

It Pays To Understand the Different Roles of Financial Professionals

Written by
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MINNESOTA DEPARTMENT OF COMMERCE

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SAINT PAUL, MN– In recognition Financial Literacy Month, the Minnesota Department of Commerce today reminds investors of the importance of understanding the distinctions between the various types of financial professionals.

"Whether you are just starting a retirement fund or need additional help with managing your money, you may benefit from information on selecting an investment services professional. It pays to understand the differences between a broker-dealer agent, an investment adviser representative, and a financial planner. Each serves a distinct role in helping with your financial future," said Commerce Commissioner Mike Rothman.

To help investors understand these differences, the Department has issued an investor advisory providing basic information on these types of financial services professionals and their obligations to investors.

For example, anyone licensed as an investment advisor must, by law, act as a fiduciary and put the interests of his or her clients ahead of their own.

"With so many brokers and sales people calling themselves 'financial advisers,' or 'investment consultants,' it is easy to see how investors might assume these individuals are licensed investment advisors," Commissioner Rothman said. "That's one reason why federal securities regulators should require all financial professionals providing investment advice to retail investors to be held to a high fiduciary standard."

The Department is engaged in an examination and enforcement program involving investment advisors. This program has resulted in more complete and accurate disclosure by dozens of investment advisors regarding their relationship with broker dealers, the manner in which investment advisors are being compensated and possible conflicts of interest. Investors are well advised to review information on file with FINRA and the SEC involving any broker dealers or investment advisors.

The following provides basic information on three types of financial services professionals and their obligations to you as a client: **broker-dealer agents**, **investment adviser representatives**, and **financial planners**. An individual professional can hold any one or combination of these three credentials or titles, among others.

Financial Service Providers

Broker-Dealer Agents

Broker-dealer agents sell securities and other investment products. Generally, the term

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broker-dealer refers to a firm rather than an individual; an individual in a firm is known as a broker-dealer agent.

A broker-dealer agent may be informally referred to as any of the following, among others:

broker

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stockbroker

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financial consultant

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financial adviser

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investment consultant

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salesperson

, or

registered representative

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Brokers are typically compensated by transaction-based commissions. Brokers are obligated to make sure the securities they recommend are suitable for clients based upon factors such as the client's risk tolerance, age, and investment goals. Typically, a broker facilitates a transaction and the nature of their advice provides insight for the purchase of a security, but not the long-term strategy or portfolio.

It is possible that brokers may recommend investments that appear suitable but may not be optimal for investors' objectives. Because of the manner in which they are compensated, it is possible for brokers to have incentives to sell financial products that may not entirely align with clients' goals.

Investment Adviser Representatives

Investment adviser representatives give advice about securities and other investment products and provide ongoing management of investments based on clients' objectives. Investors should be aware that many investment advisors are duly registered so that they can earn a commission in addition to their advisory fee.

Generally, the term investment adviser refers to a firm rather than an individual; an individual in a firm is known as an investment adviser representative.

In some instances, an investment adviser is operated by only one person and, in this case, the individual is both the investment adviser and the investment adviser representative. With the distinction sometimes difficult to discern, investment adviser representatives are often commonly referred to as investment advisers.

Investment advisers may be referred to by a variety of titles, among others: *investment*

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manager
investment counsel
,
asset manager
,
wealth manager
, or
portfolio manager
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Clients may grant their advisers discretionary authority to make decisions about investments without prior approval. Investment advisers have a fiduciary responsibility to put clients' interests ahead of their own when providing investment advice. Because investment advisers give continuous comprehensive investment advice, they are considered to be acting in a fiduciary role; by contrast a broker who serves clients on a transactional basis is not considered to be a fiduciary.

Investment advisers typically charge a flat rate or an asset-based fee. The compensation structure must be disclosed to the client.

Financial Planners

Financial planners design an overall plan for their clients to save, invest, and manage their money.

Planners who provide specific or ongoing investment advice—such as recommending particular financial products or investments—must be registered or licensed as investment adviser representatives and are subject to a fiduciary duty.

Questions to ask:

- What services do you offer?
- What licenses, registrations, qualifications, and experience do you have to offer these services?
- Are you a broker, investment adviser, financial planner or any combination thereof?
- Can you provide me with your CRD number, and, if not, why not?
- Are you required to always act in my best interest?
- Do you have any potential conflicts of interest when providing me with investment advice?
- How are you paid? Explain commissions or fees you may charge.

These questions are not exhaustive, and the answers will likely raise additional questions you will want answered before you decide to entrust the professional with your money. You may want to ask for the answers in writing.

Be suspicious if your investment services provider:

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- Refuses to provide you with his or her CRD number.
- Cannot explain to you how a proposed financial product is intended to make money.
- Suggests that you take out a mortgage or reverse mortgage on your home in order to invest.
- Recommends that you cash out current holdings (such as life insurance or retirement accounts) to fund other investments.
- Ignores your financial objectives.
- Pressures you to invest today or tells you to keep the investment secret.

The fee structures charged by financial planners vary greatly and are dependent on whether they are licensed or registered. Financial planners may charge hourly, flat, or asset-based fees, or they could earn commissions, if licensed, based upon the purchase of recommended products.

For more information on investments and securities or how to look up whether your investment advisor is licensed and investments registered with the State of Minnesota, visit the Minnesota Department of Commerce Securities Section online

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