

# Investment Professionals

## 1. Introduction

When you need financial help, you can turn to an investment professional or team of professionals. These professionals may be brokers, investment advisers, certified public accountants, lawyers, insurance agents, or financial planners—and they may work in many different settings, from large firms to small private practices. In some cases, your bank may have a separate investment department that employs investment professionals.

The person or team of professionals you decide to work with will depend largely on the type of financial help you need and the types of investments you want to have in your portfolio. Those needs, and so the professionals you work with, are likely to change during your lifetime along with the amount of money you have to invest and the financial goals that are important to you. What doesn't change, though, is the need to know how and where to find the help you need.

## 2. Types of Investment Professionals

When you choose an investment professional or team of professionals, it is important to understand which products and services each different type of professional can—and cannot—provide. Sorting it all out may be complicated by the fact that some individuals—and the firms where they work—may wear multiple hats, depending on the licenses they hold and the training they have. For example, an insurance agent may be qualified to sell you both life insurance and variable annuities. A broker may also be a financial planner.

Your first step should be to familiarize yourself with the different types of professionals. Your second step should be to investigate their background, confirm the licenses they hold, and find out whether they have a history of complaints or have been disciplined by a regulator. And your third step should be to interview each professional you're considering to find out exactly which products and services they offer, which they do not, and how and how much you will pay for their services.

Here's a basic introduction to the major groups of investment professionals.

### A. Brokers

**What they are:** While many people use the word broker generically to describe someone who handles stock transactions, the legal definition is somewhat different—and worth knowing. A broker-dealer is a person or company that is in the business of buying and selling securities—stocks, bonds, mutual funds, and certain other investment products—on behalf of its customers (as broker), for its own account (as dealer), or both. Individuals who work for broker-dealers—the sales personnel whom most people call brokers—are technically known as registered representatives.

**Who regulates them:** With few exceptions, broker-dealers must register with the Securities and Exchange Commission (SEC) and be members of FINRA. Individual registered representatives must register with FINRA, pass a qualifying examination, and be licensed by your state securities regulator before they can do business with you. You can obtain background information on broker-dealers and registered representatives—including registration, licensing, and disciplinary history—from FINRA BrokerCheck by visiting [www.finra.org/brokercheck](http://www.finra.org/brokercheck) or calling toll-free (800) 289-9999. You can also contact your state securities regulator. To find your regulator, check the government listing of your phone book or contact the North American Securities Administrators Association at [www.nasaa.org](http://www.nasaa.org) or (202) 737-0900.

**What they offer:** Broker-dealers vary widely in the types of services they offer, falling generally into two categories—full-service and discount brokerage firms. Full-service firms typically charge more for each transaction, but they tend to have large research operations that representatives can tap into when making recommendations, can handle nearly any kind of financial transaction you want to make, and may offer investment planning or other services. Discount broker-dealer firms are usually cheaper, but you may have to research potential investments on your own—though the broker-dealer Web sites may have a lot of information you can use.

Registered representatives—who may also go by such generic titles as financial consultant, financial adviser, or investment consultant—are primarily securities salespeople. The products they can sell you depend on the licenses they hold. For example, a representative who has passed the Series 6 exam can sell only mutual funds, variable annuities, and similar products, while the holder of a Series 7 license can sell a broader array of securities. When a registered representative suggests that you buy or sell a particular security, he or she must have reason to believe that the recommendation is suitable for you based on a host of factors, including your income, portfolio, and overall financial situation, your tolerance for risk, and your stated investment objectives.

## B. Investment Advisers

**What they are:** An investment adviser is an individual or company who is paid for providing advice about securities to their clients. Although the terms sound similar, investment advisers are not the same as financial advisers and should not be confused. The term financial adviser is a generic term that usually refers to a broker (or, to use the technical term, a registered representative).

By contrast, the term investment adviser is a legal term that refers to an individual or company that is registered as such with either the Securities and Exchange Commission or a state securities regulator. Common names for investment advisers include asset managers, investment counselors, investment managers, portfolio managers, and wealth managers. Investment adviser representatives are individuals who work for and give advice on behalf of registered investment advisers.

