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SCREENING FOR SMART ADVISORS YOU CAN TRUST

A Must-Read Investor's Guide

Screening for Smart Advisors You Can Trust

Jeff Camarda · Steven James Lee · Jerusha Lee

Screening for Smart Advisors You Can Trust

Educational Exerts from
The Financial Storm Warning for Investors:
How to Prepare and Protect Your Wealth from Tax Hikes and Market Crashes

Camarda Wealth
ADVISORY GROUP
Fee-Only Wealth Planning & Capital Management
ADVISING FAMILIES AND BUSINESSES SINCE 1993

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ISBN 978-3-030-77270-3 ISBN 978-3-030-77271-0 (eBook)
https://doi.org/10.1007/978-3-030-77271-0

This Palgrave Macmillan imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

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Table of Contents

Introduction

Hi! I'm Jeff Camarda, and thanks so much for reading this report. I hope you enjoy these two free chapters from my Amazon bestseller, The Financial Storm Warning for Investors.

This information on advisor selection is especially timely, given current economic and investment market conditions.

I fear that if you are not advised well, much of what you have worked and saved for is at risk of evaporating, crushing your dreams of a happy retirement and nice legacy for your kids, and maybe even facing that most horrible of financial outcomes, running out of money.

As you read this material, you will discover that much of what you thought you knew about financial advisors could be dead wrong and that you could find yourself terribly mislead into a very bad spot.

Not that most advisors are bad people, or don't care about helping you. But you may find as you read my material that most are just not up to delivering what you need, for a variety of reasons you'll learn about.

Financial advice is one of the most mystifying services consumers purchase. In a field that has evolved to become as complex as medicine, it remains very difficult to tell the difference between highly trained, ethical, and effective advisors and charming salespeople who may or may not be able to grow and protect your family's wealth.

Hopefully, these book chapters will help to clear the mystery and share some easy guidelines to ease your decision and help determine how you can select the best advisor to suit your needs, and whether your existing advisor makes the grade, or if you should consider replacing them, while you still have time to save your estate and retirement.

I hope you enjoy these chapters! You will find I wrote them with tongue in cheek, in an entertaining style to make you laugh, learn, and get the crucial information you need quickly.

All the best!

Dr. Jeff Camarda

The Holy Grail…Screening for Smart Advisors You Can Trust

The Cartalk© guys used to gleefully zing about their law firm, the venerable Dewey, Cheatem, and Howe. Once upon a time, back in my dewy-eyed youth, I came up with a gag name I liked better, Badger, Hound, Fleece, and Dodge.

Now that I've got a few decades in the financial business, I often find such besmirches more applicable to financial advisors, than to lawyers (except for lawyers that are also financial advisors!).

This area is probably my biggest peeve, but I won't let myself get started. At least not too much. I'm actually a platitudes-spouting, award-winning academic researcher specializing in advisor education, ethics, and professionalism, but I'll cut through the ivory tower hoowy and try to just give you what you need to be a smarter consumer.

The financial advisor "profession" has some hair on it, no mistake. Licensure can be relatively easy to obtain, and true professional regulation is absent.

Many consumers may feel like Diogenes, endlessly casting a light in the fruitless search for an honest man. Finding a good advisor is needle-in-a-haystack hard.

For one thing, there is no profession of financial planning or financial advisory, as I demonstrated in one of my early academic papers.[1] There is no uniform regulation like in medicine or law. There's scattershot oversight of sales industries for insurance agents and stockbrokers, but nothing comparable to an AMA, Boards of Accountancy or attorneys' Bars. There is no

J. Camarda et al., *The Financial Storm Warning for Investors*,
https://doi.org/10.1007/978-3-030-77271-0_20

standardized, minimum body of professional knowledge, nor rigorous testing, vetting, and certification. Most importantly, there is no effective requirement to probe client needs and always put them first.

Nearly, anyone can call themselves a financial advisor. Regulatory restrictions on the term are scant or non-existent. Pretty much the same for terms like financial planner and investment advisor—these are technically under the purview of the SEC, but hardly anyone (including, sadly, the SEC!) pays much attention.

So you'll find this field a hot, scantly regulated, Wild-West stew of life insurance agents, bank tellers, stockbrokers, CPAs, real estate promoters, lawyers, CFP®s, and assorted other players, often looking good in a suit, but with differences in the depth of training and fiduciary obligations well-neigh indistinguishable to the general public, even the really rich and smart ones.

How bad is it? Let me give you some detail from my own career experience. Here's a snippet from my yute (misspelling courtesy of *My Cousin Vinny*).

"You now have a license to steal." Those were the words of the Wall Street branch manager to his rookie who'd just passed the Series 7 stockbroker's exam. I heard them at the huge broker training center where I was learning to cold call with the rest of the rookies. It was 1984. I was 27. I had a degree in chemistry but no training in investments besides the scant week I'd spent studying to pass my own Series 7. This was the "really hard" full-service stockbroker's exam, mind you, not the far simpler Series 6. This "study" mostly consisted of memorizing the answers to the hundreds of "practice" test questions they gave me, many of which I later saw on the exam. In my personal testing experience and in coaching employees to pass exams, memorization of practice exam questions—not deep study or exercises—seemed to be the ticket. This continues to the present day.

Once licensed I really had no idea what I was doing. But I was misty-eyed and trusting and very hopeful to support my new family with this job. Despite the "license to steal" quip—which most of us took as good-natured jocularity, but sadly took a darker view years later as we came to figure out the racket—I was very proud of myself. Look at me, an unemployed chemist and a week later, I'm a STOCKBROKER! My only jobs before this were pickin' antiques in college and selling home improvements door to door. Being a stockbroker—they call themselves financial advisors, as do life insurance salesmen, now—did then and still now signals a level of professionalism and social prestige not entirely consistent with the low bar needed to attain it.

I go here to demonstrate that the American financial advisory industry was and remains amorphous and lacking professional standardization and regulation. There are few guideposts to assess advisor quality, and risks to consumer welfare abound. Some 91% of investment advisors operate on conflicted sales commission licenses, though many if not most market themselves as fiduciaries. Again, this has become my special area of scholarly study. One of my early (award-winning) papers found that advisor misconduct was strongly associated with life insurance licensure, having both fiduciary and non-fiduciary commission licenses ("two-hats"—prone to switching when least expected), and, ahem, being male. In a new paper I just finished with my research team, we studied misconduct patterns among virtually all some-650,000 commission investment advisors in the United States. These are the stockbroker types licensed to sell securities, and this is the biggest data pool of advisors amenable to study. Their official term is "registered representatives." Misconduct—complaints, suspensions, fines, settlements, etc.—is public record for these advisors. Without going too deep into the academic weeds, we found elevated misconduct associated with high significance for two major categories which you may find interesting and probably alarming. I call these categories "badges" because advisors often tout them to get clients, and consumers may believe they indicate higher quality. They send signals of implied quality. Paradoxically, what we found was sharply higher misconduct associated with registered representatives who are: (1) Fiduciary investment advisors (two hats) or (2) Certified Financial Planners. Somewhat surprisingly—and quite encouragingly!—two-hat CFP®s showed lower misconduct, and commission-only CFP®s sharply higher misconduct (sigh).

It went way *down* for registered reps who are Chartered Financial Analysts (CFA®s).

Of course, there's lots more nuance and shades to this, and if you are really interested in the detail, drop me a line and I'll send you the paper. Not all fiduciaries or CFP®s are bad, of course. This is mostly an outlier effect, where most are OK but some are so bad they taint the barrel, and telling the difference can be devilishly difficult for the untrained. The major point is you *have to check*—you can't blithely assume a signal or badge like fiduciary or CFP® equates to quality, honest advice. Far too many sharks—a distinct minority but with 600K+ advisors still far to many—wear these badges and will use them to try to get your trust and your money. The kind of regression analysis used in the study, by the way, does not find relations—it finds correlations, a whole "nother kettle of fish." It is smoking gun stuff, not dead-to-rights evidence. But it provides very useful information on the probabilities of encountering an advisor with a history of misconduct, and in many cases serial misconduct. Again, bad actor odds go way up for two-hat nonCFP®s and for commission-only CFP®s. The new paper goes on to propose policy changes that will help consumers easily flag problem advisors, and I sure hope the regulators are paying attention.

