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 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, which are securities.

Your **first step** should be to familiarize yourself with the different types of professionals and whether they are subject to oversight by a regulator like the Securities and Exchange Commission (SEC) or FINRA.

Your **second step** should be to investigate their backgrounds, confirm the licenses they hold and find out whether they have histories of complaints or have been disciplined by regulators.

And your **third step** should be to interview each professional you're considering to find out exactly which products and services he offers, which he does not and the compensation structure around how you will pay for his products services.

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

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—by using FINRA BrokerCheck or calling us 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 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 websites may have a lot of information you can use. Registered representatives are primarily securities salespeople and may also go by such generic titles as financial consultant, financial advisor, or investment consultant.

The products a broker can sell you and the services they can offer depend on the licenses they hold. For example, a representative who has only 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 or investment strategy, 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.

Investment Advisers

Although most people would use an "o," we purposely spell adviser with an "e" when we talk about investment advisers. That's because the laws that govern this type of investment professional spell the title this way. Many investment advisers are also brokers—but these two types of investment professional aren't the same. So as you choose among different professionals, here's what you need to know about **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 advisors and should not be confused. The term financial advisor 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 SEC 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 $110 million or more in client assets, while state securities regulators have jurisdiction over advisers who manage up to $100 million. Advisers with less than $100 million in assets under management (AUM) must register with the state regulator for the state where the adviser has its principal place of business. When a state-registered adviser's AUM reach the $100 million threshold, the adviser may elect to register with the SEC—but when the adviser's AUM exceeds $110 million, it generally must register with the SEC. It is 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 using FINRA BrokerCheck or calling us toll-free (800) 289-9999.You can also get background information by visiting the SEC's Investment Adviser Public Disclosure database.

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.

Accountants

Some accountants provide investment-related services to their customers. As you consider which types of financial professionals to work with, here's what you need to know about **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: To become a Certified Public Accountant (CPA), the accountant must pass a national examination administered by the American Institute of Certified Public Accountants (AICPA) and meet 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 by contacting the state Board of Accountancy. Check the government section of your phone book to locate your state board, or visit the AICPA's website. You can also use CPA Verify, a resource provided by the National Association of State Boards of Accountancy that provides licensing information for accountants in nearly every state, the District of Columbia and several U.S. Territories.

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.

Lawyers

If you’re putting together a team of people to help you with your financial needs, you might want to consider adding an attorney to the mix. Not only can lawyers help investors resolve problems with their brokers, but they also can help with estate planning and other investment-related issues. Here’s what you need to know.

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 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.

Insurance Agents

Some insurance products, like variable annuities, are securities under federal law. Others, like fixed- or fixed-indexed annuities, are not. As you consider different types of investment professionals to help you with your financial needs, here's what you need to know about **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 including different types of annuities.

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 website of the National Association of Insurance Commissioners (NAIC) at 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.

Financial Planners

As you seek out a financial professional, you are apt to come across individuals who call themselves financial planners. It's a phrase that encompasses many types of services and skills. Here's what you need to know about 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 advisor does business.

If a planner you're considering uses a particular professional credential, be sure to check out that credential using our Professional Designations lookup tool. Some financial planners might use designations that require little experience, study or continuing education—or which lack processes for verifying the person actually holds the credential or for filing complaints. Other planners might hold a credential that is far more difficult to get and to keep, such as the Certified Financial Planner® designation, or CFP®, issued by the Certified Financial Planner Board of Standards. This designation requires at least three years of experience, imposes fairly rigorous standards to earn and maintain, allows investors to verify the status of anyone claiming to be a CFP and has a disciplinary process. But be aware that a designation alone is not the only criteria by which to base your financial planner selection.

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. For instance, you might not have confidence in your ability to choose investments or manage your money, or you may have concerns about the investment results you're achieving. You may have experienced a life-changing event such as a marriage, divorce or the birth of a child. Or you may not have the time or desire to handle your finances on your own.

Regardless of why your search for help begins, a qualified professional can help you make intelligent informed 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.

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 want from an investment professional so that you can narrow your focus to the people who have the credentials and experience that you need. Having a clear understanding of what you are looking for can prevent you from paying for services you don't really need—or from choosing someone who cannot provide all the services you do 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 them, 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.

Even if you get a good recommendation, you should always do your own independent review of the investment professional to make sure he or she is the right person to meet your needs. We all have different financial goals—and everyone's financial goals can change over time. In addition to checking the

professional out using resources such as BrokerCheck mentioned above, do an internet search of the investment professional and his or her firm, as well as any investments that might have been recommended. Do this before you sign any documents, make any investments or turn over any funds.
Finally, don't say "yes" to the first investment professional you speak to (or who speaks to you). Identify and interview a selection of candidates.

Asking the Right Questions

Here are some questions you should ask when interviewing investment professionals:

- 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? What other costs or fees should I know about?
- 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, some of which may be required by regulators to help ensure the recommendations made by your investment professional are appropriate for you:

- 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, get 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;
- a salary, with no commission on product sales;
- a percentage of the value of the assets they manage on your behalf; and
- some combination of fees and commissions.

