



NEWS

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Watch Out for Smith Barney's "Financial Advisors," NAPFA Declares

Arlington Heights, IL (December 21, 2005) – NAPFA, the National Association of Personal Financial Advisors, criticized investment giant Smith Barney for a new marketing strategy that has the potential to mislead consumers. Under the announced plan, Smith Barney will in 2006 change the title of its brokers to “financial advisors,” thus seeking to co-opt a term that is usually associated with independent financial professionals who meet higher regulatory and professional standards.

“The term ‘financial advisor’ should be reserved for professionals who give objective financial advice and who ALWAYS put the interests of their clients first,” said Peggy Cabaniss, NAPFA chair. “It should not be co-opted by salespeople whose only loyalty, both financially and legally, is to their employer.”

NAPFA is the professional association for Fee-Only, comprehensive financial advisors. NAPFA members are distinguished from Smith Barney-type brokers in many ways. One key fundamental difference is that NAPFA members act as fiduciaries. Financial advisors who are regulated under the 1940 Investment Advisors Act are required to be fiduciaries with their clients. Fiduciaries are required, by law, to put their clients' interest first. Stock brokers, including those of Smith Barney, are exempt from the Act and are not required to be fiduciaries. A second key difference is that NAPFA members do not earn commissions or other forms of payment based on the investment decision made by their clients.

“The problem with Smith Barney’s model is that the firm’s so-called ‘advisors’ have built-in bias to sell products. They don’t get paid unless they convince their clients to buy something, and it may often be a Smith Barney product,” said Cabaniss. “NAPFA believes that the Smith Barney model is not in the best interests of the consumer.”

NAPFA has been fighting against the blurring of the line between brokers and financial advisors for years. But it’s an uphill battle. And unfortunately, federal government regulators appear to be

siding with the wealthier, more influential broker-dealer firms instead of taking the side of consumers who need protection.

“The Securities and Exchange Commission recognizes that brokers are not the same as financial advisors. That’s why the SEC holds financial advisors to higher standards and why NAPFA supports raising standards,” said Cabaniss. “However, when we and other associations point out to the SEC that brokers are calling themselves ‘advisors,’ the SEC turns a deaf ear. Smith Barney appears to be the latest company to jump through the loophole that the SEC has created.”

NAPFA has proposed that the SEC require brokers to play by the same rules as advisors, if they wish to call themselves ‘advisors.’ This would require brokers to disclose their forms of compensation more fully and to become fiduciaries – that is to abide by legally binding requirements that they work in their clients’ interests, instead of in the interests of their employers. Currently, brokers are legally required to work in the interest of their employer, even if it is detrimental to their clients.

“When a NAPFA member has the opportunity to speak directly with an individual, the difference between a true fiduciary financial advisor and a broker becomes very clear. When we have a chance to explain our model of client service as compared to broker dealers, including Smith Barney’s, the benefits of our model are obvious,” said Cabaniss. “The challenge is to break through the wall of sound generated by the Wall Street brokerage firms in order to get the information to the people who need it and deserve it.”

To discuss this issue with Peggy Cabaniss, CFP, national chair of NAPFA, please contact Benjamin Lewis of Perception, Inc. at 301-963-7555 or Benjamin.lewis@perceptiononline.com.

ABOUT NAPFA

Since 1983, The National Association of Personal Financial Advisors (NAPFA) has attracted Fee-Only financial planners across the country by promoting some of the strictest guidelines possible for professional competency, comprehensive financial planning, and Fee-Only compensation. With more than 1,000 members across the country, NAPFA has become the leading professional association in the United States dedicated to the advancement of Fee-Only financial planning.

For more information on NAPFA, please visit www.napfa.org.

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