



	Close	NetChg	%
TSE 300	9089.50	+299.94	+
Financial	7725.71	+16.29	+
Minerals	3563.04	-24.96	-
Gold	4347.53	-26.94	-
Forest	3784.85	+41.54	+
Merch	4711.93	+9.59	+
Industrials	10627.82	+581.46	+
Utilities	14886.60	+879.14	+
Oil/Gas	6452.14	+35.37	+
Consumer	15277.38	+815.86	+
Trans	5025.27	+58.54	+
Pipelines	4171.45		
Manag	8957.88		
Comm			
Health			

# Cutting through the Confusion

Where to Turn for Help  
with Your Investments



# Cutting through the Confusion

## Where to Turn for Help with Your Investments

There are many reasons you might want help with your investments. Perhaps you want to start a college fund for your child. Maybe you are concerned that you are not doing enough to save for retirement. Or maybe you simply feel the need to get your financial house in order.

While some people are comfortable handling their own investments, many are not. They find the idea of creating a plan for allocating their assets bewildering, choosing a mutual fund intimidating, and designing an investment portfolio to be one more thing for which they have neither the time nor the expertise.

This is nothing to be embarrassed about. Investing can be confusing. The good news is there are thousands of people in the financial services industry who can help with financial and investment decisions. Unfortunately, finding the right investment services provider may seem almost as confusing, intimidating, and time-consuming as choosing the right investments.

This brochure was developed by the Coalition for Investor Education to help you cut through the confusion. It covers those financial services providers – *investment advisers*, *brokers*, and *financial planners* – who provide assistance with securities investments (such as stocks, bonds, and mutual funds) as part of their services. Our goal is to provide some basic information you can use to find an investment services provider who is right for you – one who offers the services you want on terms you understand and accept.

**Who We Are:** The Coalition for Investor Education is made up of state securities regulators, consumer advocates, and representatives of the investment adviser and financial planning community. See the back panel of this brochure for a complete listing of our members.

## What Types of Providers Offer Assistance With Investments?

Investment services providers fall into three categories:

- Investment advisers
- Brokers
- Financial planners

**Investment Advisers.** The term *investment adviser* is a legal term that describes a broad range of people who are in the business of giving advice about securities (the term “securities” includes stocks, bonds, mutual funds, and annuities). They may use a variety of titles in addition to investment adviser, such as *investment manager*, *investment counsel*, *asset manager*, *wealth manager*, or *portfolio manager*. 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 without having to get prior approval from the client for each transaction (called *discretionary authority*).

**Brokers.** The terms *broker* and *broker-dealer* are legal terms that refer to people who are in the business of buying and selling securities (called trading) on behalf of customers. Individual salespeople employed by brokerage firms are often called *stockbrokers* and are officially referred to as *registered representatives* of the brokerage firm. But these individuals also use many other unofficial titles. These include *financial consultant*, *financial adviser*, and *investment consultant*. In recent years, brokerage firms have increasingly offered a broader range of investment planning services in addition to buying and selling securities.

**Financial Planners.** Unlike the terms *investment adviser* and *broker*, *financial planner* is not a legally defined term. However, it generally refers to providers who develop and may also implement comprehensive financial plans for customers based on their long-term goals. A comprehensive financial plan typically covers such topics as estate planning, tax planning, insurance needs, and debt management, in addition to more investment-oriented areas, such as retirement and college planning.

## What Services Do You Want?

The search for the right investment services provider starts with the answer to a seemingly simple question – what services are you looking for? Investment services fall into three broad categories:

- Assistance with buying and selling securities
- Ongoing management of investments
- Financial planning

These services are related. Some firms offer all three under one roof, while others specialize in just one or two.

### So how do you know what is right for you?

You may want an investment adviser to provide ongoing oversight and management of your portfolio of securities. You may simply want a broker to help you with the mechanics of buying and selling securities. Or you may want a financial planner to look at your entire financial picture – including insurance, taxes, estate planning, as well as investments – and come up with a long-term, comprehensive financial plan.

Defining what services you want will help you decide which investment services provider is right for you.

## How Do You Want To Pay for Those Services?

Another factor that may affect your choice of investment services provider is how you prefer to pay for services. Your options fall into three basic categories:

- Percentage of assets under management
- Commissions
- Fees

Providers may rely on only one compensation method, combine the different compensation methods within an account, or offer different compensation options to different clients.

**Percentage of assets under management.** Some investment services providers, including most investment advisers, charge a fee based on a percentage of the assets in the client's account. The percentages charged can vary significantly from provider to provider. Also, providers typically charge larger accounts based on lower percentage rates.

**Commissions.** Some providers, including many brokers, receive their compensation based on commissions clients pay each time they buy or sell a security. This can be an affordable option for those who expect to trade only rarely, but it may expose clients to potential conflicts of interest, such as creating an incentive to recommend frequent trades or particular investment products.

**Fees.** Some providers, including many financial planners, charge fees for their services which clients pay directly to the provider. They may be hourly fees or a flat fee or retainer fee for a particular service or range of services. They may also include a performance fee based on how well the client's account performs.

Ultimately, you should determine which method of compensation offers you the lowest total costs and which method best aligns your interests with those of your investment services provider.

## What are the Differences in Providers' Legal Obligations?

Investment services providers not only offer different types of services and charge for them differently, they also are subject to different federal and state regulatory requirements and have different legal obligations to their customers. Important distinctions – including whether the provider has a clear obligation to act in your best interests or disclose conflicts of interest – depend on which legal category the provider falls into under our securities laws.

