

Technology Focus: Data Integration, Data Management, Using the Web

NAPFA ADVISOR

The Journal of the National Association
of Personal Financial Advisors

www.napfa.org

NAPFA:

25 Years of Making a Difference, One Advisor at a Time

MAY 2008

S32 P3*****ALL FOR ADC 460
GARY PITTSFORD
CASTLE ADVISORY GROUP, LLC
9820 WESTPOINT DR STE 100
INDIANAPOLIS, IN 46256-3363



NAPFA's History 1983-1993

NAPFA Founders Recognized Needs

1983-1984

Before the beginning of NAPFA, there was SIFA—the Society for Independent Financial Advisors—which had been meeting regularly about three times a year, three days at a time, since the late 70s. SIFA was a group kept deliberately small so that the participants could share the details of their practices. While this group did not wish to expand, they did recognize the need for another organization which would help fee-only planners get started.

At the 1982 IAFP Convention in New Orleans, Robert Underwood commandeered a room and announced a meeting for fee-only planners. About 40 folks attended and decided to hold a conference for fee-only planners. The seeds were planted.

In November, 1982, in Breckenridge, CO, the earliest NAPFA founders, Bob Underwood, Richard R. Lee, Terry Gill, Jim Schwartz, and John E. Sestina, met to plan the founding meeting. Robert E. Willard, who was later to chair the NAPFA Board, in 1989-90 and 1990-91, was an invited guest at this session. He was asked to bring his brand new IBM PC computer. Willard became so enthralled with the prospects of fee-only planning that he converted from fee-and-commission to fee-only after that meeting and never looked back.

NAPFA officially started at the first meeting which took place Feb. 19-21, 1983, in Atlanta, with about 100 people in attendance. The SIFA members already had agreed that none of them were to serve as either board members or president, but they were generous in their contributions of time and money so that NAPFA could form. Three founders names were on the letterhead of the fledging organization. The presenters at this session were founders Lee, Underwood, Gill, Schwartz, and Sestina. Sestina and Schwartz played key roles in the early organizing efforts.

Attendees who were asked to speak at this founding meeting included Mary A. Malgoire, Gary L. Pittsford, and Michael E. Leonetti. Other attendees were Willard, Ken Rouse, Richard Whitehead, and J. Randall Hedlund.

The themes that emerged at this initial meeting will sound familiar even today: planners sharing practice ideas and growth strategies, and the organization struggling to determine the definition of fee-only and hence who would be appropriate members.

The meeting agenda was ambitious. It seemed everything a fee-only planner needed to know was discussed: fees, marketing, client contracts, plan preparation, software, insurance products, investments, fringe benefit programs, and legal and accounting needs.

"A number of people immediately got out of the room and left and never came back. That was the first of many times the organization had to draw a line in the sand and make clear the distinction that sets NAPFA apart from the other organizations."

There was a memorable discussion concerning whether one could have a profitable business catering to middle-income clients. It was to take more growth of the profession before fee-only planners could come to terms with how to serve middle income individuals.

Until the next meeting scheduled for Sept. 27, 1983, NAPFA was run by a Steering Committee headed by Hedlund. Volunteering their services on the Steering Committee were Gill, Lee, Malgoire, Gary L. Pittsford, Laura Reed, J. D. Schwartz, Sestina, Robert Straka, Underwood, Edward VanDeman, and Whitehead.

The September meeting was held in an interesting place for a financial group--Las Vegas. But it was in conjunction with the IAFP's annual conference. The attendees appointed Pittsford, who had previously been a SIFA member, but had not attended those meetings for a number of years, as the first president of the new organization. Other officers were Malgoire, Vice President for Membership and co-Conference Chair with Whitehead, who was also Treasurer; Robert Wegner, Vice President, and Robert Straka, Secretary. Also serving on the 11-member Board were: Leonetti, Barry Ross, Hedlund, Schwartz, Sestina, Calvin Shannon, and Underwood.

Initial plans were made to publish a newsletter, hold a conference, hire a part-time employee, and prohibit membership of fee and commission planners or those who owned more than five percent of any business to which they referred clients for products.

