



Alphabet Soup

What is the difference between a CFP® and a CFA?

Both designations involve finance – and have some overlap. But they are really two different beasts. First, the Chartered Financial Analyst (CFA) designation is usually obtained by those professionals that do security analysis. The Certified Financial Planner (CFP®) is obtained by those professionals working with more of a retail client. It is considered more of a generalist designation, and focuses much more on financial planning. You will see CFA charterholders managing pension and mutual funds, and at large Trust companies managing High Net Worth portfolios. Those holding a CFP® designation are usually at financial planning firms and some brokers.

The first CFA test was given in 1963. The CFA is a globally recognized designation, with 134 CFA Societies in 55 countries. There are almost 100,000 charterholders from 137 countries from around the world. The CFA designation is one of the most prestigious designations in the financial community, and one of the most difficult to achieve. In fact, only 1 out of 5 who start the program actually earn the right to use the designation. Topics include Ethics, Quantitative methods, economics, corporate finance, accounting, securities analysis, and portfolio management.

Many fund managers, pension managers, and institutional money managers are CFA charterholders. Some of the better known CFA charterholders are Sir John Marks Templeton, Gary Brinson, and Benjamin Graham, the father of value investing, and mentor to Warren Buffett.

The CFP® Board was established in 1985, and has expanded internationally, awarding the designation to over 124,000 individuals in 34 countries. Pre-requisites include taking five courses covering insurance, estate planning, retirement education, tax and investment planning, plus ethics and the financial planning process. An exemption can be obtained to forgo the formal courses for those holding certain designations, including the CFA, CPA, J.D., or a PhD in business or economics. After this requirement is completed, students will sit for a 10-hour exam. Once a passing grade has been earned, prospective certificates must complete 3 years of experience, plus have a bachelor degree in order to obtain the CFP® designation.

For those wanting pure financial planning, using a CFP®, along with an attorney specializing in estate planning, is sufficient. A CFP® does have training in portfolio management, but not nearly as encompassing as those holding a CFA designation. A CFA body of knowledge includes topics with much more emphasis in securities analysis and portfolio management.

On a personal note, there are very good advisors who do not hold any professional designations. At the same time, there are those who hold a CFP® and are poor investment managers but good financial planners. Holding a designation doesn't ensure your excellent returns and service — but it does guide you to who has demonstrated competency in their field of study — financial planning for the CFP®, and financial analysis and portfolio management for the CFA charterholder.

For additional reading, several interesting articles can be found at:
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