**Who regulates them:** The SEC regulates investment advisers who manage \$25 million or more in client assets. Advisers who manage less are regulated by the securities regulator for the state where the adviser has its principal place of business. Because they primarily engage in the buying and selling of securities, broker-dealers and registered representatives typically do not have to register as investment advisers. But some do, which is why it is so important to find out exactly which services a professional who wears multiple hats will provide for you and what they will charge for their services.

You can get background information on both SEC- and state-registered investment advisers by visiting the SEC's Investment Adviser Public Disclosure database at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). This database contains information about firms only—and not individual investment adviser representatives. To do a background check on an individual, contact your state securities regulator. If the individual is also a registered representative, be sure to use FINRA BrokerCheck at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) as well.

**What they offer:** In addition to providing individually tailored investment advice, some investment advisers manage investment portfolios. Others may offer financial planning services or, if they are properly licensed, brokerage services (such as buying or selling stock or bonds)—or some combination of all these services.

## **C. Accountants**

**What they are:** Accountants are trained to provide professional assistance to individuals and companies in areas including tax and financial planning, tax reporting, auditing, and management consulting.

**Who regulates them:** Many states require new accountants to become Certified Public Accountants (CPAs), which involves passing a national examination administered by the American Institute of Certified Public Accountants (AICPA) and meeting education and experience requirements set by the state Board of Accountancy where the accountant does business. You can find out whether an accountant is licensed as a CPA in your state—and whether his or her CPA license is current or expired—by contacting the state Board of Accountancy. Again, check the government section of your phone book to locate your state board, or visit the Web site of the AICPA at [www.aicpa.org](http://www.aicpa.org).

**What they offer:** A CPA can help you consider the tax implications of financial decisions you make and assist with other tax-related issues, such as preparing annual tax returns. Some CPAs are also certified by the AICPA as Personal Financial Specialists (PFSs), which means they have met AICPA's education requirements for providing financial planning services, including assessing your overall financial situation, developing a budget, setting goals for saving and investing, and developing a plan for monitoring your progress and reaching your goals.

## D. Lawyers

**What they are:** A lawyer is licensed to give legal advice to clients. Lawyers are trained to tell you about the legal impact one financial planning or investment decision might have on another—such as the tax implications of setting up a certain type of trust for your estate.

**Who regulates them:** Each state has its own rules that govern whether and under what circumstances a person can practice law. In some states, the courts handle the licensing process. In other states, the legislature sets the rules. Lawyers generally must pass a comprehensive examination—called the bar exam—and meet other requirements before they can be admitted to the practice of law. Although it does not regulate lawyers, the American Bar Association—at [www.abanet.org](http://www.abanet.org)—can help you find out whether a lawyer is licensed in your state.

**What they offer:** As with other professionals, the range of services lawyers can provide will vary greatly from individual to individual. For example, if one of your financial goals is leaving your assets to particular people or organizations, you will want to work with a lawyer who specializes in estate planning.

## **E. Insurance Agents**

**What they are:** An insurance agent is a salesperson who can help individuals and companies obtain life, health, or property insurance policies and other insurance products.

**Who regulates them:** Every state, along with the District of Columbia and U.S. territories, has an insurance commission that licenses the insurance agents and insurance companies who do business in that jurisdiction. State insurance commissions also impose sales and marketing rules and require companies to file financial reports to assess their ability to honor claims. You can contact your state insurance commissioner by visiting the Web site of the National Association of Insurance Commissioners (NAIC) at [www.naic.org](http://www.naic.org). NAIC also offers a database of financial and disciplinary information for insurance companies nationwide. If an insurance agent offers products that are considered securities—such as variable annuity contracts or variable life insurance policies—the agent must also be licensed as a registered representative and comply with FINRA rules.

**What they offer:** Insurance agents described as “captive” work exclusively for one insurance company and can sell only the policies and products that company offers. Independent insurance agents can represent multiple companies and typically try to find insurance policies that offer the best coverage for your circumstances.

## F. Financial Planners

**What they are:** Financial planners can come from a variety of backgrounds and offer a variety of services. They could be brokers or investment advisers, insurance agents or practicing accountants—or they have no financial credentials at all. Some will examine your entire financial picture and help you develop a detailed plan for achieving your financial goals. Others, however, will recommend only the products they sell, which may give you a limited range of choices.