So for a consumer litmus test, again hear this. The two most popular badges of advisory quality—being a fiduciary and the Certified Financial Planner mark—mask an alarming number of misrepresentative or downright abusive advisors. Primary findings? Having a record of misconduct is far more common than most investors imagine.

Consumers relying *just* on the CFP® (a bucket that includes all the single hat commission-only folks) or fiduciary claim may actually have a *higher* risk of putting themselves exactly where they hoped not to be—in the clutches of an advisor more prone to consumer abuse. Of course, there is much more to it than that, but people tend to rely on badges or labels or signals to save time and make decisions, which in advisor selection can be counterintuitive and dangerous.

Let's delve a bit more into the fiduciary and CFP® badges, since these tend to be the more popular consumer signals.

Many investors have finally gotten savvy to fiduciary and know that it means advisors who must put clients first. Not necessarily smart, but "honest." Or at least legally required to put clients first. While this seems pretty black and white, it's not as easy as it looks and still leaves room for lots of investor abuse. Getting a "real" fiduciary who's not covertly selling you expensive commission products can be a real challenge, but getting this right can be critically important, and literally could cost hundreds of thousands—or millions—in wasted family wealth, if got wrong.

Determining the difference between fiduciaries is fast and easy if you know how, but many consumers may not know how to conduct this important background check.

Advisors who claim to be fiduciaries can be of three sorts: (1) those that simply lie about it to get you to buy a high-commission, poorly disclosed product, (2) those who are actually dedicated, exclusive fiduciaries legally required to put you first, and—here's the squishy, dangerous part—(3) advisors who have both fiduciary investment advice licenses, and commission investment sales licenses, a condition known as "dual registration" regarding securities licenses. I call these "two-hats." For detailed instructions on sorting this out, Google my *Forbes* article on this called *When Fiduciary's Really A Four-Letter Word*.

Life insurance is an entirely different and much more opaque situation. Unlike securities licenses which are Federally administered, insurance is state regulated and much murkier and harder to get agent misconduct or other information. No organized database exists like the BrokerCheck we're about to discuss, which was the source of data in the above-referenced study. To that end, an adviser can be a bona fide securities fiduciary—without being a registered representative securities commission sales agent—but still a gun-slingin' out for blood life insurance commission sales agent. There is no easy way to check on the insurance licensure besides trolling the many states' license sites, or reading the hard-to-find fine print on the advisors website. In my humble view this is a major consumer protection flaw and a national misconduct database really should be built. Remember that even if an advisor is a securities fiduciary without a securities commission license, they can still have an insurance commission license, and the commissions on life insurance and annuity products tend to be not only hard to spot but out of the park huge. Annuities, since you probably don't know, are a form of life insurance. A pitch to beware of: "oh, yah! I'm a fiduciary. This insurance/annuity is the prefect retirement plan for you. Commissions? You don't need to worry about that! You pay no commission! I'm paid directly by the company..." Unfortunately the commission comes right out of your wealth, but in such a devious way you may not notice for years...if ever.

Sure gets murky!

Securities commission sales agents—again, we used to call them stockbrokers—are regulated by FINRA (Financial Industry Regulatory Authority) and typically have sales licenses like Series 6s or 7s. They are officially called registered representatives (RRs) and are sales agents of "broker/dealers," companies who deal in investment securities for a profit. They make money by taking (sometimes hard to spot) commissions and markups on investments. If you remember that the dealer means the same as in car dealer, you get the point. Most folks don't expect car sales reps to look out for their best interests, and registered reps are generally no different. It is perfectly fine, from a regulatory standpoint, for them to sell products that make more money for the advisor at the expense of consumers' wealth health. Perfectly legal, but not well-understood by most consumers.

Fiduciary investment advisors—officially "investment advisor representatives "(IARs) work for Registered Investment Advisors (RIAs) and have a legal obligation to put you first. RIAs are regulated by the SEC and actually comprise a whole different industry than broker/dealers.

Two-hat dual registered folks are licensed both by FINRA as non-fiduciary commission sales agents and by the SEC as fiduciary IARs. Dual registration—and I'm being charitable here—can make for confused advisors who may forget what hat they're wearing, and maybe sell a high-commission product to a consumer who mistakenly believes—or even is allowed or led to believe—that the advisor is acting as an IAR fiduciary. These are the smoking gun blokes we found sharply higher misconduct for. Maybe because consumers can become hopelessly confused, remembering only that the advisor once told them they were a fiduciary, and they just believed and trusted that, instead of questioning every recommendation to see if it was a product pitch, or reading the reams of disclosure documents that broker/dealers rely on to manage their liability.

Clearly, dual registration can expensively blur the line between what's best for the advisor and what's best for the consumer. Not surprisingly, repeated academic research[2] has found that in Florida, at least, dual registration is associated with significantly higher levels of advisor misconduct, like fines, license suspensions, client complaints, settlements, and so on. My recent national study confirmed this with a vengence.

It's not hard to imagine why, since such dual registration confusion can breed situations like the following true story, in this case, a retired lady using a large broker/dealer. The investor believed the advisor was a fee-only fiduciary who did not sell on commission and who put the investor's interests first. When I looked at her statements, I found a big-commission annuity. She insisted I call the "advisor" to clear the air. When asked, here's how the rap went. "Yes, I'm a fiduciary…Yes, I always put the client first…Yes, I only charge fees, no commissions!" When I challenged him about the million-dollar annuity found on his statement—an annuity that was showing no growth, had hard-to-find internal costs of some 6%/$60K a year, and which had generated an estimated commission of some $80,000 to him, over lunch—his response was—I kid you not—"well, except for *that*."

As you know by now, situations like this are actually encountered quite frequently by me in practice and clearly have the potential to be quite detrimental to a client's wealth.

This is a really big deal, since much if not most of the financial services industry remain in a buyer-beware stance, with "advisors" who can maximize their commissions perfectly legally, at the expense of investors' families' long-term wealth health. Where consumers believe advisors are putting consumers first, but advisors are legally free to line their own pockets at consumers' expense, the potential for massive consumer harm is enhanced.

This is not to say that fine, completely ethical work isn't routinely conducted by commission brokers and life agents who also hold fiduciary licenses and who remain cognizant of their respective duties. But the conflicts of interests are severe, the cheese keeps moving in the investments game, and many consumers may prefer to just skip the extra work and risk of using the these "two-hat" dually registered advisors when seeking fiduciary advice. In our recent study, we found these two-hat commission and fiduciary license advisors to be associated with four times the general misconduct, and nearly five times the advisor-related misconduct, as the entire study population. The whole CFP® bucket, including the "good" two-hats? Over seven times, and over ten times, respectively. Those are big-time betas (tobit regression coefficients, actually), baby! By contrast, CFA®s showed less than one-tenth of the misconduct as the whole population, which means around one hundredth CFP®s. The lesson here? CFA® is a fairly reliable signal to avoid misconduct. For CFP®s—whose misconduct probability at 77% is about 3x that of CFA®s—you simply MUST dig deeper. Though I stress that most are "clean" and the bad apples spoil the statistical barrel, the fact that some 22% show documented misconduct—some quite egregious—requires you dig deep. The badge really tells you nothing on its own.

Things *appear* to have improved a bit lately, though some fear it's more illusion than reality. There has been much ballyhoo recently about the new Regulation BI, for Best Interest. In a nutshell, or at least a ten-gallon hat, BI goes like this here. The advisor must act in the best interest of the consumer, and not put the interests of the firm first. Sounds great, until you realize this duty can be satisfied merely by disclosing that the advisor is acting as a commission agent for a brokerage firm, what fees and costs are, detail on offered products and strategies, and detail on conflicts of interests. All this can be satisfied by sending you more paper you won't read. The advisor needs to be able to show they exercised "reasonable diligence, care, and skill" in making the recommendation and has a "reasonable basis" to believe the recommendation in your best interest. The firm needs to flag and control conflicts that would put the firm first and control sales contests and bonuses that favor one particular product.[3] All this sounds very nice, but I can tell you from experience as a once gun-toting stock slinger that they are all pretty easy to dance around, to comply with the letter of the reg and still make gobs of money selling stuff that costs consumers far more than alternatives. One finance professor[4] has gone so far as to call BI "the greatest securities fraud in history…" explaining that "…now, brokers have begun advertising that they act in the best interest of their customers, who are going to believe that means they represent the customer, when in fact that's not the case."