The issue of who could be a member led to heated discussion. After hours of debate, the vote was 3 to 1 for a fee-only organization. As Willard puts it, "A number of people immediately got out of the room and left and never came back. That was the first of many times the organization had to draw a line in the sand and make clear the distinction that sets NAPFA apart from the other organizations."

But still, with the confluence of so many like-minded planners, the feelings of attendees at the conference might best be captured by Lewis J. Alfest who remembers, "It was the first time I did not feel like a freak in my chosen profession."

As NAPFA's first President, Pittsford had his hands full. A mention in *Kiplinger's Newsletter* generated 6,000 letters to NAPFA. Pittsford found himself running his business from his car phone for a week when all four of his office phone lines were jammed with more than 60 calls a day requesting information. Nearly every Fortune 1000 company was among those inquiring.

Pittsford also drafted the original set of NAPFA bylaws and had a local attorney do the incorporation. He paid for many of the expenses himself.

All Board members made significant contributions, financial and otherwise. In fact, the original policy was for Board members to pay all their own expenses. They met at Sestina's office in Columbus, OH, and once almost got snowed in. (Other early NAPFA newsletters report fires at two different Board meetings and a bomb threat at one!)

The original Board tackled issues that have continually reemerged to require NAPFA's attention. For instance, there were the following questions:

1. Could there be member or associate status for those transitioning from a commission-based practice? (The answer was "no.")
2. What was the definition for fee-only planning?
3. Could there be corporate sponsors? (Again, "no.")
4. Could fee-offset planners be members? (The vote was 3 to 1 for preserving the fee-only criteria.)
5. What would be the process for deciding who to accept for membership? (Even with the reports from the 1990-91 Membership Task Force, the current Board continues to wrestle with these issues.)
6. What about *unusual situations*? (Portfolio managers had to submit a plan in order to prove that they could do a COMPLETE financial plan. Bankers would need a letter from their supervisor saying they could recommend other than bank products. Those with less than a year's experience would be accepted provisionally.)
7. Could product sponsors be members? (Guess what--no!)
8. How to relate to the IAFP and the ICFP? (The preference was for better working relationships.)

The first annual NAPFA Conference was held June 8-10, 1984, in Washington, D.C., just before the IAFP Advanced Planners Conference. There were 96 attendees. At this first meeting, the entire second day was devoted to product speakers. There was also a press conference and news media representatives who attended were from *Money*, *Kiplinger Letter*, *US News and World Report*, *USA Today*, and *Newhouse*.

Early regional meetings were held in Malgoire's apartment, Wegner's beach house, and Peg A. Downey's home.

The July 1984 newsletter reported a total of 68 members, 40 applications pending, and 200 paid subscribers on the mailing list.

NAPFA's Second Year Full of Changes 1984-1985

With the first momentous year of NAPFA's existence under his belt, Gary L. Pittsford moved from being President into the position of Board Chair. John E. Sestina became President and assumed prime responsibility for coordinating media contacts. Michael E. Leonetti was Vice President for Membership and Treasurer; Mary A. Malgoire, Secretary, and J. Randall Hedlund, Vice President for Education. Robert Underwood, Ron Meier, Vern Woodrum, J. D. Schwartz, Calvin Shannon, and Robert Wagner composed the balance of the Board.

Organizing and structuring questions continued to be raised. Decisions were made

1. to have the President serve on the Board for at least two years;
2. that fees earned by members for researching and recommending investments were not to be based on a percentage of the total amount ultimately invested;
3. that applicants for membership had to submit their entire ADV and a copy of a financial plan; and
4. that there was to be a regular quarterly newsletter--and a monthly newsletter if there was enough information. (I bet that Board never expected to be reading about these decisions in a much later, much larger newsletter of their much larger organization.)

The Board planned to have NAPFA members serving on IAFP and ICFP Committees and also to work with state regulators. Then, too, there was the recognition that *fee-only* needed to be defined.

