Setting the global standard for investment professionals

Selecting an Investment Services Provider

What Types of Investment Services Providers Are There?

To choose the best adviser for you, it is helpful to understand the differences between the various types of investment services providers. Not only do they offer different types of services and charge different fees, but they also are subject to different federal and state regulatory requirements and have different legal obligations to their customers.

- **Brokers** execute the purchase or sale of securities at their clients' direction. Brokers can provide you with information, research, and, in some cases, investment advice and recommendations. Brokers are regulated by the Securities and Exchange Commission (SEC) and by state security regulators. In addition, brokers must register with FINRA (the Financial Industry Regulatory Authority), an independent self-regulatory organization.
- **Investment advisers** provide ongoing management of investments based on the client's objectives, typically with the client giving the adviser authority to make investment decisions on the client's behalf. The adviser is regulated by either the SEC or state security regulators, depending on the amount of assets under management.
- **Financial planners** develop, and may also implement, comprehensive financial plans covering such topics as insurance needs and estate and tax planning, in addition to more investment-oriented areas, such as retirement and college planning. They are not separately regulated as planners; their regulation depends on the type of services they provide. For example, planners who provide investment advice must be registered as investment advisers, and those who sell insurance products are licensed and regulated by their state's department of insurance.

Another important distinction among service providers is whether they are subject to a **fiduciary duty**, which is an obligation to put your interests ahead of theirs, and their employer's, at all times. A fiduciary must provide advice and recommend investments that he or she views as being the best for you and must disclose any conflicts of interest. In the United States, investment advisers are held to a fiduciary standard.

What Type of Provider Is Right for Me?

To determine what type of provider is best for you, start by answering a seemingly simple question: **What services are you looking for?** Defining what services you want will help you decide which investment services provider is right for you.

- If you simply want **assistance with buying and selling** investment products, a broker may be a good option for you.
- If you want someone to provide **ongoing management and oversight of your investments**, an investment adviser might be the best choice.
- If you want to **develop a long-term, comprehensive financial plan**, working with a financial planner or wealth manager probably makes sense.

Another important factor to consider while making your choice is how the provider is compensated.

- **Commissions.** Some providers, including many brokers, receive their compensation from commissions clients pay each time they buy or sell a security or insurance product. Commissions can be an affordable option if you don't expect to trade very often, but they may expose you to potential conflicts of interest by creating an incentive for your provider to recommend frequent trades or particular investment products.
- **Percentage of assets under management.** Some providers, including most investment advisers, charge a fee based on a percentage of the assets in the client's account. This form of compensation gives the provider an incentive to grow your portfolio, but commissions and other fees may also be charged.
- **Fees.** Some providers, including many financial planners, charge fees for their services, which clients pay directly to the provider. They may be hourly fees, a flat fee, or a retainer fee for a particular service or range of services, and they can vary significantly from provider to provider. Some fee-based providers may also receive commissions when you buy certain financial products, such as life insurance and annuities.

Once you decide whether you want to buy a product or seek advice, consider which providers offer you the best service and which fee structure best aligns your interests with those of your adviser.

What Do the Provider's Credentials Mean?

There are many designations that suggest expertise in financial matters. Some certification programs are rigorous, requiring years of study and experience, whereas other, less reputable programs do not require much of the applicant beyond the ability to pay fees. The following designations are broadly recognized.

CFA® Chartered Financial Analyst®

The CFA credential is recognized by many as the "gold standard" of the investment industry. CFA charterholders have passed three rigorous six-hour exams and agree to abide by the industry's most rigorous professional standards. They must have an undergraduate degree from an accredited university (or equivalent) and at least four years of work experience in an investment decision-making role.

www.cfainstitute.org

CFP® Certified Financial Planner™

Individuals who have earned the CFP designation have gained at least three years of work experience in a financial-planning-related position, completed an educational program, and passed a two-day, 10-hour examination.

www.cfp.net

CIMA® Certified Investment Management Analyst℠

The CIMA designation is awarded by the Investment Management Consultants Association (IMCA) to individuals with at least three years of client-centered experience in investment consulting. In addition, individuals must attend a week-long classroom program and pass two levels of exams.

www.imca.org

CLU® Chartered Life Underwriter®

Financial advisers with the CLU designation have gained proficiency in providing life insurance programs to individuals and businesses. They have successfully completed eight courses and have three years of full-time business experience.

www.TheAmericanCollege.edu/CLU

How Can I Check a Provider's Background?

Your state securities regulator or the SEC (www.adviserinfo.sec.gov) can confirm whether an individual is registered or licensed as an investment adviser or broker. You can find contact information for the regulator of your state on the North American Securities Administrators Association website (www.nasaa.org). The state regulator's office can also tell you about a broker's disciplinary record. The same information can be found on FINRA's website by using its BrokerCheck® function, located at www.finra.org/Investors/ToolsCalculators/BrokerCheck/.

Also, be sure to ask for a copy of your adviser's Form ADV. The SEC requires all investment advisers to periodically submit Form ADV, which includes useful information about the adviser, such as address, phone number, number of employees, types of clients, assets under management, ownership information, key executives, and disciplinary information (if any). An investment adviser is also required to deliver to clients and prospective clients Part 2 of Form ADV. Part 2 is a narrative document that includes additional information about an adviser's business practices including services, fees, and investment strategy. You can also obtain a copy of Form ADV directly from the SEC website.

For more information, please consult www.cfainstitute.org/adviser

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