A thorn by any other name still cuts as deep, and the spilt blood still spells buyer beware.

Next, let's take a tour of CFP® land. I warn you this will be a long segment, and you may just want to skim it. The reason I give you so much detail is because it's such a weird and counterintuitive situation that hiring a CFP®

may put you worse risk than using a non-CFP®. The words "certified financial planner" and the major marketing muscle behind the CFP® send an entirely different "highest standard" message.

Besides fiduciary, consumers typically rely on the CFP® letters as in indicator of advisor quality. My ongoing research over many years indicates CFP® may not be a reliable quality signal and consumers who rely on it may not get what they expect.[5] As the new national study discovered, having a CFP® was the biggest factor associated with reported misconduct. As noted, this ranged from seven to ten times that of the entire studied advisor population, depending on the misconduct measure. These findings were extremely statistically significant, all at the ***/1%/$p < 0.01$ value. These are major numbers in nerd-ville.

The CFP® long ago surpassed the CPA as the most-recognized financial credential,[6] and with sustained marketing, could soon top the CPA as the most trusted designation[7] as well. That's no accident. The CFP Board has spent a *lot* on advertising, with a recent annual budget pushing $12 M.[8] "The CFP Board now has spent more than $10 million a year for almost a decade promoting that the CFP® marks are the 'gold standard' when it comes to financial planning advice,"[9] according to respected industry blogger Michael Kitces.

Such trust, at least in some cases, may be severely misplaced.

Before I get into this, let it be known I think the CFP Board is the likeliest option to professionalize an industry desperately in need of it. It is well-organized, has great infrastructure and resources, and is widely known and respected. But for that to happen, I think it must endure pretty fundamental change. To work well, it needs to be converted from a tax-free non-profit to an actual professional membership organization overseen by its members. Many folks—including probably many if not most CFP®s—don't know that CFP Board is not a membership organization but instead a trademark licensing operation set up as a charity. Bizarre but true![10] Unlike professional organizations like the American Medical Association, the American Bar Association, or the American Institute of CPAs, the CFP Board is actually organized not as a professional membership group or professional regulator, but as a tax-free *charity.* It is run not by CFP®s but rather by long-tenured non-CFP® staff and a Board whose directors have short service terms, unlike staff. CFP®s who pay for the trademark license are not vetted or governed by peer review. They have no vote in the election or selection of executives or directors. They have no real say in formulating policy. In short, CFP Board is not run by CFP®s.

In a nutshell, CFP Board is an autocracy, controlled by a tight and perpetual inner circle. The largest component of the charity's cash flow comes from renting the right to use the CFP® brand.[11] The cash flow is robust. With over 80,000 CFP® licensees and counting, annual dues[12] generate nearly $30,000,000 a year to the 501(c)(3) non-profit. There have been persistent concerns CFP Board is more focused on growing its license base and revenue stream than enforcing quality financial planning. "There's much more interest in growing the number of CFP®s than there is in vetting them to protect the public," said a former CFP Board executive. A big chunk of these trademark license fees goes to support advertising to promote the CFP® brand and generate sales leads for CFP®s.[13]

It is a rich organization. For 2018, the last year I could find online, the CFP Board tax return listed[14] revenue of about $40 M and net assets of about $30 M. Despite its resources, the Board for a long time seems to have struggled to police its licensees, while at the same time, touting its troops as being "thoroughly vetted" and representing the "highest standard" of financial advice.[15]

A 2012 *Wall Street Journal* piece[16] reported a CFP® found to have been charging over 5% a year in fees plus taking commissions while claiming to be a fiduciary acting in the client's best interests. Multiple complaints were filed with CFP Board, that got "lost," and ultimately the client received a letter that no public action would be taken against this CFP®.

A year later, the *Journal* reported[17] hundreds of CFP®s improperly listed as fee-only on the CFP Board site who actually worked for commission brokerages like Morgan Stanley, UBS, Merrill Lynch, Raymond James, and others, noting "up to 11% of certified financial planners who work at big firms call themselves 'fee only' when, by definition, they can't be." While the Board publicly denied knowledge of the misrepresentation, one of its Disciplinary and Ethics Commissioners is on the record[18] as saying the Board had known about this "forever," and a commission CFP® is on the record as saying such rules don't "really apply to me" at Merrill Lynch. In the wake of the *Journal* piece, the Board did not sanction such CFP®s but rather issued broad amnesty.[19]

Press reports of ethical challenges have continued over the years. In 2019, the financial advisory world was rocked by the *Wall Street Journal* report[20] that thousands of CFP®s, nearly ten percent of Certified Financial Planners, promoted as clean on the CFP Board's "find a planner website," actually were not clean but had public records of misconduct ranging from customer complaints to crimes. Red flags include thousands of client disputes, fines, and suspensions, and including over a hundred felony charges or convictions. While the Board "boasts of its high standards and has touted its directory of professionals as a place where people can find a screened, skilled and trustworthy financial planner," in reality "what they won't find there is any indication that thousands of the planners bearing the board's seal of approval have had customer complaints or faced criminal or regulatory problems – often directly related to their work with clients," according to the *Journal* report. Regarding CFP Board's "thoroughly vetted" claim, the Journal reported it "has been presenting more than 6,300 planners (as clean that were not) … more than 5,000 have faced formal complaints from their clients over investment recommendations or sales practices, and hundreds have been disciplined by regulators or left firms amid allegations of misconduct. At least 140 faced or currently face felony charges…"

Board CEO Kevin Keller has been quoted as saying "our primary goal is to keep certificants out of trouble" when pressed on why "actually enforcing standards" is not a priority.[21]

In the wake of the 2019 *Journal* exposé, in December of 2019, CFP Board appointed a task force which found "systemic, longstanding, governance-level weaknesses" which would "inevitably result in… a recurrence" if the Board failed to act. The Board accepted some but not all of the task force's recommendations.

As part of my team's most recent national academic study, in September of 2020, we reviewed the CFP Board site postings for the 151 CFP®s with the worst misconduct scores in our research. Of these, 138 (91%) were actively certified, and 126 (83%) were listed as in good standing (without CFP Board discipline). For the 25 with the very worst scores, we compiled a summary of disclosure events. Of these 25, 19 were actively certified, with 16 listed as in good standing. Of the worst CFP® offenders, 84% of certificants were shown as clean on the Board's site. One of these had 9 disclosure events over 16 years, including multiple large settlements, and a 60-day suspension of an insurance sales license, but showed up as clean as a CFP® licensee branded as "thoroughly vetted" and practicing to "the highest standard."

It appears the Board is moving, perhaps glacially, toward improving oversight and flagging bad apples, though it clearly suffers thousands of bad apples to still taint the barrel. Those of you not thoroughly exhausted by the preceding and who want more, Google my *Forbes* article called *America's Broken Financial Advisor Promise—What's Wrong with the CFP Board & Why You'd Better Check Twice Before Trusting a Certified Financial Planner*.

In any event, do these facts mean you should not consider an advisor claiming to be a fiduciary, or sporting the CFP® badge? Of course not! Many quality, ethical, caring planners fit this mold. But the sad reality is you have to dig much deeper, and can't just rely on the CFP® badge.

So what, dear and probably thoroughly bewildered reader, should you look for in a top-notch advisor?

As hopefully your stroll through this book has demonstrated, wealth management practiced well is a complex and arcane art.

To help you decide for yourself how to evaluate potential advisors, I'll start with the sort of checklist I'd give my kids or a beloved aunt, and then share some sense of how I run things in my own practice in case my model seems appealing to you. Mine is unique so far as I know—and I have looked!—but surely others have figured out what I have, though they may be very hard to find.

