How to Evaluate and Select a Financial Services Advisor

The financial markets are becoming increasingly complex, and many of us may feel ill-prepared to make informed decisions on what to do. Seeking the advice of an insurance agent, stockbroker or investment adviser may bring the additional resources you may need to better manage and oversee your investments. In selecting the right financial advisor for you, you need to first ask yourself the right questions, and then ask the right questions to the advisor. By doing so may help you find the one who's best suited for you. In this section you will learn about the various types of financial services advisors and the role each play in managing your investments.

Note: In this section you will see the terms "advisor" and "adviser." The term "financial advisor" is a non-legal, catch-all term that includes insurance agents who sell variable annuities and mutual funds, bank representatives, and registered representatives at brokerage firms. The term "adviser" (with an "e") is a legal term used with registered investment advisers or investment adviser representatives who operate under the Investment Advisers Act of 1940.

Insurance Agents

Insurance agents are in the business of recommending and selling insurance and insurance-related investment products to their customers. In general, this may include fixed, variable and indexed annuities, whole life, term life and variable life policies. Independent agents may represent several insurance companies; captive agents represent only one insurance company. Compensation is typically on a commission basis.

Regulation and Oversight:

- State insurance regulators (in Michigan, it's the Department of Insurance and Financial Services or DIFS)
- Financial Industry Regulatory Authority (FINRA) for products containing securities, such as variable annuities
- National Association of Insurance Commissioners (NAIC)

Legal Title:

- Insurance agent
- Producer

Other Non-Legal Titles:

- Financial planner
- Financial advisor

Compensation:

- Typically commissions

Example Products:

- Fixed Annuities
- Variable Annuities
- Indexed Annuities
- Immediate Annuities

- Whole and Term Life
- Variable Life
- Long-Term Care Insurance
- Mutual Funds

Registered Representatives and 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 broker/dealer securities firm they represent. Brokers typically receive a commission for the buying and selling of securities. These transactions are handled on a "non-discretionary" basis, meaning the broker must receive authorization from their customer prior to buying or selling any security.

Standard of Care:

The standard of care for a registered representative is a "know your customer" and "suitability" standard. This requires that they gather comprehensive financial information about their customer: namely, income, net worth, the purpose/investment objective of the account, investing time horizon, risk tolerance, investment experience, and the customer's need for income or liquidity. Only from this information can he or she then recommend "suitable" investments for their customer.

Regulation and Oversight:

- Securities Act of 1934: "Any person in the business of effecting transactions in securities for the account of others…"
- State securities regulators (In Michigan, it's the Michigan Department of Licensing and Regulatory Affairs [LARA] – Securities Division)
- The Financial Industry Regulatory Authority (FINRA)
- The Securities and Exchange Commission (esp. the Broker/Dealer)

Legal Title:

- Registered Representative

Other Non-Legal Titles:

- Stockbroker
- Financial advisor or consultant
- Wealth manager

Standard of Care:

- "Know your customer" and "suitability"
- NYSE Rule 405 "Know your customer"
- FINRA Rule 2090 "Know your customer"
- FINRA Rule 2111 "Suitability"

Compensation:

- Typically commissions

Example Products:

- Stocks
- Bonds
- Options
- Initial Public Offerings (IPOs) and Syndicate
- Mutual Funds
- Exchange-Traded Funds (ETFs)
- Annuities and other insurance-related products (only if licensed)

Is a Registered Representative or "broker" right for you?

If the following characteristics reflect your investment needs, then a broker may be right for you:

- You're mostly interested in "picks" and recommendations on an opportunistic basis from your broker.
- You like to be involved in the day-to-day management of the investments in your account and prefer to discuss each recommendation and authorize the transaction prior to execution.
- You are typically a "buy and hold" investor, and transactions are infrequent.
- Paying a fair commission when transactions occur is acceptable to you.

Registered Investment Advisers

Registered investment advisers (RIAs) provide ongoing advice as a matter of course to their clients. In general, RIAs utilize the same investment products and securities offered by the registered representative. But instead of buying and selling investments for a commission, investments are 'managed' for a fee.

A registered investment adviser can be a stand-alone independent firm or part of a large financial institution. Like registered representatives who buy and sell securities for their customers through the broker/dealer they represent, advisers who provide advice to their clients through their financial institution's RIA, are referred to as investment adviser representatives (IARs). Most large full-service brokerage firms have a registered broker/dealer unit and a registered investment adviser unit associated with it. If properly licensed, a registered representative at a larger brokerage firm can also be an IAR under the firm's RIA unit.

Standard of Care:

The Registered Investment Adviser has an affirmative duty to act solely in the interest of the client. This is referred to as a "fiduciary" standard of care. Acting as a fiduciary, all considerations, decisions and transactions must be made exclusively for the benefit of the client, and any conflicts of interest must be fully-disclosed up front. Unlike "non-discretionary" transactions that require registered representatives to have all transactions approved by the customer prior to execution, RIAs generally transact business on a "discretionary" basis, meaning they have discretion to buy and sell securities and to make other investment-related decisions on behalf of their clients without receiving prior approval.

Regulation and Oversight:

- Investment Advisers Act of 1940: "Any person, who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities…"

- Assets under $100 million: State securities regulator
- Assets over $100 million: Securities and Exchange Commission (SEC)

Legal Title:

- Registered Investment Adviser (RIA)
- Investment Adviser Representative (IAR)

Standard of Care:

- Fiduciary

Compensation:

- Asset-based fee, such as an annual percentage based upon the value of the account
- Flat rate
- Hourly rate
- Retainer fee and monthly subscription

Example Products:

- Fee-based 'platforms' that typically utilize the securities offered by registered representatives.
- Separately managed accounts (SMAs) through investment management firms not affiliated with a brokerage firm or RIA.