**Who regulates them:** Unlike other professions discussed in this chapter, the financial planning profession does not have its own regulator. Instead, individuals who call themselves financial planners may be regulated in relation to other services they provide. For example, an accountant who prepares financial plans would be regulated by the state Board of Accountancy, and a financial planner who is also an investment adviser would be regulated by the Securities and Exchange Commission or by the state where the adviser does business.

**What they offer:** The breadth and depth of services a financial planner offers will vary from provider to provider. Some create comprehensive plans that delve into every aspect of your financial life, including savings, investments, insurance, college savings, retirement, taxes and estate planning. Others have a more limited focus, such as insurance or securities. Some only prepare plans, while others also sell investments, insurance, or other products. If they sell products, their recommendations typically will correspond with the products or services they sell. For example, an insurance agent will tell you about insurance products (such as life insurance and annuities) but likely won't discuss other investment choices (such as stocks, bonds or mutual funds). You'll want to make certain you fully understand which areas of your financial life a particular planner can—and cannot—help with before you hire that person.

### **3. Choosing an Investment Professional**

There are many circumstances that motivate you to seek help from an investment professional. You may lack confidence in choosing investments, be dissatisfied with your skill managing your money, or have concerns about the investment results you're achieving. You may have experienced a life-changing event such as a marriage, divorce, a new job, the birth of a child. You may be getting close to retirement. Or you may not have the time or desire to handle your finances on your own.

Regardless of how or why your search for help begins, there is no question that a qualified professional can help ensure you have the information you need to make intelligent decisions. For example, this might involve assessing the risks associated with a particular investment, keeping up to date on changes in relevant tax laws, and understanding how the ups and downs of the economy can affect the financial markets in general and your portfolio in particular. An experienced professional can also bring discipline to the investment process that goes well beyond the tentative approach many people take to investing.

Personality and compatibility can be important factors in choosing someone to work with. Since you may be working together closely for many years, the person you select should be someone whom you trust with all of your financial secrets—how much you earn, your net worth, who will inherit your estate, as well as what your long-term goals may be.

#### **Identifying a Professional or Team of Professionals**

Your first step in searching for an investment professional is to identify your financial needs. Think hard about the type and amount of support you will want from an investment professional so that you can narrow your focus to those investment professionals who have the credentials and experience to help you meet your needs. Having a clear understanding of what you are looking for in an investment professional can prevent you from paying for services you don't really require—or from choosing someone who cannot provide all the services you need.

Perhaps the best place to start is by talking with your friends, neighbors, relatives, and colleagues—especially those who have some experience as individual investors. Ask the names of the investment professionals they have used, how long they have done business with those individuals, and how much or how little they have relied on their advice. Ask whether they have ever had a problem with any professional you are considering, and if so, how well and how quickly the matter was resolved. Finally, ask about their relationship with their

investment professional and assess whether that relationship would work for you. Some people want an investment professional who will take plenty of time to discuss their investments with them while others want someone who provides information when asked and otherwise keeps a low profile.

If you do not know anyone personally who could recommend an investment professional to you, there are other avenues to explore. Your employer, trade organization or labor union, or local consumer or investment groups might be able to provide referrals. In addition, although they typically cannot recommend a particular firm or individual, regulators can be a helpful resource. For example, if you are looking for a securities broker, FINRA's Web site includes a list of registered firms—or if you are looking for an accountant, your state's Board of Accountancy might be able to help.

### **Asking the Right Questions**

When you interview investment professionals, here are some questions you'll want to ask:

- What experience do you have working people who are like me?
- What licenses do you currently hold? Are you registered with a state, the SEC, or FINRA? If so, in what capacity?
- What relevant professional designations do you hold?
- Do you have any special areas of expertise?
- How long have you been with your current firm? Where did you work before?
- What investment products and services do you recommend to your clients? Why?
- Are there any products or services you don't recommend? Why?
- How much will I have to pay for your services? What is your usual hourly rate, flat fee, or commission?
- Are you compensated any other way for handling my account? If so, how and how much?
- Do you or your firm impose any minimum account balances? If so, what are they? And what happens if my portfolio falls below the minimum?
- How frequently will we meet to discuss my portfolio and the progress we are making toward my investment goals?
- How will you communicate investment performance results to me?
- For brokerage firms, is your firm a member of SIPC?
- Who else in your office will handle my account?
- Have you or your firm ever been disciplined by the SEC, FINRA, a state securities regulator, or another federal or state financial regulator?
- Have you ever had a professional license revoked?