As you sift through this, consider what you may want from a planner. I see tremendous synergy in the family office approach—combining tax, estate, asset protection, business and real estate management, investments, accounting, retirement funding, insurance and risk control, and on and on. To me, this is the only sensible way to do wealth management. Put it all together and things seem to work much smoother and more efficiently together.

As bemoaned throughout the book, in a field every bit as complicated as rocket science or law, I am still astounded that the only regulatory requirements to "practice" are very basic licenses which can be acquired by those of average intelligence in only a few weekends of study without any background in finance or even a clean criminal history. These basic licenses are all the vast majority of advisors have, and I think it's a shame that this is the case and that most investors can't tell the difference.

Financial advice is one of the most mystifying services consumers purchase. In a field which has evolved to become as complex as medicine, it remains very difficult to tell the difference between highly trained, ethical, and effective advisors and charming salespeople who may or may not be able to effectively grow and protect your family's wealth. Hopefully, this chapter will help to clear the mystery and share some easy guidelines to help determine which advisor might best suit your needs, and whether your existing advisor makes the grade, or if you should consider replacing them. I believe there are eight critical factors, all of which I would want my family to have in a trusted and wise advisor.

1. Do they put you—or themselves—first?

2. How expert are they? Most sound like they are sharp, but are they actually highly trained and educated in wealth planning? What are their credentials? What proofs of education and expertise can they offer? Are they very well versed in all the major wealth disciplines to effectively quarterback your fortune and help dodge idiot advice from others?
3. Probably most importantly, are they tax savvy to conserve your wealth? Remember the status quo that many if not most tax advisors are not nearly as well versed in this extremely complicated area as you need them to be. Beyond this, do they *hate* needless tax? Far too many don't!
4. Is compensation clear and fair? Do they charge fees only? Have you done your due diligence to smoke out securities, insurance, and other commission licenses, and be satisfied these won't bite you when your guard is down?
5. Do they render deep advice and continuous planning or just sell products? You need an ongoing guide to steer you around the shoals and keep on course toward the gold. Be wary of the bait and switch, with promises of undying service that get forgot the moment the commission check is cashed…or only remembered when it's time to flip your products and convert more of your wealth into commission dollars.
6. How severe and obvious are conflicts of interest? Learn how to sniff these out, and read, read, read all the disclosure! This is the complex, boring stuff in fine print buried in the back of the package or the bowels of the website. They don't want you to see it. But it's there for legal reasons, like to point out when you complain—"well, all that was disclosed before you hired us." Bite the bullet and read it first!
7. Is there a record of misconduct? Is there regulatory disciplinary history? If they have insurance license, check out the record in the states of licensure. Look them up on BrokerCheck. Check with the BBB. Search their name and firm by googling "XXXX complaints." Look at Google reviews. Be a detective *before* you have lost big dollars.
8. Is there robust, third party recognition of excellence? Making lists like *Barron's* and *Forbes* is nice and says something, but I can tell you from having been on these for years they are not holy writ. Client references can help, but can be cherry picked. Being in the press because your advice is newsworthy is good, because the reporters will grill and fact-check you a bit. Beware badges of sales production like the Million Dollar Round Table (MDRT) that don't speak to expertise or advisory quality. And surly beware all the "best selling authors" who really just pay to put their names on a ghostwritten, cookie cutter book.

All these can be critical to getting excellent advice. The absence of even one of these factors can compromise the best quality and even lead to financial missteps or even disaster.

At the risk of being redundant, fiduciaries are legally required to put your interests ahead of their own, and to have a sound basis for all of the advice they give you. "Suitability" standard advisors—and this includes the vast majority of stockbrokers (even with the new BI twist), bank reps, insurance agents, financial planners, and others who use the term advisor (and all these last lot are not even BI-bound)—typically do not! While Reg BI (for "best interest") improves this somewhat, it still falls far short of an actual fiduciary standard and only applies to securities licensees. Non-fiduciary practice is a big reason to doubly beware life insurance/annuities sales folks pitching fixed insurance products (which include all the new equity index wonders). Most consumers don't know the difference between real fiduciaries and fair-weather ones, and most "advisors" are happy to let investors think their interests are first when really they are not. Make sure the advisor is acting in a fiduciary capacity on all the advice they give you—and get it in writing! And remember—two-hat part-time fiduciaries that also have sales licenses showed the highest rates of misconduct, right after CFP®s. You want a "pure" fiduciary to improve your odds.

Here's a neat trick. It's a Fiduciary Oath based on the one in my firm's brochure, that you can put into an email and ask the advisor to sign. If they won't sign something like this, your coal-mine canary just died! Do not use them! And make sure you tell them you need to email a signed copy to their compliance department—and copy you so you know they did—just to make sure you have something to rely on if they mislead you. If they promise to do this but never get around to it, BEWARE!

I Will ALWAYS put you first

(Enter firm name) ___________represents it is an SEC Registered Investment

Advisor that believes in placing your best interests first. Therefore, we are proud to commit to the following six fiduciary principles regarding your investment planning:

1. **_______ will always exercise its best efforts to put your best interests first, above its own and its employees.**
2. **_______ will act with care and prudence, and with the skill, care, diligence, and good judgment of an accountable professional.**

3. **_____ will seek to minimize your costs, not take compensation in any form on investment recommendations, and to clearly openly, and simply disclose how it gets paid on your behalf.**
4. **____ will NOT accept commissions or other compensation besides fees for our securities investment management services.**
5. **______ never intentionally mislead you and will provide conspicuous, clear, written, complete full and fair disclosure of all pertinent information of which it is aware. We will strive to tell you the whole truth as we know it, and not just parts that may serve our agenda.**
6. **_______ will seek to avoid conflicts of interest. We will fully disclose and fairly disclose any conflicts that we discover.**

Advisor ______________________________
Firm Affiliation ______________________________
Date ______________________________
Signature ______________________________
Also, you want to be crystal clear on what you pay!

Sadly, most investors don't know how they pay their advisors, and many can even make it look like they work for free. Everybody loves free stuff. Even when clients know they must be paying something, the human mind will discount what is not obvious, and let itself believe things are better or cheaper than they are. Make no mistake, however: financial advisors usually make a lot of money. Even when you see a "reasonable" fee of 1% or less, there can be much higher additional costs that are hard to spot and rarely talked about by advisors. Some common products—I'm talking dastardly annuities here—may charge as much as 5% a year or more in fees that are nearly completely hidden, but perform no better than index funds costing less than 0.2% a year. This is important! The difference in wealth after 20 years with an average return of 7% and a 0.2% fee starting with $500,000 is over one million dollars, but gets shaved to less than half with 5% in hard to spot fees! (end value of $1,864,000 vs $743,000). And remember the legal disclosure—getting stacks and stacks of small print so intimidating and legalese-complex that few people ever read it, and fewer still understand it—often satisfies the liability requirements for a buyer-beware marketplace, but leaves consumers almost completely uninformed, yet happy, flush, and unaware their knickers have fallen to their ankles.

I am regularly astonished by how little people seem to understand about the true costs they pay in brokerage accounts and insurance products. They don't read the fine print and rely on some advisor's assurances that it is very inexpensive or even free—and in most cases, the advisor themselves probably does not know or understand the various ways the client is paying. Many sadly—and I hang my head in shame to have once been counted among them—know one number only—the commission payout.

Getting the full picture can be very difficult, and most investors don't have the time, inclination, or resources to do the research. To protect yourself demand a statement in writing of the various fees, costs, commissions, markups/markdowns, charges, insurance assessments, and other items that may be dragging your wealth down. Don't accept a box full of disclosure documents—demand a simple one-page explanation of everything you pay and be very suspicious of those who give you excuses instead of real information.

Beware of buying financial planning, but getting sold products. This is still far too common, and probably still the industry status quo. More and more, consumers are interested in financial planning. They are looking for solid, objective, and fiduciary advice. At the same time, the financial/investments industry remains dominated by companies driven by investment and insurance products profits. Advisors and their firms know consumers are hungry for advice and will typically pitch planning as a way to sell products, sometimes even generating elaborate, colorful financial plans and other (often boilerplate) documents. Unfortunately, in too many cases, such plans and planning are cunningly designed sales pitches, intended to promote an understated (or even hidden) product sales agenda.