NAPFA developed an association logo, a brochure and a media kit. The brochure, "Why Fee-Only Planning," which is still available to our membership, was to be the cornerstone of a PR campaign. NAPFA even tried advertising — in the *Small Business Report*. PR efforts also included a press conference held at the annual conference.

A member information survey revealed that of 97 members, 44 were CFPs, 17 were CPAs, 34 held other advanced degrees (only 13 members lacked either a designation—CFP, CPA, etc.—or a doctorate); 9.5 was the average number of years experience, and members were spending at least 75 percent of their time on comprehensive financial planning. At this time the mailing list had grown to 600.

Our new organization quickly recognized the need for regional meetings to facilitate networking. Meetings were coordinated by Jim Morrison (Midwest), Sandy Frunzi, Vicki Levitt, and Russ Schultz (Southwest), and Lew Alfest (Northeast and Mid-Atlantic). The Midwest regional conference cost \$55 for members to attend, \$80 for others, and drew 148 registrants!

This was also the year of the Product Survey to determine the buying power controlled by NAPFA members. The sense of our power was high—the Board decided to make the NAPFA mailing list available to listed sponsors for \$1,000. To be listed, sponsors had to request NAPFA criteria and submit a written analysis addressing the extent to which their products met the criteria to a committee chaired by J. D. Schwartz.

June 1 and 2, 1985, saw Hedlund chairing the second annual NAPFA conference, again held in D.C. A rich session, primarily of NAPFA presenters, covered public relations, due diligence, retirement plans, completing ADVs, starting a new practice, computer spreadsheets, asset allocation, basic cash planning, and "Planning your Practice." Among the guest speakers was Harold Gourgues, speaking on "The Future of Fee-Only Planning."

At this year's conference, NAPFA created two awards, the "Financial Planner of the Year" and the "Robert Underwood Pioneer Planner."

The Board also began to think about impacting the financial planning industry as a whole. They responded—critically—to the IAFP proposal for an SRO (self regulatory organization).

In January of 1985 there were 122 members and by October there were 157 members.

Young Group's Purpose Clarified in Third Year 1985-1986

By June, 1985, NAPFA was truly established, at least enough to require an established home office the press could contact. Staff, too, had to be hired, originally on a part-time basis.

Michael E. Leonetti became President; John E. Sestina, Chair; Ron Meier, Vice President-Membership; Vernon Woodrum, Vice-President-Education; Lori A. Dodson, Secretary; Mary A. Malgoire, Treasurer. Other Board members were: Lewis J. Alfest, Steven B. Enright, James Morrison III, James Schwartz, and Robert Underwood.

With membership growing and public recognition increasing, NAPFA found it necessary to clarify its purpose: "To foster growth of fee-only planning by creating a network/forum for planners and to foster knowledge of that type of practice to the media." At this point, NAPFA recognized media awareness as important to consumers but did not really recognize its value as a means by which planners could grow practices.

There were also constant efforts to increase membership and income, even though NAPFA was justifiably proud of its 70 to 75 percent renewal rate. To that end, individual members were urged to let *Financial Planner Magazine* and the IAFP know that fee-only planners were alive and doing well.

The 1986 annual NAPFA Conference was held in Washington, DC once again. Of major significance was the attendance of Stanley Egner from Neuberger Berman, president of the No-Load Mutual Fund Association. Egner learned about the needs of fee-only planners (duplicate statements, etc.) when working with mutual funds. With the recognition that NAPFA could have positive working relationships with product vendors came the Board decision to try having no-load product vendors as exhibitors and presenters — on a trial basis. The Board also explored the idea of NAPFA offering due diligence standards for investments and providing a clearinghouse for products.

NAPFA newsletters in 1985 sought to keep individual members aware of Board activities, but, even more importantly, to share specific planning tools.

Current Issues Had Origins in Early Years 1986-1987

July of 1986 saw NAPFA with 190 members and a \$25,000 annual budget. The priority was to establish a permanent office. Thus in February, 1987 NAPFA began renting space in Michael Leonetti's office.

