

Financial Advisors: An Overview

Working with a financial advisor (FA) can have a tremendous impact on your financial well-being. Knowing what type of FA is right for your needs and preferences is important. But what's the difference between an agent, a registered representative, a registered investment advisor, an investment executive, a wealth manager and a financial planner? Most investors don't know. This section unlocks the mystery by providing an overview of the three most popular types of FAs, the products and services they provide, how they are compensated, and the "standard of care" they are held to in the handling of client/customer accounts.

Insurance Agents

Insurance agents are in the business of recommending and selling insurance and insurance-related investment products to their customers. In general, there are two broad categories of insurance agents: independent agents who represent several insurance companies and exclusive agents who represent only one insurance company. In both categories, the agent acts as a representative or "agent" of the insurance company when dealing with customers.

Regulation and Oversight

Insurance agents are regulated by the state(s) in which they do business. Agents who sell mutual funds or variable annuities are also regulated by the Financial Industry Regulatory Authority (FINRA).

Legal Titles

Insurance agent, producer, producing agent

Non-legal Titles

Advisor, financial planner, financial advisor

Example Products Offered

- Fixed, indexed, and variable annuities
- Cash value, term, universal and variable life insurance
- Long-term care insurance
- Disability insurance
- Mutual funds (if properly licensed)

Compensation

Compensation is generally commission-based. The above-referenced products are examples of products that generally pay a sales commission to the agent/advisor. Note: Certain insurance products allow the agent to opt for an ongoing fee instead of an up-front commission.

Registered Representatives / Brokers

Brokers are legally referred to as registered representatives, meaning they are properly licensed and registered to buy and sell securities for their customers through the company they represent. The company is known as the broker/dealer. Brokers typically earn a commission when buying and selling securities inside their customers' accounts.

Registered representatives must have all buys and sells approved by the account owner before the transaction can take place. This type of account is known as a "non-discretionary" account. This is why registered reps or "brokers" are always on the phone with their customers making buy and sell recommendations and confirming approval for each transaction.

Standard of Care: "Suitability"

The suitability standard means that the registered rep/broker has a regulatory obligation to have a "reasonable basis for believing" that the recommendation or strategy is suitable for their customer based on their needs, financial situation, investment objective, risk tolerance, etc.

Regulation and Oversight

Registered reps/brokers are regulated by the state securities regulators in each state in which they do business. They are also regulated by FINRA and the Securities and Exchange Commission (SEC).

Legal Title

Registered Representative

Non-legal Titles

Stockbroker (broker), financial consultant and wealth manager

Example Products/Investments Offered

- Individual stocks and bonds
- Mutual Funds
- Exchange-traded funds (ETF)
- Initial Public Offerings (IPOs)
- Annuities and other insurance-related products - if licensed

Compensation

Compensation is generally commission-based. The above-referenced products are examples of products that typically pay a sales commission to the registered representative.

Is a Registered Rep or "Broker" Right for You?

The answer could be "yes" if you agree with most of the following:

- You're only interested in "buy" and "sell" recommendations from your broker.
- You have above-average investment knowledge and experience, and you like being involved with your broker in making investment decisions.
- You want to authorize each buy or sell in your account prior to execution.
- You typically "buy and hold" your investments.
- You trade infrequently.
- Paying a fair commission is an acceptable way to compensate your advisor.

Registered Investment Adviser

Registered investment adviser (RIAs) provide ongoing advice to their clients. In general, RIAs use the same investments offered by the registered representative. But instead of buying and selling investments for a commission, investments are managed for an advisory fee.

A RIA can be a stand-alone independent firm or part of a large financial institution. Advisors who provide advice to their clients through their financial institution's RIA, are referred to as investment advisor reps (IARs). Most large full-service brokerage firms have a registered broker/dealer unit and a registered investment advisor.

If properly licensed, a financial advisor can be a registered representative, an investment advisor representative and even an insurance agent all at the same time. This is referred to as being “dually licensed,” and is common among financial advisors working at large brokerage firms.

Standard of Care: “Fiduciary”

RIAs and IARs have a duty of loyalty and are obligated to act in the best interests of their clients without regard to their financial interests or other interests they may have. This is referred to as a “fiduciary” standard of care. Any conflicts of interests must be fully-disclosed up front. It is the highest standard of care in the financial services industry.