You should ask every professional you interview to explain his or her fees and other transaction-related costs the firm charges and to put that information in writing. In fact, most regulated firms are required to provide a printed schedule of fees when you open an account and make it available on their website.

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, the professional may still receive some form of 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?

Some investment relationships may require a signed agreement between you and the person or firm you're working with. For instance, brokerage firms often require you to open an account before a broker can begin to offer recommendations. 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.

When an Investment Professional Chooses You

Sometimes investment professionals actively seek out clients. For instance, they will host free seminars that promise to educate people about investing strategies or managing money in retirement— often with an expensive meal provided at no cost.

In many cases, free-meal investment seminars are not solely about education. The investment professionals' ultimate goals are to recruit new clients and sell products. Learn more about these seminars and how to deal with persuasive salespeople by reading "'Free Lunch' Investment Seminars—Avoiding the Heartburn of a Hard Sell".

Don't feel obligated to entrust any investment professional with all of your assets. Remember, it's your money, and your investment professional works for you. Make sure you understand any investment your professional recommends and that you’re comfortable with it. If you don’t understand something, be sure to ask for more information.

4. Checking an Investment Professional's Background

Before you begin working 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 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 you to check the professional background of brokerage firms and individual brokers. You can access BrokerCheck online at www.finra.org/brokercheck or by calling toll-free at (800) 289-9999. The information contained in BrokerCheck is collected through FINRA's registration process. The information is drawn from filings by regulators, firms and investment professionals. It includes current licensing status and history, employment history and, if any, reported regulatory, customer dispute, criminal and other matters.

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 in last 10 years; 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 in last 10 years;
- 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 the information contained in BrokerCheck 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 website of the North American Association of Securities Administrators (NASAA) at www.nasaa.org.

Investment Advisers

You can also use BrokerCheck at www.finra.org/brokercheck to find the registration status and disciplinary history of investment adviser firms and representatives. The information about investment advisers in BrokerCheck comes from the SEC's Investment Adviser Public Disclosure (IAPD) database.

When you do a BrokerCheck search, you may find that some investment advisers are also registered as or associated with broker-dealers. But to do a thorough check of any investment adviser—whether or not the firm is also a broker-dealer—you should ask for, and carefully read, the firm's Form ADV, the uniform form used by investment advisers to register with both the SEC and state securities authorities. The Form ADV requires information about the investment adviser's business, ownership, clients, employees, business practices, affiliations, and any disciplinary events of the adviser or its employees. The Form also requires firms to provide narrative brochures written in plain English that contain information such as the types of advisory services offered, the adviser's fee schedule, disciplinary information, conflicts of interest, and the educational and business background of management and key advisory personnel of the adviser. The brochure is the primary disclosure document that investment advisers provide to their clients. In addition to asking the firm for a copy, you can also find an advisory firm's most recent Form ADV online using the SEC's IAPD website at www.adviserinfo.sec.gov. IAPD has information on both firms and individuals, but it is always a good idea to contact your state securities regulator for information on individual investment adviser representatives (www.nasaa.org).

Resources for Other Investment Professionals

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

State-Registered Financial Advisers	Commodities and Futures Brokers	Insurance Agents	Certified Public Accounts	Mortgage Brokers
Contact Your State Regulator State Investment Adviser Public Disclosure	CFTC Smart Check National Futures Association BASIC	Contact your state's insurance commission or call (866) 470-6242	CPA License Verification	NMLS Consumer Access Nationwide Multistate Licensing System & Registry (NMLS)

You can also find out if your financial professional has served jail time using the Federal Bureau of Prisons Prison's Inmate Locator resource at www.bop.gov/inmateloc/.

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/Investor/Resources/Designations. 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.

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. He or she not only needs 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 any adjustments that need to be made to your investment strategy or portfolio holdings can be done as quickly as possible.

6. Types of Accounts

There are different types of accounts you can choose when working with an investment professional. Decide which type of account you're most comfortable with before signing any documents.

Discretionary accounts give levels of trade authority to the investment professional. For example, full discretion gives an investment professional the ability to trade securities and initiate money movements, while limited discretion might only entail buying and selling securities. These types of accounts are also known as managed accounts.

Non-discretionary accounts are ones in which your investment professional discusses each investment with you and gets your permission before buying and selling securities for your account. While the investment professional may make recommendations to you, you will have the final say on investment decisions related to your account.

With a **margin account**, you can borrow money from your brokerage firm to purchase securities. The loan from the firm is secured by the securities you purchase. Read a firm's margin agreement and margin disclosure statement. Ask whether you will automatically be placed into a margin account. If so, what rate of interest will be charged, and what circumstances would trigger a margin call.

Speak with your investment professional or check your firm's website for any changes in margin policies. Firms can make changes at their discretion, and are more likely to do so in volatile markets.