In many cases, this can be worse than no planning at all, for two big reasons. First, the plan recommendations may be for high-compensation products the planner wants to sell, but which are not the best vehicles to target the consumer's actual financial goals. Remember non-fiduciaries are allowed to look out for themselves, not you, first, and BI lets brokers' disclosure wash most of this commission hair invisibly away. Second, if a "plan" is really a sales proposal (and I caution you that far, far too many are—and this can be really hard to tell!), it is very unlikely that the advisor will monitor and manage it for you. Once the commission is paid, the plan is likely to be forgotten, or only paid lip service without real updates and analysis. I see this all the time, but am still astonished by consumers who believe that "oh, Mr. Advisor is managing that for us" when it is clear that (a) they are not properly trained or even licensed to do so—and the legal authority—and liability!—for actual management rests with the client, not the advisor!—read that fine print, mate! and (b) there may have been no changes in 10 years or more, or, worse, commission-driven changes that do not relate to the plan at all. This is really sad, but true. I constantly see investment "plans" that are still deployed exactly as specified on the original now-yellowed paper application filled out eons ago.

I caution you that telling this can be very tough. It almost seems that the financial industry has carefully cultivated an illusion of service and clients-first duty which does not exist, in order to lull consumers into beliefs and decisions that profit Big Financial instead of consumers. As suggested above, your best defense is to get it in writing. Get a signed document of exactly what planning services will be performed, and when, and what you will pay. A good time to do this would be when you get the fiduciary compensation declaration we talked about.

You want to work hard to avoid fatal conflicts of interest! Conflicts of interest are inevitable. Couples have them. We even have them in our own heads all the time (ice cream? or exercise?)! The key is to try to minimize them so your interests and those of your advisor are reasonably aligned. Before you can minimize, you must recognize. That means do lots of digging and thinking. A good start is to insist on someone who pledges to act as a fiduciary for you—and make sure that what you hire them to do is what you actually need to advance your financial goals! What I call fatal conflicts occur when (a) the advisor does not have an obligation to put you first, and can legally make as much money on you—at your expense—as they can by convincing you to buy products you are allowed to believe are best for you, and (b) the advisor actually pushes the most profitable products on you to maximize their compensation, often at the request or demand of their employer (which, by the way, is who they owe a fiduciary duty to, not you). BI notwithstanding, some brokers will still find ways to make juicy, hard to spot markups on bonds, and some life agents will still sell "tax free" life insurance and guaranteed-return annuities, both loaded to the gills with hard to spot fees and cash out penalty charges (surrender charges are basically back-end load commissions, in case you did not know). Sociopath advisors do this with glee. Dumbass ones actually think they are serving you and still—Shazam!—make tons of money. These last sort can be the most dangerous, since they believe in free money. But there is none—that big commission comes out of your pocket—there is no other possible source. That's why I prefer the fee-only route to manage investments in my shop, and why we went that way way back in the 1990s. Fees are transparent, and we have no agenda to push one investment over another, since we only get paid by clients, not product vendors. Even this does not completely avoid conflicts! But it sure gets them out in the open, and I think mitigates them better than any other system I know. Most importantly, clients know exactly what they pay and can easily judge if they think they get fair value.

Another common error is not checking up on the advisor. We all like to work with people we like and trust. But the untrained look just as nice in a suit as those who have studied for years, and Bernie Madoff was no doubt very charming, indeed. You need to run a background check. Fortunately, this is pretty easy since FINRA and the SEC maintain an integrated site called BrokerCheck (http://brokercheck.finra.org/), and because many (though not all) financial advisors are registered with FINRA or the SEC. If they are not licensed by one of these, they are probably not licensed to sell or advise on securities, and that itself can be a red flag. It can mean they only sell fixed life insurance products, like those alluring equity index annuities that promise stock-market returns but a guarantee of no losses! Of course there is much more to it, but these stock-sounding "investments" are not regulated by FINRA or the SEC. No SEC/FINRA licenses can also mean they are shilling God-alone knows what. Steer clear.

Not all disclosures are causes for concern. For instance, I have one on mine (from around 1989, by golly!) showing registration in Michigan administratively revoked for failure to pay some $15.00 to "renew" a state registration I had never applied for or even knew about. Others—like the one below I pulled for an investor who asked for a portfolio stress test—are more troubling. This was for the investor's advisor at the time of the stress test:

activities occurred which led to the complaint:	
Allegations:	ACCOUNT RELATED-NEGLIGENCE; MISREPRESENTATION; BRCH OF FIDUCIARY DT; MISREPRESENTATION
Product type:	
Alleged damages:	$265,159.00
Additional information	

This is regarding a client complaint for negligence, misrepresentation, breach of fiduciary duty, and a claim for the return of over a quarter million dollars lost as a result of the broker's transgressions. This particular broker had several similar other disclosures, but remains employed. A groundbreaking academic study led by my pal Mark Egan (now at Harvard) found such misconduct is widespread.[22] More than one in ten stockbrokers have a disciplinary mark on their public records, and many prominent broker-dealers appear to "specialize in misconduct," according to the study. If you want to look up the firms with the worst track records per Mark's paper, go here: https://www.nber.org/papers/w22050. I'd give you the names myself, but I don't want to make my editor blush. This was "the first large-scale study that provides evidence documenting the extent of misconduct of financial advisors and advisory firms," said Mark. He found a high rate of disciplinary actions in the industry and that 44% of financial advisors who are fired for misconduct find new jobs in the industry within a year. "Why are some firms willing to hire advisors who were fired following misconduct?"[23] The study's conclusion? Because these ethically challenged producers are *earners*. Then can *sell*.

So better check it out yourself! BTW, these screens would not have popped that Madoff was a crook. A telltale would have been that his firm took custody—you made the check out to Madoff Investments, not your account at TD Ameritrade like how we and other reputable advisors do it. Bernie pocketed your dough and made up whatever he wanted on the Madoff statements. We've used Vanguard, Fidelity, and Schwab in the past. No, we don't work for them or take pay from them. We use them as safe places to keep clients' accounts custodied in clients' names. Beware any other arrangement!

Hopefully by now, I've impressed you to the point where you won't deal with the poorly trained, compensation-ally conflicted, or duties-muddled! You know I think it's a shame how very quick and easy it is to become a financial "advisor." Just having a government license means nothing in terms of deep knowledge.

So what sort of training credentials to look for in an expert advisor? My thoughts on what a "real" profession will shed some light.

To my mind, to do achieve true mastery across all important wealth disciplines, one must tread a long and difficult education path, as I have. Of course, I am an admitted outlier, and many advisors probably won't have the lifelong passion and commitment to do what I have done. For these reasons, I am probably not the best role model, and for a real, trusted profession to emerge, it is probably too much to ask others train themselves as I have.

I think the first basic step on the long road to financial expertise is the Certified Financial Planner™ (CFP®) or the Chartered Financial Consultant® (ChFC®). Despite my issues with CFP Board, their credential, and the education it represents, is valuable. That said, it is basic, undergraduate level training, not advanced expertise. It is a gateway, not a destination, credential. Typically, it represents a single undergrad class each in investments, insurance, retirement, estate, tax, and financial planning.[24] A degree is not required. Both it and the ChFC® can be self-study. As undergraduate degree programs in financial planning have emerged, I think such a degree and CFP® certification is an excellent foundation on which to begin advanced learning. To *begin*.

I emphasize these are not the be-all, end-all, but just the very basic exposure to fundamentals which must be refined and internalized with later, more advanced study. Getting wealth management education is not yet akin to going to medical school, but should be. One of my passions is to professionalize the planning trade to the medical professional level, and perhaps I will succeed.

