

'Fee-Only' Financial Advisers Who Don't Charge Fees Alone

Up to 11% of certified financial planners who work at big firms call themselves 'fee only' when, by definition, they can't be.

By Jason Zweig

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You might think a "fee-only" financial adviser will never charge you commissions or other sales charges that could induce him to favor selling you something that is better for him than for you.

Think again.

Consider the coveted "certified financial planner" designation, which requires an adviser to complete a thorough course of study and pass a rigorous exam.

Investors can search for one on LetsMakeAPlan.org, a website run by the CFP Board, which administers the program.

Over the past week, my colleague Rob Barry analyzed the descriptions of 33,949 certified financial planners who were then listed in CFP.net's public-search area. He found that 8,122, or 24%, described their compensation method as "fee only." A mere 3% called themselves "commission only," while 59% said they earn "commission and fee"; 14% didn't specify how they are paid.

A commission is a payment by the client—or a third party—in connection with a specific transaction. Fees are paid only by the client and can be hourly, annual or a percentage of assets. Securities lawyers and government regulators say that an adviser who works for a brokerage firm or insurance company that charges commissions shouldn't describe his services as "fee only," even if the adviser himself doesn't charge commissions to his clients.

In such cases, advisers are "holding themselves out to the public as 'fee only' because they know those words attract clients," says Ron Rhoades, a lawyer and CFP who directs the financial-planning program at Alfred State College in Alfred, N.Y. "But if you charge fees and commissions, then you are saying one thing when

you are another," he adds. "That's a bait-and-switch tactic that is inherently misleading."

The CFP Board's standards of professional conduct say that a CFP can describe his services as "fee only" if—and only if—all his compensation comes from fees. And if any "related party"—such as the adviser's parent company—receives commissions, then the adviser can't use the term "fee only," the CFP Board's standards say.

However, The Wall Street Journal's analysis finds that many of the CFPs listed on LetsMakeAPlan.org who work at major Wall Street banks and brokerages have been identifying themselves as "fee only." Among the firms: Morgan Stanley, UBS, J.P. Morgan Chase, Bank of America Merrill Lynch, Wells Fargo, LPL Financial Holdings, RBC, Raymond James Financial and Ameriprise Financial. At those firms alone, the Journal identified 661 listed CFPs who call themselves "fee only."

At Morgan Stanley, for instance, 181 of the 1,583 advisers listed on the CFP website called themselves "fee only," as did 83 of the 748 advisers from UBS on the CFP website. That is 11% of the total number of CFPs listed from each firm. At J.P. Morgan, nine of the 100 listed CFPs said they are "fee only," or 9%; at Merrill Lynch, 125 of 1,565 showed up as "fee only," or 8%.

I shared these numbers with the CFP Board. "Based on our own analysis, only a small percentage of CFPs are incorrectly identifying themselves as 'fee only,' but even a small percentage is too many," Chief Executive Kevin Keller told me Friday. "We take this issue seriously."

On Friday, he says, the Board began contacting all CFPs listed as "fee only" on the website, instructing them to update their profiles to confirm that the description of their compensation is accurate.

Those who work for brokerage firms and insurance companies will no longer be able to say they are "fee only" in their online profile, Mr. Keller says. Any CFP who doesn't comply, he says, will be investigated by the board. Until "any potentially misleading information" is removed, Mr. Keller says, the public won't be able to search for a "fee-only" planner, although other information will remain available.

Mr. Keller says the CFP Board hadn't been aware of the problem earlier because the board, which lacks the powers of a regulatory agency, expects that CFPs "accurately disclose their compensation, know our rules and follow our rules."

He adds, "We wouldn't have sat on this data if we'd known it was there."

The major banks and brokerages don't dispute the Journal's numbers. Ameriprise, Merrill Lynch, Morgan Stanley, Raymond James and RBC say they urge their advisers to comply with the CFP Board rules. An LPL spokeswoman says "it seems logical" that some advisers who use the firm only as a custodian would call themselves "fee only." A spokesman for J.P. Morgan declined to comment; the other firms didn't comment.

The problem extends beyond CFPs. The website of Paul Terence Kohler Financial Solutions, an investment adviser in Media, Pa., said this week that the company "is a fee-only financial planning firm....Fee-only planners, like us, are compensated solely by fees paid by their clients and do not accept commissions or compensation from any other source....We do not earn any money from commissions, trailers or markups."

However, the firm's ADV brochure, a form filed with the Securities and Exchange Commission, discloses that Mr. Kohler may receive "a usual and customary commission" for selling "investment products" and "normal commissions" for selling insurance. Mr. Kohler, who isn't a CFP, readily admitted to me that he earns commissions.

The language on his site, Mr. Kohler told me, was provided automatically by his website designer and is intended only to explain the characteristics of a fee-only financial-planning firm. "That doesn't mean I am those things, it means that's what those things are," he told me.

Mr. Kohler later emailed me, "It is always good to have a fresh set of eyes look at something for the first time."

He added that he will be correcting his website.

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