Board meetings were now monthly with three face-to-face meetings and the rest conference calls. Leonetti, who served as President from 1985 to 1986, moved into the Chair's role and Mary A. Malgoire became President. Steven B. Enright served as VP—Education; James Morrison III as VP—Regulation; S.B. Camp, Jr. as Secretary; and Lori A. Dodson as Treasurer. Lewis J. Altfest handled Public Relations, Gary R. Greenbaum was responsible for Membership Development and Membership Criteria (an issue that made a Task Force necessary by 1990!); Ron Meier handled Member Communications; Charles Yates, Jr. investigated Products (the newsletter even carried information on available limited partnerships), and Vernon Woodrum was responsible for General Matters.

The Board very busily undertook many other new projects, most of which continue on the agenda till this day. See how familiar the following efforts sound:

- + NAPFA's initial involvement with federal regulation started with Morrison proposing changes to the Investment Advisors Act of 1940 and, on June 11, 1986, he testified at a Congressional hearing on this issue. Even then, NAPFA's thrust was for full disclosure of compensation by financial advisors.
- + Enright surveyed members to determine what member benefits most folks wanted. (Each succeeding Board continues to ask "What *do* they want?")
- + Altfest tried a study to determine why people who contacted NAPFA for referrals did not follow through and become clients. People completing the questionnaire were to receive a one-half hour free consultation. (The Consumer Response System has been restructured since then to help improve the follow through.)
- + Altfest also worked to create a NAPFA Speakers Bureau.
- + Three Board members met with the No-Load Mutual Fund Association to try to get the funds to provide services to NAPFA members. (The rise of discount brokerage firms such as Charles Schwab has served to address this concern.)
- + Meier and Roger Rusley made an effort to organize members to do due diligence on investment management consultants.
- + There was a plan to map out a four-year schedule of annual conferences to be rotated amongst the four regions. The Board started coordinating the national and regional conference schedules.
- + The original Financial Planner Disclosure Form was created for a presentation at the press conference held in conjunction with the 1986 annual conference in Washington DC and was also published in the newsletter.
- + The first effort was made to establish a NAPFA *Code of Ethics*. Then, as now, the enforcement of such a code worried members who wanted NAPFA to have the resources necessary to stand behind all its pronouncements.
- + NAPFA was responsible for coordinating a fee-only planners meeting at the IAFP Convention.
- + The South Central Region was created as a fifth region — joining the West, Midwest, Southeast, and East regions. It included New Mexico, Texas, Louisiana, Arkansas, Oklahoma, Colorado. (The large geographic area included in this region continues to make regional meetings problematic.)

Deferred for the upcoming year were a new member packet and buddy system. (One way or another, the buddy system has evaded an easy solution right up until the present and the Membership Committee continues to revise materials that applicants and members are to receive.)

There was still the constant pressure of increasing costs, and Malgoire raised the issue of looking to manufacturers and distributors for money versus charging members more for dues.

(Consider current efforts to establish a NAPFA Foundation.)

Midway through her term as president, Malgoire's December 1986 report to members in the newsletter told of NAPFA's increasing involvement with other financial organizations and the press; fee-only planners were being asked to serve on panels; NAPFA was participating in a survey to define financial planner tasks; engaging in regulatory debate with the Investment Company Institute; the number of college and university programs in financial planning was growing; and NAPFA's ability to influence manufacturers and distributors of products was increasing.

Another article from Malgoire, called *What is NAPFA's Mission?* identified the changes in the organization since originally coming together for networking purposes and again raised the need for the membership to have a cohesive purpose in being.

The issue of membership requirements once more raised its convoluted head. The existing requirements were three-fold:

1. To be fee-only (for at least two years),
2. To offer comprehensive planning services, and
3. To be a full time planner.

Yet, by April there was an Associate category created to accommodate those planners who were not full time. Associates had to attest to offering comprehensive planning and would have all privileges of membership except they would be unable to vote, could not be on the NAPFA referral list, and could not make commercial use of their NAPFA membership. Full members were now required to furnish evidence of their ability to prepare a comprehensive written financial plan, to have a relevant professional designation, and to undertake 30 hours

of continuing education annually.