This is not an easy mission. Commission sales of investment and insurance products are big, big business. A real problem is lack of Federal oversight of life insurance and annuities licensure and sales, and very powerful lobbying forces have succeeded in keeping it that way. This may be such an intractable problem that a true profession never emerges. Reduced transparency makes for easier sales. When New York recently imposed a rule requiring insurance companies to provide consumers cost-comparison information between commission annuities and their fee-only, fiduciary analogs, several companies instead chose to suspend sales of the less profitable fee products in order to avoid the requirement.[25]

While countries like Australia, the U.K., India, Norway, Finland, and Denmark have long banned commissions on the sale of investment products in order to reduce conflicts and protect the public, such a goal may be effectively illusionary given the US political system and the remarkable lobbying might of Big Financial.

What is, perhaps, more attainable is codification, professionalization, and regulation of financial planners/advisors. They should be distinguished from vendors in a way that pharmaceutical sales reps are from physicians. The Wild West application of these terms is confusing and damaging to consumers.

In my view, state regulation of advice is a critical issue and realistic goal. There are some things government does really well, and professional regulation is one of them. The CPA, MD/DO, attorney, and other state-regulated professional models work reasonably well, and far better than the financial advisory chaos. While the national Financial Planning Association supports state regulation,[26] perhaps not surprisingly, CFP Board is strongly opposed[27] to such a model, which clearly could wreak havoc with its own revenue machine, and, perhaps, often alleged (and denied) quasi-regulatory ambitions. As I said when Barron's interviewed me on advisor professionalism,[28] "professions are institutionalized, overseen, and enforced by government. The profession exists to serve society. The government grants monopoly power to qualifying professionals, and only they may practice. … To practice as a medical doctor you need to be…licensed (or) you commit a crime. Ultimately, I see a real profession developing along these lines, regulated by a state analog to a Medical Association or Bar, requiring at least a Master's degree and maybe a practitioners doctorate called Wealth Doctor or something like that."

But I'm not holding my breath. In the meanwhile, smart consumers will want someone who is very extensively trained in multiple areas to help coordinate the extremely complex decisions you face to make the best financial moves. Having completed myself the CFP®, ChFC®, CLU®, CFA®, CFS®, BCM™, and EA, along with a masters and Ph.D. in financial planning, another masters in tax law cooking, and numerous programs and studies in technical analysis, asset protection, real estate, and all kinds of other stuff I can't remember right now, I still feel I've barely scratched the surface.

It is defiantly worth finding someone who can quarterback the many wealth disciplines for you. Most of the time, consumers—and their many fair-weather advisors—are "lost in space." Collaboration is minimal, advisors are territorial and mistrustful of each other, and clients don't know who to trust or whose advice to take. Often, of course, each advisor's own level of skill is less than optimal, but there is no overarching wealth manager who might point that out and clang the alarms.

If you want someone truly expert, you want someone with that kind of advanced, multidisciplinary background in study. We are rare indeed. In fact, I'm not aware of any others with this sort of skill set, but surely they are out there, at least a few, if you look hard and ask the right questions. At a minimum, I would want someone who has a CFP®/ChFC® (either), a masters in financial planning, a CFA®/CMT® (either) and an EA (not CPA) tax credential; the EA is all tax, the CPA is mostly accounting, not tax. Some (a minority in my view) CPAs are tax masters, but unless you are one yourself you probably won't be able to judge and pick. A clean misconduct record goes without saying, and I would quiz the advisor about personal tax strategies and net worth—if they can't do it for themselves, what kind of job would they do for you? I would also quiz them on the major concepts in this book, and if they fall short, insist they read the book and sign up for my classes at fweibook.org.

Finding top shelf advice is hard, but it's worth the effort. I mean, it's worth millions...or more! You simply have too much on the line to get bad, incomplete, or abusive advice.

On a final note, I would not necessarily rule out an advisor who takes insurance commissions. Probably not as a financial advisor, but at least to buy cheap term insurance from. Yes, there is much abuse in the life insurance space, and you must be wary. Wery, wery, wherery! (sic). But unlike the investments world where cheap, non-commission alternatives abound and are pretty universally superior to commission brethren, the insurance world—particularly the life and health insurance world—ain't like that. There's limited choice low-load (read low commission) and not much no-load. The product spectrum for commissionable products remains far, far broader than for products geared toward fee-only advisors. Perhaps this is because there are so few qualified fee-only insurance advisors, and the market is just too tiny to interest insurance companies in product development and promotion. For instance, I bet most agents and advisors are not even aware that fee-only/no commission insurance licenses—like the one I currently hold in Florida—exist. This license, by the way, prohibits commissions, and I think that's just perfect. And it's virtually unknown despite being around pushing a decade. It's called Unaffiliated Insurance Agent (UIA or UA), for those acting as "independent consultant …analyzing or abstracting insurance policies…advice or counseling…for a fee… prohibited from being affiliated with an insurer…"[29] or taking commissions. But a problem with this model is for those consumers for whom a commissionable product is better, getting objective advice costs a fee, but they still pay a commission—so they pay twice. So I flip flop on this. In the end, I think you are safer having a fiduciary advisor—even at additional fee cost—direct your purchase of insurance products, rather than relying on the commission-slinger alone. Just too much risk.

Anyway, thanks for suffering this very long diatribe of a chapter, and all of my peeves and rants about the hair on the advisory profession! Hopefully we have armed you with a razor or two to trim misleading pitches and better protect yourselves, and make better wealth decisions for you and your family.

To atone, the next and final wrap-up chapter is right around the page! I promise to make it short, sweet, and pithy and deliver an energizing game plan to put you to happy work, getting richer and safer, and to dance between the raindrops of the gathering mega wealth storm!

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Advisor Report Card

The following information can be used in several ways. The first section is a quickly read overview and will help you form an overall impression of your—or a prospective—advisor's comparative score. Section two applies the concepts to specific questions, with numerical scores that will produce an overall "grade." While either section can be used independently, reading section one, and then completing section two, will produce the highest quality judgment of your advisor's value as a professional to you.

Section One

- **Disclosure** Does your advisor tell you—*and* put in writing—everything you need to know to make an informed decision? Do you feel you understand costs, fees, risks, and conflicts of interest adequately?
- **Objectivity** Do you feel that your advisor makes recommendations purely in your best interest? Do you wonder if recommendations are made to benefit the advisor more than you?
- **Stand-Behind** If misunderstandings or outright mistakes have occurred, does your advisor accept responsibility and make things right without cost or attempt to assign blame to you? Have mistakes and lack of accountability cost you money?

J. Camarda et al., *The Financial Storm Warning for Investors*,
https://doi.org/10.1007/978-3-030-77271-0

- **Disciplinary History** Has your advisor—or their employer—had complaints from clients or action from regulators? This information is typically found at BrokerCheck. Have you checked? Does there seem to be a pattern of problems?
- **Portfolio Turnover** Do changes—or pleas to change—seem to occur frequently and for reasons you believe due more to commissions than prudent management? Do you suspect your portfolio is managed to target *your* wealth objectives, or for some other agenda?
- **Employer Turnover** Has your advisor moved around a lot, frequently finding greener pastures, and asking you to come along for the ride, producing extra work and expense for you? Do these changes impress you as being more for your or their benefit?
- **Proprietary Products** Does your advisor frequently suggest that their employers'—or a collection from brands that their employer seems to favor—products are best in an unusually high number of instances? Do you wonder if these products are recommended because they are really best for you, or if because they are more profitable for your advisor and their employer?
- **Reporting Clarity** Do your statements clearly show you how much money you make or lose, clearly showing effects of cash flows, and disclosing all fees and expenses? Do they tie all your accounts together in one easy, informative format? After reading them, do you *know*, or instead grab a calculator, scratch your head, and just hope for the best?
- **Credible Answers** When you ask questions, do you get easy-to-understand answers that make sense, and your advisor is willing to put in writing and will actually deliver? Or are the answers so convoluted that you question their understanding, or willingness to be completely forthcoming?
- **Wealth Management Simplification** Does your advisor have the skill and concern for what is best for you in order to consider recommendations that are coordinated with your overall life objectives—considering estate, retirement, college, tax, investment, risk-management, and special items of interest to you—instead of focusing on their own particular business interests?
- **Contact frequency/quality** Does your advisor reliably stay in touch to update you with important information affecting your situation, remind you of how important your relationship is, and stay apprised of changes in your life so as to constantly upgrade the advice they render to help you adapt to changing needs?
- **Life Simplification** Does your advisor's service help to simplify your life—maximizing your wealth and at the same time freeing you to spend less time

worrying? Does it seem the strategies optimize your assets for your goals and dreams? Overall, do you feel they help you work less, and gain more?

