandably led to a level of suspicion and distrust among members of the public toward anyone who calls himself or herself a financial adviser. To its credit, the industry has begun to recognize the problem, offering advanced study, training, and certification of competency for those engaged in financial consulting. If you want to stand out from your competition and distance yourself from those who are less reputable, advanced study leading to certification is a good idea.

But achieving competency, remaining competitive, and attaining credibility with your customers are not the only reasons for pursuing additional education and certification. It is also a matter of protecting yourself legally. One day, despite your best efforts, a disgruntled customer may decide to sue you, claiming you are not qualified to give financial advice. Without advanced study and certification, what will you say in your defense?

To make matters more complex, the various states and federal government differ on the definition of terms like “financial adviser,” “financial consultant,” and “financial planner.” These terms are not interchangeable. Where you practice and the services you offer often determine the certification you need—particularly if you do what is called financial planning.

But which educational program and certification is the right one for you? As even a cursory investigation of the field shows, people who call themselves financial consultants have a bewildering variety of degrees and certifications after their names, including CFA, CFP, CPA, CIMA, PFS, CLU, ChFC, RFC, and RIA. There is no single nationally recognized course of study or competence examination you can take to become a “certified financial consultant.” Instead, professionals in the fields of accounting, financial analysis, insurance, and other areas have set up advanced study and competency tests for those within their profession who manage clients' investments and/or do financial planning. (See Figure 1.2.)

FIGURE 1.2 Some Certifications for Financial Consultants

<i>Certification</i>	<i>Certifying Organization</i>	<i>Who Pursues It?</i>
CFP—Certified Financial Planner	Certified Financial Planner Board of Standards (the CFP Board), Denver, Colorado www.cfp-board.org Courses may be taken at 85 colleges and universities across the country.	People from a variety of professions and backgrounds
ChFC—Chartered Financial Consultant	The American College, Bryn Mawr, Pennsylvania www.amercoll.edu	Mostly insurance industry professionals
CFA—Chartered Financial Analyst	The Association for Investment Management and Research, Charlottesville, Virginia www.aimr.com/aimr.html	Mostly registered representatives who have worked for a broker-dealer
CPA/PFS—Certified Public Accountant/Personal Financial Specialist	The American Institute of Certified Public Accountants www.aicpa.org	CPAs
RFC—Registered Financial Consultant	International Association of Registered Financial Consultants (IARFC), Chesterfield, Missouri	Those having four years' experience in financial planning, plus licensing for securities and life/health insurance

So as a practical matter, the certification you choose may depend on your prior training. For example, many consultants who start out as insurance agents pursue the ChFC (Chartered Financial Consultant) designation. That is granted by the American College (Bryn Mawr, Pennsylvania), an institution that was originally set up to serve the insur-

ance industry. However, in the field of personal financial planning, one designation—the CFP (Certified Financial Planner)—has achieved widespread popularity over the past few years. These days, the CFP is held by financial consultants who began as lawyers, accountants, insurance salespeople, bankers, and a variety of other professions.

Let's take a brief look at each of these certifications.

As just mentioned, the CFP (Certified Financial Planner) is probably the most popular certification used by financial consultants who do financial planning. The CFP has become widely accepted and respected. It's a big credibility booster, and has become an informal requirement for most financial planners entering the field today. The certification is granted by the Certified Financial Planner Board of Standards, Inc. (the CFP Board), Denver, Colorado.

Candidates for CFP certification must complete a comprehensive program of courses and master knowledge in six key areas: financial planning fundamentals, insurance planning, investment planning, income tax planning, retirement and employee benefits planning, and estate planning. Altogether, these comprise 175 different topics. After completing all the courses, students must pass a two-day (10-hour) examination. In addition, aspirants must demonstrate three years of financial planning–related work experience, and consent to uphold ethical standards. Over the past few years, the examination has become more rigorous. Today, approximately 32,000 financial professionals are CFPs.