Securities laws recognize two types of providers – investment advisers, who are in the business of giving advice about securities, and brokers, who are in the business of buying and selling securities on behalf of customers.

**Investment advisers** are subject to a *fiduciary duty*. That means they have to put your interests ahead of theirs at all times by providing advice and recommending investments that they view as being the best for you. Investment advisers also are required to provide up-front disclosures about their qualifications, what services they provide, how they are compensated, possible conflicts of interest, and whether they have any record of disciplinary actions against them. They are regulated directly by either the U.S. Securities and Exchange Commission (SEC) or by state securities regulators, depending on the

amount of assets they have under management. You can find out whether a person or firm is registered or licensed as an investment adviser by calling your state securities regulator using the contact information on the NASAA website: [www.nasaa.org](http://www.nasaa.org) or by visiting: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Brokers** are generally not considered to have a fiduciary duty to customers, although this standard may apply in certain limited circumstances. Instead, brokers are required: 1) to know your financial situation well enough to understand your financial needs, and 2) to recommend investments that are suitable for you based on that knowledge. They are not required to provide up-front disclosure of the type provided by investment advisers. In addition to being regulated directly by the SEC and by state securities regulators, brokers are subject to regulation by industry self-regulatory organizations, including NASD and the New York Stock Exchange. You can find out whether a person or firm is registered or licensed as a broker and check out their disciplinary record by calling your state securities regulator using the contact information on the NASAA website: [www.nasaa.org](http://www.nasaa.org) or by visiting <http://pdpi.nasdr.com/PDPI/>.

**Financial planners** are not separately regulated as planners. Instead, their regulation and the level of responsibility they owe customers depends on the type of services they provide. Planners who provide investment advice must be registered or licensed as investment advisers and are subject to a fiduciary duty. Those who trade securities must be registered or licensed representatives of brokers. Some financial planners perform other activities that do not involve securities and therefore are not regulated under laws governing either investment advisers or brokers.

The legal situation is further complicated by the fact that different standards can apply when investment providers serve as *both* investment advisers and brokers. For example, investment advisers who also buy and sell securities for customers must meet the requirements applicable to both investment advisers and brokers. The same is not true of brokers. They are permitted to offer investment advice in connection with their brokerage services without being regulated as investment advisers. As a result, the advice they offer is subject to the suitability standard that governs brokerage activities rather than the higher fiduciary duty that applies to investment advisers.

## Investor Checklist

The key to finding the right investment services provider is asking the right questions – both of yourself and of prospective providers. Following are some questions that should help you identify the right provider for you. Remember, there are no foolish questions. Any reputable provider should be happy to discuss these issues with you and answer any questions you may have.

### Questions to Ask Yourself Before You Invest

- Do you need help developing strategies to reach your financial goals or do you simply want suggestions on appropriate investment products to implement your goals?
- Do you want assistance with a few targeted areas, or do you need a comprehensive plan for your finances?
- Do you already have a portfolio of investments you would like help managing?
- How involved do you want to be in decisions about your specific investments?
- Do you prefer paying for investment services through a fee, commissions, a percentage of assets in your account, or a combination of these?
- Do you prefer working with someone who is primarily considered a salesperson, an adviser, or a combination of the two?
- How important is it to you that your provider have a legal obligation to act in your best interests and disclose potential conflicts of interest?

### Questions to Ask Your Investment Services Provider

- What services do you offer?
- What qualifications do you have to offer those services?
- How do you charge for those services? Do you receive compensation from other sources if you recommend that I buy a particular stock, mutual fund, or bond?
- Would my account be an advisory account or a brokerage account?
- Are you required by law to always act in my best interests? Will you put that commitment in writing?
- What potential conflicts of interest do you have when recommending investment products to me, and will you disclose those conflicts?
- Will you provide me with a written record of any disciplinary history for you and your firm?
- Will you give me your Form ADV (the registration form that must be filed by investment advisers) and/or your Form U4 (the registration form used by persons who work with brokers)?

# Coalition on Investor Education

The Coalition on Investor Education is made up of consumer advocates, state securities regulators, and representatives of the investment adviser and financial planning community, including:

**Consumer Federation of America** is a non-profit association of approximately 300 national, state, and local pro-consumer organizations. It was founded in 1968 to advance the consumer interest through research, education, and advocacy. [www.consumerfed.org](http://www.consumerfed.org)

Organized in 1919, the **North American Securities Administrators Association** is the oldest international organization devoted to investor protection. NASAA members include state, provincial, and territorial securities administrators in the United States, Canada, and Mexico. [www.nasaa.org](http://www.nasaa.org)

The **Investment Adviser Association** is a non-profit organization that represents federally registered investment advisory firms. Founded in 1937, the IAA's membership consists of more than 400 companies that provide investment advice to a wide variety of individual and institutional clients. [www.investmentadviser.org](http://www.investmentadviser.org)

The **Financial Planning Association** is the membership organization for the financial planning community. Its 28,500 members are dedicated to supporting the financial planning process in order to help people achieve their goals and dreams. [www.fpanet.org](http://www.fpanet.org)

A global membership organization that awards the CFA designation, **CFA Institute** leads the investment industry by setting the highest standards of ethics and professional excellence and vigorously advocating fair and transparent capital markets. [www.cfainstitute.org](http://www.cfainstitute.org)



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INVESTMENT ADVISER  
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Consumer Federation of America

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