- **Risk and Suitability** Does your portfolio seem to be a good fit for you, or is it too risky—go down too much in bad markets—or too conservative—not make enough of a return to satisfy you—for your needs and disposition? How well matched are recommendations with your situation?
- **Service Speed and Accuracy** Are your instructions quickly executed, with error rates approaching zero? Are your calls returned promptly—in a day or less? When you request information, do you get what you want fast and without hassle, in a format that understandably answers your questions?
- **Investment Performance** Does your portfolio seem to show the kind of profit you expect? Does it consistently meet or exceed market indexes without excessive risk? Do you know if you've done as well as clients of the best professional money managers?
- **Risk Control** Is your portfolio structured to control risk, so that pieces balance and it is unlikely that everything will go down at the same time, such as a tech-heavy account in the early 2000s? Has your advisor explained the risk control techniques to your satisfaction, and have they proved effective by protecting your money in down markets?
- **Service Commitment** Do you know to what scope of service your advisor is committed, both legally and professionally? Have you purchased an investment *product* with no required ongoing service (other, perhaps, than lip service), or have you engaged for ongoing *service* of your investment needs? If there is service, is it described in a contract or agreement with your advisor? Does it require regular, ongoing reviews of your situation and portfolio? How frequently? With what degree of rigor?
- **Fiduciary Capacity** Does your advisor accept fiduciary allegiance to you? This means they accept legal liability to always act in your best interest, and be driven by your needs over their own pay or their employer's directives. Have they put in writing that they are fiduciaries acting solely in your best interest?
- **"Pure" or "Incidental" Advisor?** Is your advisor a "pure" registered investment advisor, whose only business is advice, or an "incidental" advisor, such as a brokerage house, bank, or insurance company, whose advice is "incidental" to their sale of products? Incidental advisors are exempt under the SEC's "Merrill Lynch Rule" from fiduciary accountability to you for their recommendations; "pure" advisors are fully liable for their advice.
- **Cost to Terminate** Are there significant costs to you if you decide to do something else with the money? Are "redemption fees," "surrender

charges," "back-end loads," account termination fees, or sales commissions imposed if you decide to get out?

- **Compensation** What you pay is critical, but frequently poorly communicated to clients by advisors. The most common, in order of prevalence, are *commission* (sales agent for employer paid to sell you product, duty to employer, not you); *fee-based* (sales agent paid commission by employer for product sales and to collect fees for service, conflicted duty but mostly to employer, not you); and fee-only (only compensation is fees paid by you, duty is to you only as fiduciary). The compensation structure tells you a lot about the duty (or lack) to you and bears close examination. If confused, in doubt, or overwhelmed by material, request (and insist on receiving) a simple one-page letter describing the compensation structure and duty to you.
- **Total Product Costs** Today's investment products can be extremely complex, with many embedded costs that are not easy for clients (or even investment reps, who may care more about figuring their commissions than the costs to you) to ferret out and understand. Be sure you receive detailed disclosure on all costs, including compensation, product costs (including surrender charges, market value adjustments, trading charges, management, and other expenses). If unsure (and most investors should be) request (and insist on receiving) a simple one-page letter describing all costs and charges, at product, distribution, and liquidation levels.
- **Credentials** The financial world is extremely involved, and, like most professional endeavors, demands extended study for proficiency. While no panacea, professional educational credentials demonstrate at least an attempt at mastery. Look for advanced academic degrees in finance (or the somewhat less pertinent disciplines of economics, business, or accounting), or worthy professional designations like CFP®, ChFC, PFS, or CFA®.
- **Clear, simple answers to questions** This is a great litmus test that is often overlooked. There is nothing in investments that cannot be simply explained to the layperson of average intelligence, so that the concept is understood. When you ask questions, do you get reasonable, easy to grasp answers? Or are the responses hopelessly technical or mystifying? If the answers are not clear, it means one of only two things, neither good: the adviser does not know the answer, or knows but does not want to tell you.
- **References** The experience of other of the advisor's clients offers a rare window on what you can expect. Is the advisor willing to give you the names and numbers of more than a few "pet" clients willing to speak off the record of their experience with the advisor? While the SEC's "no testimonials" rule may inhibit firms from advertising that they offer references,

those that make them available will give some to you if you remember to ask.

- **Clarity of duty** What, exactly, are you getting when you engage the advisor? Is there a clearly described set of functions you can rely on them to deliver? Or a loose expectation that they will make recommendations or sell products when the opportunity presents itself? Financial services are usually expensive, even if the costs are not clear, as is often the case. Do you know exactly what you are buying, even if unclear as to what you are paying?

Section Two

Disclosure

Does your advisor tell you—*and* put in writing—everything you need to know to make informed decisions?

2—All fees, costs, any conflicts, and what I get for what I pay is clear
1—Some attempts made but still unclear on costs, duties, and conflicts
0—This information not forthcoming or intentionally concealed

Do you understand costs, fees, risks, and conflicts of interest adequately?

2—Yes—it is well and frequently explained
1—Think so but really not sure
0—No, or suspect hidden costs/conflicts that I should know about

Objectivity

Do you *know* that your advisor makes recommendations purely in your best interest?

2—Have no doubt
1—Hope so but sometimes wonder if there's a commission motive
0—Think they care more about their pay than my best interests

Do you wonder if recommendations are made to benefit the advisor more than you?

2—No, my advisor's incentive matches my interests
1—Sometimes wonder

0—Believe so

Accountability

If misunderstandings or outright mistakes have occurred, does your advisor accept responsibility and make things right without cost or attempt to assign blame to you?

2—I'm made whole quickly & advisor even points out his mistakes
1—Advisor makes good but it's like pulling teeth
0—Does not acknowledge or correct mistakes

Do you wonder if mistakes and lack of accountability have cost you money?

2—No
1—Yes
0—It clearly has

Disciplinary History

Has your advisor—or your advisor's employer—had complaints from clients or action from regulators? (For companies, this information is typically found in news stories. For individual advisors/reps/planners, you can check by name at nasdr.com and myflorida.com.) Reports of problems should be a major concern

2—No complaints or disciplinary history
1—A few complaints
0—Pattern of problems

Portfolio Turnover

Does your advisor make changes to your portfolio—or urge you to change—for reasons you believe are due more to commissions than prudent management?

2—Never—changes well-reasoned and for my good
1—Sometimes calls seem more for sales than management
0—Believe all changes suggested mostly to benefit advisor

Do you suspect your portfolio is managed to advance some agenda other than your own?

2—No
1—Not sure
0—Think my advisor and their employer come first

Employer Turnover

Does your advisor change affiliations to find greener pastures and ask you to come along for the ride, producing extra work and expense for you?

2—Never
1—At least once
0—Several times or more

Do you believe these changes are more for your advisor's benefit than yours?

2—No
1—Not sure
0—Think my advisor's career and income come first

Proprietary Products

Does your advisor suggest that products offered by his or her employers—or a collection of products from brands that the employer seems to favor—are best for you in an unusually high number of instances?

2—Always
1—Sometimes
0—Never

Do you wonder if these products are recommended because they are really best for you or because they are more profitable for your advisor and his or her employer?

2—Always
1—Sometimes
0—Never

Reporting Clarity

Do your statements clearly show you how much money you make or lose, clearly showing effects of cash flows, and disclosing all fees and expenses?

2—Always
1—Sometimes
0—Never

After reading them, do you *know* the status of your accounts, or instead grab a calculator, scratch your head, and just hope for the best?

2—Always
1—Sometimes
0—Never

Credible Answers

When you ask questions, do you get easy-to-understand answers that make sense, and is your advisor willing to put these answers in writing and actually deliver? Or are the answers to your questions so convoluted that you question your advisor's understanding or willingness to be completely forthcoming?