You might also want to ask whether the professional will provide a list of clients you can contact as references. However, the professional is not required to do so and there may be company policies about privacy issues that prevent him or her from sharing this information.

Remember, too, that in an interview both people normally want to know something about the other. You should be prepared to answer some or all of these questions:

- How much money do you have in savings and investment accounts? Where is that money—in the bank, in mutual funds, individual securities?
- How much do you plan to add to these accounts each year?
- Do you have specific financial goals?
- Do your goals have specific time frames?
- How much investment risk are you comfortable taking?
- What other investment professionals are you working with?
- Do you have life insurance? How much?

At the initial interview, obtain a copy of the account agreement, fee structure, and any other documents you would be asked to sign if you were to open an account. That way, you can take the paperwork home to read carefully at your own pace, and make comparisons if you are considering investment professionals at several firms. If the prospective professional pushes you too hard to open an account on the spot, this might be an indication that he or she will be overly aggressive in pushing you toward certain investment decisions in the future.

Be cautious of any investment professional who promises you above average account performance or says you'll be making risk-free investments. Nobody can guarantee that your investments will grow at a particular rate or that you won't lose money.

### **More About Fees**

When you're choosing among investment professionals, it's important to understand how they'll be compensated for their services. Typical compensation methods include:

- An hourly fee
- A flat fee
- A commission on the investment products they sell you
- Salary, with no commission on product sales
- A percentage of the value of the assets they manage on your behalf
- Some combination of fees and commissions

You should ask every professional you interview to explain his or her fees and to put that information in writing. In fact, some firms provide a printed schedule of fees when you open an account.

Understanding fee arrangements is also essential in evaluating a professional's independence in making investment recommendations. That's why it is always a good idea to ask whether the person—or the person's firm—will receive any additional compensation for selling you a particular product, service, or type of account. Some companies offer incentives for selling certain products. In any case, you should be careful about doing business with a professional who doesn't want to discuss the fees and other charges that apply to your account. Remember, even if *you* do not have to pay a fee for a particular transaction, that does not necessarily mean that the professional receives no compensation.

All fee structures have advantages and disadvantages. For most investors, the best fee arrangement is the one that costs you the least money and makes you the most comfortable that you're making progress toward achieving your goals. For example, in deciding between a commission-based brokerage account and a fee-based account, which may entitle you to additional advice or services from your investment professional, you may want to consider how much and what type of advice you need, if any, as well as how often you intend to trade. If you trade fairly often, you may save money using a fee-based account, but that's less likely to be the case if you trade only rarely.

### **Sign on the Dotted Line?**

While some investment relationships require a signed agreement between you and the person or firm you're working with, many do not. If you are asked to sign something, read it carefully and ask questions about anything you don't understand before you sign. If you are in doubt about any part of the document, ask your lawyer to review it first. For example, most brokerage accounts require you to agree in writing that any disputes with the firm will be handled by arbitration rather than litigation.

## 4. Checking an Investment Professional's Background

Before you begin to work with an investment professional—even one who has been recommended to you by someone you know—it's essential to check his or her background. The good news is that the Internet has made this kind of information relatively easy to find. Investing a few minutes of your time up front may save you time, money, and other trouble down the road.

### Brokers and Brokerage Firms

FINRA BrokerCheck is a free tool that allows investors to check the professional background of brokerage firms and individual brokers. You can access BrokerCheck online at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) or by calling toll-free 1-800-289-9999. It gives you easy access to the Central Registration Depository (CRD), a computerized database of information about most brokers and the firms they work for, including a history of any past complaints or regulatory actions by securities regulators and criminal authorities.