Originally, the CFP Board (a regulatory body), the College for Financial Planning (an educational center), and the Institute of Certified Financial Planners (a professional group) were all part of the same organization. Now they are separate. Students can still study for the CFP through the Denver-based College for Financial Planning—and you can do it through the mail. This college has an excellent program. But you can also prepare for the CFP exam through more than 80 different colleges and universities across the country, that have registered with the CFP Board. This makes it a lot more convenient to study for your CFP.

What is the cost? As of January, 1999, the total program cost for the College for Financial Planning's CFP program is \$1,995. This includes a nonrefundable program enrollment fee and tuition of \$1,670. Tuition covers sets of study materials, a textbook for each of the program parts, and the CFP Exam Review Course. These costs do not include possible sales taxes. If you are currently working in the financial services industry, your company may pay all or part of your study costs. The college requires a minimum of a high school diploma or general equivalency diploma (GED) for admission.

Incidentally, the College for Financial Planning also offers a variety

of other programs of interest to both financial professionals and nonfinancial professionals, including a master of science (MS) degree program. The college also has what it calls Wealth Management Programs: an Accredited Asset Management Specialist Program, a Chartered Mutual Fund Counselor Program, and a course to help students prepare for the Chartered Financial Analyst Level I examination. There are also separate programs in tax planning and retirement planning.

Nonfinancial professionals might want to look at the college's Foundations in Financial Planning and Financial Paraplanner Programs. A paraplanner is someone who assists licensed financial planners, performing the same level of function as paralegals or paramedics do in their professions. This program may be a good way for someone not already working in financial consulting services to get a taste of what it is like.

But a word of caution is in order here. You won't be able to practice as a financial consultant upon completing a paraprofessional program. And we have heard that very often paraplanners have difficulty finding a financial planner to work for—because many financial planning firms are small and can't afford to hire extra people who cannot actually bring in business and service clients. So if you're not already in the financial services industry, and you want to become a financial planner, set your sights on getting the CFP instead.



Caution: You can't practice as a financial consultant by completing a paraprofessional program.

Many of the people who pursue the CFP have moved into financial consulting from nonfinancial careers; they include teachers, social workers, and ex-military personnel. But the CFP is also popular among accountants, attorneys, former bankers, and others in financial. It will give you a big jump on the competition—most of whom aren't CFPs.

"As far as financial planners are concerned," suggested Jeff Mershon, "I've heard numbers bandied about of maybe 200,000 in the country, or something like that. But there are only roughly 31,000 or 32,000 that are Certified Financial Planners. So there are a lot of people out there saying they are planners. But there aren't an awful lot that are really credentialed, in my opinion."

As noted previously, the ChFC (Chartered Financial Consultant) is offered by the American College in Bryn Mawr, Pennsylvania. This college is a fully accredited, nontraditional institution of education. It is the same

institution that also awards the CLU (chartered life underwriter) certification that you see listed after many life insurance executives' names. Although the college originally catered to those in the insurance industry, it has expanded its offerings to include a master's degree in financial services and management. You may also recognize Bryn Mawr, Pennsylvania, as the location of the American Society of CLU and ChFC (now the Society for Financial Services Professionals), a nationwide professional organization for those in the insurance and financial services industry. The majority of the society's members are CLUs, and approximately 50% of them boast the ChFC designation as well.

The American College's ChFC certification program consists of 10 courses—six required courses and four elective ones. To assure each student's mastery of the subject matter, each must pass a lengthy, two-hour multiple-choice exam after completing each course. Most students take four to five years to complete the program's course of study. But before awarding the ChFC certification, the college also requires three years of pertinent professional work experience. The student must also assume responsibility to adhere to the college's high ethical standards for those in the industry. Those who received the designation after July 1, 1989, also have continuing education requirements; others do not.

Most of the financial consultants you see with the ChFC designation are insurance agents. The ChFC course work is very similar to that offered by the most popular financial planning certification, the CFP. And as practical matter, if you are currently an insurance agent your company may pay for you to acquire a ChFC certification. But it may not foot the bill if you want to take courses leading to the award of a CFP designation.