2—Get clear answers nearly always
1—Sometimes get credible answers
0—Never get straight answers

Wealth Management Simplification

Does your advisor exhibit the skill and concern for your best interests that allow him or her to consider recommendations that are coordinated with your overall life objectives, such as estate, retirement, college, tax, investment, risk-management, and special items of interest to you?

2—Knows me well, knows what they're doing, takes care of me
1—Sometimes tries to optimize my "big picture"
0—Does not seem to know or care what is best overall for me

Contact frequency/quality

Does your advisor call and/or meet with you frequently to update you with important information affecting your situation, remind you of how important your relationship is, and stay apprised of changes in your life so as to constantly help you adapt to changing needs?

2—Frequent, quality contact designed to serve, not sell
1—Occasional contact *besides* sales calls
0—Contact infrequent or rare or pure "sales" calls

Life Simplification

Does your advisor's service help to simplify your life—maximizing your wealth and at the same time freeing you to spend less time worrying?

2—My advisor makes my financial life very easy to deal with
1—Financial life is complicated but manageable
0—I get lots of confusing statements, but little quality info or help

Does it seem that your advisor's strategies optimize your assets for your goals and dreams?

2—My advisor's actions track my goals specifically
1—There are some efforts to have recommendations pace goals
0—My goals are not asked about or are not followed

Overall, do you feel your advisor helps you work less and gain more?

2—Strongly agree
1—Somewhat agree
0—No

Risk and Suitability

Does your advisor take the time to get to know you—and keep up with your changing situation—and make recommendations that seem well suited to who you are and what you want?

2—Always
1—Sometimes or not sure
0—Never

Do investments recommended seem too risky (bigger losses) or too conservative (insufficient returns) than you want, need, and can afford?

2—Great risk/return match for me
1—Spotty match or not sure
0—Poor match

Have losses occurred that seemed much out of proportion to what you were led to expect, or allowed to believe?

2—Never—risks were clearly explained and understood
1—Sometimes
0—I am/was sometimes shocked by the difference between my expectations and what happened

Does your overall portfolio seem to be well balanced with the pieces complementing each other, or does your account seem more like it contains a number unrelated individual investments, which rise and fall on their own instead of as part of a well-engineered whole?

2—Portfolio seems well integrated
1—Spotty structure or not sure
0—No apparent (or explained) relationship between components

Service Speed and Accuracy
Are your calls returned within one day?

2—Always
1—Sometimes
0—Never

Are questions quickly answered to your satisfaction?

2—Always get straight answers
1—Sometimes clear, sometimes not
0—Never—all I get is jargon or smoke

Are your instructions executed promptly, without excessive cost or error?

2—Always
1—Sometimes
0—Never

Investment Performance
Does your portfolio seem to grow in line with your expectations, and at least pace market averages after all costs and expenses?

2—Yes, and I know it
1—Not sure

0—Pretty sure it does not

Do you believe your return matches that of the best available money managers?

2—Yes, and I know it
1—Not sure
0—Pretty sure it does not

Do you receive transparent reporting that lets you compare—without confusion—your returns to established indexes?

2—Yes, and I know it
1—Not sure
0—Pretty sure it does not

Risk Control

Do you know if your portfolio employs risk control, and if so, has your advisor explained the techniques so that you understand and believe them?

2—Yes
1—Not sure
0—No

The proof is in the pudding. During down markets, have your accounts held up better than you expected from the media, and heard from your friends? Did you sleep better knowing that it was unlikely you would suffer big losses?

2—Yes, my portfolio's been very stable
1—Not sure
0—It's been a roller coaster, and sometimes I don't want to look

Service Commitment

Have you purchased products, like mutual funds, annuities, or stocks or bonds that seem to receive very little attention once the sale has been completed?

2—No, my portfolio gets regular attention and management

1—Not sure
0—Yes, past sales receive little attention (except to sell something else)

Do you *know*—as opposed to *hope* or *believe*—to what scope of service your advisor is committed, both legally and professionally?

2—Yes
1—Not sure
0—No

Have you purchased an investment *product* with no required ongoing service or have you engaged for ongoing *service* of your investment needs?

2—*Sure,* it is pure service (fee-only)
1—Not sure
0—Products, or products and service (fee-*based*)

Have you received a written statement describing the services you have purchased and are entitled to receive?

2—Yes
1—Not sure
0—No

Are you receiving detailed, regular, useful reviews that help pace financial changes to your life changes?

2—Yes: frequent, detailed, substantive
1—Occasional reviews with some sales pressure
0—Never, or haphazard, or only for sales purposes

Fiduciary Capacity

Does your advisor accept fiduciary liability that they are liable that the advice they render to you is purely in your best interest?

2—Yes, they have made a point of telling me this
1—Not sure
0—No

Have they put in writing that you have received that they are fiduciaries acting solely in your best interest?

2—Yes, and have it in writing
1—Not sure
0—No

"Pure" or "Incidental" Advisor?

Is your advisor a "pure" registered investment advisor, fully liable for its advice, or an "incidental" advisor, such as a brokerage house, bank, or insurance company, whose advice is "incidental" under the Merrill Lynch Rule to their sale of products, and for which they are not accountable for acting in my best interest?

2—Pure, fee-only advisor
1—Not sure
0—Broker, bank rep, or insurance company agent (Merrill Lynch Rule)

Prudent Expert

Does your advisor adhere to the very highest legal standard for financial advice? Do they give you the same advice at the same cost that an investment expert would take for themselves? Have they (or will they) put it in writing that they accept legal liability for this standard?

2—Yes, and have it in writing
1—Not sure
0—No

Cost to Terminate

Are there significant costs to you if you decide to do something else with the money, such as "redemption fees," "surrender charges," "back-end loads," account termination fees, or sales commissions? Or does the advisor make it easy and pleasant to leave if you feel you no longer wish to purchase their service?

2—No cost, actually will receive unused fee refund
1—Not sure
0—They seem to make it expensive to leave

Compensation

Do you understand clearly what you pay, and what you get for it? Are compensation costs now, and later, carefully explained to you, and do you feel comfortable that they are fair for what you get?

2—Yes, clear and fair, and have it in writing
1—Not sure
0—No, and somewhat uncomfortable

What is the compensation structure?

2—Fee-only, fully disclosed fiduciary
1—Commission only or not sure
0—Fee-based

Do you have it in writing?

2—Yes, have it in writing
1—Not sure
0—No, or have asked but not received

Total Product Costs

Today's investment products can be extremely complex, with many embedded costs that are not clear. Have you received detailed disclosure on all costs, including compensation, product, distribution, and liquidation costs? Do you fairly understand them?

2—Yes, clear and fair
1—Not sure
0—No

Have all costs been fully explained in writing to you, in a simple, one-page document?

2—Yes, have it in writing
1—Not sure
0—No

Clear, simple answers to questions

This is a great litmus test. If answers are not clear, it means one of only two things, neither good: the adviser does not know the answer, or knows but does not want to tell you. When you ask questions, do you get reasonable, easy to grasp answers?

2—Always clear answers
1—Sometimes clear, sometimes not
0—Rarely or never

References The experience of other of the advisor's clients offers a rare window on what you can expect. Is the advisor willing to give you the names and numbers of more than a few "pet" clients willing to speak off the record of their experience with the advisor?

2—Yes
1—Not sure
0—No

Clarity of duty What, exactly, are you getting when you engage the advisor? Is there a clearly described set of functions you can rely on them to deliver? Or a loose expectation that they will make recommendations or sell products when the opportunity presents itself? Financial services are usually expensive, even if the costs are not clear, as is often the case. Do you know exactly what you are buying, even if unclear as to what you are paying?

2—Yes, advisor's duty is clear, in writing, and what I want
1—Not sure
0—No

Scoring Section Two

Scoring is simple. Just add the point total from your answers (count twice to be sure!) and divide by 51. Read your advisor's report card grade below, along with the opinion for the grade.

A—2.0 Excellent!—You seem to be in good hands. Congratulations!
B—1.6–2.0 Good. —You would probably benefit from a second opinion, if only to fine-tune an apparently decent program.
C—1.2–1.6 Fair.—Shop around.
D—0.8–1.2 Red flag.—Attention required. Interview others.
F—less than 0.8—Immediate action seems prudent.