Unlike “non-discretionary” transactions that require registered representatives to have all transactions approved by the customer prior to execution, RIAs may transact business on a “discretionary” basis. This means they have authority and approval to buy and sell securities and to make other investment-related decisions on behalf of their clients without receiving prior approval. Granting discretion to the advisor is part of the advisory agreement and must be plainly spelled out.

Regulation and Oversight

RIAs are regulated by the State securities regulators or the SEC, depending on the size of the RIA.

Legal Title

Registered investment advisor (RIA) or investment advisor representative (IAR)



Example Products/Investments Offered

- Mutual fund “wrap” (fee-based) accounts
- Separately managed accounts or SMAs through outside investment management firms
- Individual stocks
- Individual bonds
- Exchange-traded funds (ETF)

Compensation

- Asset-based fee (a.k.a. advisory fee) typically stated as an annual percentage based upon the value of the account
- Flat dollar amount based upon the size of the account or the complexity of the account
- Hourly rate billed monthly or quarterly
- Project retainer fee/monthly subscription

Is an RIA or IAR Right for You?

The answer could be “yes” if you agree with most of the following:

- You require or want ongoing advice
- You require or you are more comfortable with the fiduciary standard of care
- You require or want comprehensive reporting and performance measurement
- You require or want the advisor to make investment transactions on your behalf without you having to authorize each transaction
- You are required to pay, or prefer to pay, a fee for services

Note: If you are a trustee or guardian who is responsible for the oversight and monitoring of investments for an individual, organization or other entity, you may be required to work with a RIA or IAR who is obligated to the fiduciary standard of care.



General Comparison

Item	Registered Representative	RIA or IAR
Other titles	"Broker," "Wealth Manager," etc.	"Advisor"
Transactions	Non-discretionary trading	Discretionary trading
Compensation	Commission-based	Fee-based
Standard of Care	Suitability	Fiduciary

Financial Planners (non-legal term)

"Financial planner" is not a legal term. It's a description. In general, financial planners are in the business of developing comprehensive financial plans for their clients. So an insurance agent, a registered rep, and a registered investment advisor can all be "financial planners" within the scope that their licensing permits.

Are Other Financial-Related Services Right for You?

While investment management is the primary service provided by most registered reps/brokers, RIAs and IARs, many are credentialed experts who offer other important financial-related services. These can include:

- College planning
- Financial planning
- Insurance planning
- Tax-efficient investment strategies
- IRA/retirement plan withdrawal strategies
- Legacy and generational planning
- Special needs planning
- Post-divorce planning

If you'd like one-stop access to these types of services through your financial advisor, make sure your advisor has the expertise to provide them to you. Just because your advisor has the ability to generate a plan or report through their brokerage/advisory firm doesn't mean your advisor is an expert. Having an advisor with specialized training may be important to you.

Professional Designations

Some advisors choose to take specialized coursework in order to earn a professional designation. But not all professional designations are created equal. Some require rigorous coursework over a several-month or several-year period, while others can be acquired more easily. To evaluate a professional designation, follow the checklist below. It only takes a few minutes to do, and the information will help you determine whether the designation has any value or application to your financial situation.

- Visit the website of the organization issuing the designation
- Know the prerequisites and coursework for obtaining the designation
- Know the continuing education requirements
- Know if an investor complaint or public disciplinary process exists
- Know if the designation has third-party accreditation

Some states require designations to be accredited in order to be used in their state. For more information on professional designations, you can visit the FINRA website at www.finra.org, Tools & Calculators, Understanding Professional Designations.

Finding Mr. or Ms. “Right”

Where do you start looking for the right financial advisor for you? Sources for finding financial advisors to interview include:

- Brokerage/advisory firm websites. These websites allow you to locate a branch office in your area. Typically, the branch office website posts the bios and credentials of the brokers/advisors in that office.
- Organizations that issue professional designations. To learn about professional designations, visit the FINRA website at www.finra.org and click on Tools & Calculators, then Understanding Professional Designations. If you think a particular professional designation may be of value to your financial situation, visit the website of the issuing organization. Typically these websites allow you to search for designation holders in your area.