Is an RIA or IAR right for you?

If the following characteristics reflect your investment needs, then a Registered Investment Adviser (RIA) or Investment Adviser Representative (IAR) may be right for you:

- You require or prefer ongoing and continuous advice
- You require or prefer the fiduciary standard of care rather than the lower "suitability" standard of care
- You require or prefer comprehensive reporting and performance measurement
- You require or prefer to have an adviser act on your behalf on investment-related decisions without pre-authorization of each transaction prior to its execution
- Require or prefer to pay a fee for services

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

General Comparison

Registered Representative and Registered Investment Adviser:

Item	Registered Representative	RIA or IAR
Other Titles:	"Stockbroker," "financial advisor," etc.	"Adviser"
Standard of Care:	"Know your customer," "suitability"	Fiduciary
Transactions:	Non-discretionary trading	Discretionary trading
Compensation:	Commission-based	Fee-based

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 that typically include estate, tax, and insurance planning. So an insurance agent, a registered representative, and a registered investment adviser can all be "financial planners" within the scope that their licensing permits.

Industry Licenses

There are numerous types of industry licenses. The following are three example types:

Series 6: Investment Company Products/Variable Contracts

This license is required to receive compensation for recommending and selling mutual funds and variable annuities. The certification process includes:

- 100 multiple choice questions
- 2 hours and 15 minutes

Series 7: General Securities Representative

This license is required to receive compensation for buying and selling securities with the exception of commodities and futures. The certification process includes:

- Part I: 125 questions (3 hours)
- Part II: 125 questions (3 hours)

Series 65: Uniform Investment Adviser Law Examination

This license is required to receive compensation for providing ongoing investment advice. The certification process includes:

- 130 questions
- 3 hours

The financial markets are becoming increasingly complex. And many of us may feel ill-prepared to make informed decisions on what to do. Seeking the advice of a financial services provider may bring the additional resources you may need to better manage and oversee your investments. Selecting the right financial services provider for you and asking yourself the right questions, and then asking the right questions to the financial services advisor, may help you find the one who's best suited for you. The enclosed checklists have been provided to assist you with selecting and evaluating a financial services provider.

Financial Services Providers:
"Questions to Ask Yourself" Checklist

Before you select a financial services provider, you need to interview yourself. This checklist of questions will give you a better understanding of the type of relationship you are looking for with a financial services provider as well as the types of products and services you may be interested in.

Yes	No	
☐	☐	Do I seek continuous and ongoing investment-related advice?
☐	☐	Do I seek specific investment recommendations with advice being incidental?
☐	☐	Do I prefer to discuss and authorize all transactions?
☐	☐	Do I prefer to delegate investment-related decisions and transactions?
☐	☐	Do I seek comprehensive financial, estate and tax planning?
☐	☐	Do I seek only investment management?
☐	☐	Are insurance-related products an acceptable type of investment?
☐	☐	Are mutual funds and ETFs acceptable types of investments?
☐	☐	Are individual stocks and bonds acceptable types of investments?
☐	☐	Are commissions an acceptable form of payment for service?
☐	☐	Are fees an acceptable form of payment for service?

Financial Services Providers:
"Questions to Ask the Provider" Checklist

- ☐ Is my financial profile representative of your client base?
- ☐ What is your academic and professional background?
- ☐ Do you have professional designations or other credentials?
- ☐ What is the "standard of care" for my account?
- ☐ What other services do you provide?
- ☐ Who else may be handling my account?
- ☐ How is your compensation structured?

You can complete this section of the checklist yourself while meeting with a prospective service provider or you can request that they complete the checklist - in writing - prior to you meeting with them.

Most financial services providers have no record of disciplinary actions against them. You can confirm this by contacting your state securities regulator. In Michigan, it's the Michigan Department of Licensing and Regulatory Affairs (LARA) – Securities Division or through the Financial Industry Regulatory Authority (FINRA) website.

Contact LARA – Securities Division at 517-241-6345 or visit the FINRA website at: http://www.finra.org/brokercheck

To evaluate a professional designation, use the following checklist - or have the designation-holder use the checklist - to get you complete information. This information will help you determine whether the designation has any value or application to your financial circumstances.

Professional Designations:
"What to Know" Checklist

- ☐ Visit the website of the organization issuing the designation
- ☐ Obtain a brochure or pamphlet
- ☐ Know the prerequisites for obtaining the designation
- ☐ Know the coursework and format for how the designation is earned
- ☐ Know the continuing education requirements
- ☐ Know if an investor complaint or public disciplinary process exists
- ☐ Know if the designation has third-party accreditation

For more information on professional designations for the financial services industry, you can visit the FINRA website at: www.finra.org.

Whether you use a financial services provider or you are a "do-it-yourselfer," investments are going to be selected and bought. To be informed, aware and in control over the handling of your accounts, and to greatly reduce the potential for making a poor investment decision, you need to be able to check-off the following:

Selecting Investments:
"What to Know" Checklist

- ☐ Purpose of the investment[1]
- ☐ Consistent with investment objective, goal timeframe and risk tolerance
- ☐ How the investment fits into the overall investment strategy[2]
- ☐ The cost to buy, hold and sell the investment

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1 For example, does the investment provide the potential for long-term growth? Does it provide current income or provide liquidity at a pre-determined date?

2 Just adding another investment for the sake of adding another investment isn't necessarily in your best interest. How does the new investment fit in with what you already own? Does the investment bring further diversification? Does it increase the potential for growth or provide additional income? Does it reduce risk?