However, you may have a credibility problem with clients if you want to offer financial planning services and have only the letters "ChFC" after your name. That's because the financial planning solution ChFCs very often suggest is for the client to buy some kind of life insurance. In addition, the CFP is still the more widely accepted certification among financial planners.

"I think in the marketplace," said the College for Financial Planning's Jeff Mershon, "the ChFC has not penetrated anywhere near as well as CFP has. CFP has pretty much become the standard in financial planning."

As a result, many financial planners who began as insurance agents—and even earned a ChFC certification—later go on to earn a CFP designation.

In the area of investments, however, no one disputes the credibility of a CFA certification. The CFA (Chartered Financial Analyst) designation is awarded by the Association for Investment Management and Re-

search based in Charlottesville, Virginia. This certification is favored by money managers and stock analysts. Most of the people who enter the program start out in the investment business, perhaps working for a broker-dealer as a registered representative. Or perhaps they have worked for a mutual fund company. The tough program of study leading to the CFA takes students three years to complete, and concentrates on investment analysis. It provides an in-depth knowledge of investments. Continuing education is encouraged but not required.

The CFA has achieved widespread respect and recognition, especially within the investment community. It is an excellent certification for anyone planning to manage clients' investment portfolios. Some CFAs also do financial planning.

Some experts believe that the best preparation to be a financial planner is to first become a CPA (certified public accountant). By their training, CPAs are equipped to do company and personal tax returns, as well as accounts and auditing work. And, as you remember from my description of the CFP program earlier, tax planning is part of the knowledge that a personal financial planner must have. And CPAs definitely have expertise on tax matters. Very often, this leads a CPA to become more interested in personal financial planning.

Having a CPA after your name doesn't necessarily qualify you to give financial planning advice, however. For this reason, the American Institute of Certified Public Accountants (AICPA) created the PFS (Personal Financial Specialist) certification. To be awarded the PFS designation, CPAs must pass a rigorous examination given by the AICPA. They must also demonstrate three years of financial planning work experience and perform at least 750 hours of personal financial planning services. Finally, there is also a continuing education requirement. A CPA/PFS must finish 72 hours of continuing education every three years.

While the PFS obviously sets a high professional standard, the PFS certification is not as popular as the more widely held CFP designation. And many accountants opt to get the CFP instead.

Yet another certification is the RFC—Registered Financial Consultant. This designation is conferred by the International Association of Registered Financial Consultants (IARFC) located in Chesterfield, Missouri. The IARFC is a professional association with more than a thousand members. It also offers practice support services for its members and holds educational conferences. To qualify for an RFC certification, you must first have a financial services–related undergraduate or graduate degree, or hold a financial professional designation that meets with IARFC approval (such as CPA). In addition, you must have at least four years of full-time financial planning work experience under your belt, and be li-

censed in the areas of securities and life and health insurance. Finally, RFCs must also meet ongoing continuing education requirements, and follow the IARFC's code of ethics.

Finally, a registered investment adviser (RIA) is someone who is registered with the U.S. Securities and Exchange Commission (SEC) or with one or more of the states. If an investment adviser has more than a certain amount of client assets under management, he or she is required to register with the SEC as an RIA.

OTHER DESIGNATIONS

The designations discussed so far are probably the most important ones. However, the attempt to establish credibility has resulted in a proliferation of other designations in the financial services industry. To name a few:

The RFP (Registered Financial Planner) designation is issued by the Registered Financial Planners Institute (RFPI, 2001 Cooper Foster Park Road., Amherst, OH; 440-282-7176; e-mail: info@rpf.com). It is given to those who become an RFPI member and complete education and experience requirements.

CIMA stands for Certified Investment Management Analyst, which is conferred by the Investment Management Consultants Association (IMCA, 9101 East Kenyon Avenue, Suite. 3000, Denver, CO 80237; 303-770-3377; web site: www.imca.org). It is granted to investment consultants who complete IMCA's educational, examination, and experience requirements. There is also a continuing education requirement.