There were successes that year:

1. The West Coast was the first to create local NAPFA networking groups. These groups eventually formed a powerful, cohesive force in NAPFA and led to the annual conference moving out west.
2. The 1987 NAPFA annual conference, held in Scottsdale, AZ, and chaired by Sandi Frunzi, was a huge success and made a \$20,000 profit. NAPFA learned it could charge exhibitors a fee without compromising integrity and in the process could develop a funding source for this still-fledgling organization.

Mind Map Used to Organize Board 1987-1988

In 1987, Ron Meier, who in the previous year handled membership communications — especially the increasingly lively newsletter — took over from Mary A. Malgoire as President and Malgoire became Chair. Meier used the mind map, which he had shared in an earlier newsletter, as a tool for organizing the Board and its functions.

Other directors were Steven B. Enright (Regulations), Lewis J. Altfest (Products), W.B. Camp, Jr. (Secretary/Treasurer), Lori A. Dodson (New Member Development), Gary R. Greenbaum (Member Resources), James R. Morrison, III (Member Development), John E. Sestina (Member Development), Roberta Jean Smith (Member Resources), and James Wilson (Publicity). Margery Wasserman was hired as NAPFA's new staff person.

Ongoing concerns this year were numerous and — once more — much like current concerns: increasing membership, providing product information, sharing information on software and office equipment, contacts with the press, membership requirements and practice standards, professional education, dues increases, the consumer referral system, a buddy system, facilitating networking/sharing of ideas, and general communication.

Robert Smoke conducted a No-Load Mutual Fund Survey of more than 100 no-load fund managers and asked each manager to designate a specific contact person for NAPFA members and to provide NAPFA with a description of the services they offered to financial advisors. Many mutual funds were anxious to develop a working relationship with NAPFA.

Once again the Board started work on projects that remain to this day: Wilson looked into cooperative advertising among NAPFA members and Smith investigated the possibility of an Electronic Bulletin Board (something that the current Board hopes to finally bring to fruition). Media coverage and attendant requests for information flourished: NAPFA even had an organization request permission to reprint 50,000 copies of the disclosure form and a CBS news plug resulted in another 500 requests. With 175 active members, NAPFA responded to 1,700 requests for referrals.

The issue of disclosure was being raised by our members in their interviews; upcoming President Greenbaum was interviewed in a *Physicians Financial News* article: "Fee-Only Financial Planner Argues that Commissions on Products Create Conflicts of Interest for Advisors." NAPFA sought funding in order to get the word out to other financial planners with our own exhibit booth at other professional conventions (We were represented at the IAFP Conference in New York for four days in September of 1988).

Plans were made that this year's conference in Chicago would, as it had the previous year, provide funds over and above conference costs. Members were even offered a 25 percent discount on their upcoming dues for each nonmember they brought to the conference. But this was not to be — a shortage of volunteer energy plus increased conference costs set the budget back, rather than adding to the treasury. Nonetheless, the conference featured excellent presenters including Gerhard Gschwandtner as keynoter. Gschwandtner worked with all NAPFA members present to develop a script book of sales ideas and responses to the objections potential clients might raise. NAPFA continues to help its members address many of these major objections, such as the cost of financial planning, but with an encompassing approach involving legislation, regulation, and media awareness to educate the consumer so that many of these issues will ultimately no longer even be raised.

Progress can be seen when we look at a membership survey conducted by Meryl Kahn and Charles Meyer in 1986 which continued to be analyzed during 1987 and 1988 for interesting data. Results indicated that NAPFA members wanted a more favorable media image and a good consumer image, that our members had identified a need for high professional standards, and that only a few members were offering discretionary portfolio management to their clients. Interestingly, our image has changed since then. Demand for high professional standards remains strong and consistent with Membership Task Force recommendations, but the maturing practices of members have led to many more members offering discretionary portfolio management. (See 1989-90 history for more details taken from surveys conducted by Gregory J. Crawford).