Specifically, for individual brokers, you can use FINRA BrokerCheck to find:

- Current employers;
- A 10-year employment history;
- Other businesses the individual engages in;
- All approved licenses and registrations;
- Qualification exams passed;
- Criminal felony charges and convictions;
- Investment-related misdemeanor charges and convictions;
- Disciplinary actions and investigations by regulators;
- Investment-related civil judicial actions and proceedings;
- Most consumer-initiated complaints, arbitration proceedings and civil litigations;
- Unsatisfied judgments and liens, bankruptcy proceedings; and
- Employment terminations that follow allegations of misconduct or failure to supervise.

In addition, FINRA BrokerCheck provides the following information on firms:

- Administrative information including address, legal status, types of business engaged in and direct and indirect owner/officer information;
- A 10-year history of all felony charges and convictions, as well as investment-related misdemeanor charges and convictions;
- Disciplinary actions and proceedings initiated by regulators;

- A 10-year history of investment-related civil judicial actions and proceedings;
- Bankruptcy proceedings;
- Unsatisfied judgments or liens;
- Summary information on arbitration awards; and
- For former FINRA-registered firms, the date that the firm ceased doing business and, when appropriate, details regarding funds owed customers or other firms.

Even if an individual or firm does not have a history of reported problems, BrokerCheck can help you detect potential red flags. For example, you can find out whether an individual broker has switched firms frequently over a short period of time or whether the firm has changed its name often.

State securities regulators also have access to CRD and can sometimes provide more details about investor complaints. For that reason, it's often a good idea to check with your state securities regulator as well. A list of contact information is available on the Web site of the North American Association of Securities Administrators (NASAA) at [www.nasaa.org](http://www.nasaa.org).

## **Investment Advisers**

Some investment advisers and their representatives appear in the CRD because they are also registered as or associated with broker-dealers. However, to do a thorough check of any investment adviser, you should ask for—and carefully read—the firm's registration document or "Form ADV."

Investment advisers must register with either the SEC or a state securities regulator, depending on the amount of client assets they manage. In general, a firm that manages \$25 million or more in client assets files its Form ADV with the SEC while a firm below the \$25 million threshold must register with the state securities agency in the state where the firm has its principal place of business. Although the SEC does not separately register individual representatives of investment advisory firms, many states do.

Form ADV has two parts. Part 1 has information about the advisory firm's business and whether they've had problems with regulators or clients in the past. Part 2 describes their services, fees, and investment strategies. Before you hire an investment advisory firm, examine *both* parts of Form ADV, and then ask for an explanation of anything you don't understand.

In addition to asking the firm for a copy, you will be able to find an advisory firm's most recent Form ADV online using the SEC's Investment Adviser Public Disclosure (IAPD) Web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). At present, the IAPD

database contains information only for firms, not for individuals. Contact your state securities regulators for information on investment adviser representatives.

## Resources for Other Investment Professionals

Apart from FINRA BrokerCheck and the SEC's Investment Adviser public Disclosure database, you can get licensing information for other types of investment professionals as follows:

Type of Professional	Licensing Body or Regulator
Accountant	<a href="#">State Board of Accountancy</a>
Lawyer	<a href="#">State Bar Association</a>
Insurance Agent	<a href="#">State Insurance Commission</a>
Financial Planner	Confirm whether the planner is licensed by or registered with the SEC, FINRA, or a state regulator and check with that regulator

## Understanding Professional Designations

You might also be able to learn more about a professional's education and experience from his or her professional designations and membership in professional associations. Many organizations maintain databases of people who meet their criteria. You can check these lists to make sure an individual using a specific designation is properly credentialed.

A good place to start is FINRA's database of professional designations at [www.finra.org](http://www.finra.org). You'll find a list of credentials, the requirements the individual has to meet to be entitled to use the designation, and much more. But always bear in mind that not all designations carry the same significance or require the same amount of effort to obtain. To make meaningful comparisons, you will want to find out whether the granting organization requires continuing education, has a public disciplinary process, provides a means to check a professional's status, and otherwise ensures that a professional designation is more than simply a string of letters.

Some designations require formal certification procedures, including examinations and continuing professional education credits. Other designations may merely signify that membership dues have been paid. Still others are simply marketing devices. For example, someone may call himself a 'senior specialist' to create or build rapport by implying a certain level of training on issues important to the elderly. But, that designation might require no special training, except perhaps in sales techniques

targeting the elderly.