Accredited Estate Planner (AEP) is a designation given by the National Association of Estate Planners and Councils (NAEPC). To obtain this, one must become an NAEPC member, pass an examination, and meet NAEPC's educational requirements. For more information, visit its web site at www.naepc.org.

If you see the letters "EA" after someone's name, this means the person is an Enrolled Agent. This is a designation given by the U.S. Treasury Department to income tax specialists who pass an Internal Revenue Service exam, or have five years of audit experience with the IRS.

CFS means Certified Fund Specialist, which is given by the Institute of Business and Finance (for information, call 800-848-2029). The CFS is conferred after completing educational, examination, and experience requirements in the area of mutual funds. Continuing education is required.

There are also several designations given to tax experts. The ATA (Accredited Tax Advisor) is conferred by the National Society of Accountants and the Accreditation Council for Accountancy and Taxation

(for information, call 703-549-2228). It is given to tax professionals who complete educational, examination, and experience requirements. Continuing education is required. And the ATP designation (Accredited Tax Preparer), offered by the same two organizations, also requires educational, examination, and experience requirements, and also requires continuing education. Of course, CPAs and tax attorneys also have expertise here.

YOUR APPRENTICESHIP

Let's say that you've set your sights on becoming a financial planner. You've completed your additional education, and you've earned your CFP certification. Does that mean you're ready to open your doors and do business?

Absolutely not! Now you must begin your apprenticeship. You've got to learn all the hands-on, practical things about the business that you won't be taught in courses. You've got to gain some experience.

"I suggest that people starting out work as an apprentice somewhere," said financial planner Deena Katz. "Work for other people. When I started, there was no such thing as that. But you can get into an organization now. And you can trade on that marble, if you will."

For example, the Investors Diversified Services (IDS) subsidiary of American Express does that—trains people as financial planners, and uses them.

"They do," Katz agreed. "IDS is where I usually tell people to go. It's probably the only financial planning-oriented organization, or was. But now Prudential, for example, is opening its own financial planning group. So you're going to be able to see larger groups where you can get a little more instant credibility."

But should people try to do their apprenticeship at one of these larger organizations first, rather than try to work for a smaller financial planner?



Should you apprentice at a larger firm or a smaller one?

"No," Katz said. "I would love to have everybody work for a smaller financial planner. I think that's where you learn the most. But I'm not sure there are enough to go around."

What's more, they generally can't pay you too much.

"And they can't train you on your feet," Katz added. "You have to have something behind you. At our firm, we're rare birds. We've hired kids right out of college, the first kid coming out with a degree in financial planning, a master's in accounting and financial planning. And these guys are amazing. But it's a long lead time for training. They still don't have their own clients. So you get a bigger jump start when you work with a bigger organization, because they've got it down pat—they've got a formal training process."

But what is the biggest problem for new financial planners who are in business for less than two years? And what problems are most likely to drive new people out of the business?

"I think the problems for new planners, these days, are coming from the mutual fund supermarkets—the Vanguards or the places like Schwab or E*Trade, or wherever," Katz reflected. "Because it's hard for young planners to show that they have value other than getting you into an investment. You can get on the Internet, go to Vanguard, and do your own retirement plan. Now, you're smart enough to know that's probably not the most accurate thing in the world. But there's an awful lot of people out there who think that they've done their job. They'll say, 'Why should I go see you when I can get on the Internet?' And remember, young planners are not going to be able to work with high net worth people. They don't have enough gray in their hair. So they're going to be working with people with fewer dollars, who are less sophisticated. And there's a lot more competition at that level."

So how do they overcome that problem?

"Join the organizations," Katz responded. "I'd probably apply for a job at Vanguard, and get some experience. Or look for a planning firm like mine. The four young people working for us are just extraordinary. I hired them out of college. And they're paying their dues. One day, they're going to be in my position."

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