### **Finding Other Information**

Background checks are only part of the homework you need to do when checking out a brokerage firm. It's also a good idea to find out if the firm is a member of the Securities Investor Protection Corporation, which provides limited insurance protection of up to \$500,000 to customers if the firm becomes insolvent. SIPC does not, however, insure against losses resulting from a decline in market value. You can get more information about SIPC and what it covers at [www.sipc.org](http://www.sipc.org).

## **5. Working with an Investment Professional**

Once you have selected an investment professional, it's important to build a strong working relationship based on mutual trust. This trust is critical to the long-term success of your relationship. At the same time, you want to make sure that the person you've hired communicates with you in terms you can understand and pays close attention to what you're saying.

The best way to develop that kind of relationship is to outline your expectations when you first meet with the investment professional you've selected. Clearly describe the level of communication you want—how often you expect to hear by phone or in writing, and how frequently you want to meet in person. Also describe what written reports, in addition to regular account statements, you believe you'll need in order to assess your investment account's performance. You might ask to see samples of the reports that are provided to other clients to make sure they contain the information you want to see. If they don't, find out if you can get customized reports that do meet your requirements.

Make sure you clearly communicate your financial goals and how important they are to you. Providing your investment professional with regular feedback is also critical to the long-term success of the relationship. Not only does he or she need to know if you're satisfied with the performance of your investment accounts, but also if there are any changes in your personal or financial circumstances. Regular feedback helps ensure that any adjustments that need to be made to your investment strategy or portfolio holdings can be done as quickly as possible.

## **6. Discretionary vs. Non-Discretionary Accounts**

In many instances, the type of account arrangement you have with a broker or investment adviser will depend on how much control you want to maintain—or are willing to give up—over the investment choices that are made in your account.

### **Discretionary Accounts**

If you establish a discretionary account, you give your investment professional a substantial amount of control. You set the overall direction and goals for the account. The investment professional then executes that strategy by picking individual securities they believe will help you meet your objectives with the appropriate amount of risk. With a discretionary account, managers will not typically seek your permission to buy or sell a particular security. Instead you will see the investment choices they have made, and how those investments are faring, on your monthly account statement and in periodic performance reports.

Discretionary accounts work best for investors who do not want to be actively involved in the day-to-day management of their investments and who want to have a professional manager design a portfolio to meet their financial objectives.

If you're setting up a discretionary account, you'll generally fill out an investment questionnaire and meet with your investment professional to identify your financial objectives. This process helps the manager find out whether you are seeking income, growth, or something in between, what your risk tolerance is, whether you are a short-term or long-term investor, and any other special considerations that might affect their choice of investments on your behalf. For example, some investors prefer to invest in socially responsible companies that care about the environment, have good employee relations, and show respect for human rights. These criteria then become one of the many screens a portfolio manager can use when selecting investments for you in a discretionary account.

A professional who works with you on a discretionary basis may develop a customized investment policy statement that outlines the objectives, investment style, expectations, and performance benchmarks for your portfolio. He or she uses this document, along with current information on economic and market conditions, to make and execute investment decisions for your account.

With many discretionary accounts you don't pay commissions—or in some cases full commissions—on the individual trades the account manager makes for you. Instead, you pay a fee—usually assessed quarterly—that is a percentage of the assets under management. You agree to the amount of this fee upfront, and it is frequently assessed on a sliding scale—the percentage fee often declines the more money you have under management.

## **Non-Discretionary Accounts**

With a non-discretionary account, your investment adviser or full-service broker might offer you professional advice in connection with the transactions you execute and may make some investment recommendations. However, your investment professional is not authorized to buy or sell securities for your account without your prior approval. This type of arrangement is best for investors who want to maintain greater control over their investments, but still want the benefit of a broker's professional guidance.

If you are working with a registered investment adviser and have an advisory account, you typically pay an asset-based charge—say 1-2% of assets in the account per year—in a non-discretionary account. If you are working with a brokerage firm and have a brokerage account, you pay commissions on a per-transaction basis, according to the firm's regular commission rates. Good customers and large trades may qualify for a reduced commission rate. In addition, discount brokers generally charge less than full-service brokers.