DecisionPoint
Financial Wellness

The Power of Questions

QuickGuides

Helping You be an Informed, Aware and Careful Consumer

Financial Advisors:

Who's Who, and What They Do

This guide unlocks the mystery surrounding financial advisors by providing an overview of the three most popular types of advisors, 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. Which type of advisor right for you? This guide will help you decide.

Contents

Financial Advisors

Who's Who, and What They Do

Note: "Financial advisor" is a generic term for insurance agent, registered representative (broker), registered investment adviser (RIA), investment adviser rep (IAR) and non-legal terms such as investment executive, financial consultant, wealth manager and financial planner. This guide will familiarize you with three types of financial advisors:

- ☐ Insurance Agent
- ☐ Registered Representative (broker)
- ☐ Registered Investment Adviser (RIA)

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.

Standard of Care

An insurance agent /producer has a duty to use reasonable care, diligence and judgment in procuring insurance for you.

Important Note: even if you rely on an agent's expertise, it's your responsibility to read through the policy documents for discrepancies.

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). The National Association of Insurance Commissioners or NAIC is a standard-setting and regulatory support organization created and governed by state insurance regulators. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate regulatory oversight.

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 permanent, term, universal and variable life insurance
- ☐ Long term care insurance
- ☐ Disability insurance
- ☐ Mutual funds (if properly licensed)

Compensation

Typically commission-based. The above-referenced products are examples of products that generally pay a sales commission to the agent/advisor. Note: some 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 reps provide non-continuous, point-in-time investment recommendations. Before any "buy" or "sell" (or transfer within a mutual fund family) can be transacted, the registered rep must receive approval from the account owner. This type of account is referred to as a "non-discretionary" account.

Standard of Care: "Suitability"

Most of us expect our registered rep/broker to do what's right for us. "Doing what's right" is intuitive. We don't need legal definitions to know what it means and the intentions behind it. But there's one regulatory term you need to know: "suitability". Suitability is regulatory-speak for "doing what's right". Under the suitability standard of care, the registered rep/broker has a regulatory obligation to have a reasonable basis for believing the strategy or transaction being recommended to you is suitable (right) for your needs, financial situation, investment objective, risk tolerance, investment experience, etc.

Special Note: The "suitability" standard of care does not guarantee protection from questionable sales practices and self-serving registered representatives. It all comes down to the intent and integrity of the individual advisor. So the best way to look out for your interests is to:

- ☐ Ask questions about all investments and strategies being recommended to you.
- ☐ Make sure that your questions are answered to your level of satisfaction.
- ☐ Be aware of what's going on in your account. Review your statements and trade confirmations for accuracy and report any discrepancies or unusual activity to your registered rep/broker.

Regulation and Oversight

Registered representatives/brokers are regulated by the state securities regulators in each state in which they do business. They are also regulated by the Financial Industry Regulatory Authority or FINRA and the Securities and Exchange Commission or SEC.

Legal Title

Registered Representative

Non-legal Titles

Broker, investment executive, financial consultant, wealth manager, etc.

Example Products/Investments Offered

- ☐ Individual stocks and bonds
- ☐ Mutual Funds
- ☐ Exchange-traded funds (ETF)
- ☐ Options and IPO's (Initial Public Offerings)
- ☐ Annuities and other insurance-related products - if licensed

Compensation

Typically commission-based. The above-referenced products are examples of products that typically pay a sales commission/concession to the registered representative.

Is a Registered Rep/Broker Right for You?

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

- ☐ You're not seeking or require ongoing investment advice. Occasional "buy" and "sell" recommendations are all you need from your advisor.
- ☐ Trading activity (buying and selling) in your account is infrequent, and you typically buy and hold your investments.
- ☐ You prefer having some involvement in how your account is managed, and prefer to discuss and authorize each transaction, rather than giving your advisor authority make decisions and act on your behalf.
- ☐ Paying a fair commission is an acceptable way to compensate your advisor for recommendations.

Registered Investment Advisers

"Financial advisor" (spelled with an "o") is a generic term used to describe insurance agents and registered representatives. Adviser (spelled with an "e") applies to registered investment advisers or RIAs. Registered investment advisers provide ongoing, fee-based 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, the adviser manages your investments for a fee.

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

If properly licensed, a financial advisor can be a registered representative, (commission-based compensation), and an investment adviser representative (fee-based) all at the same time. This is referred to as "dual registration", and is common among advisors working at larger investment firms.

Standard of Care: "Fiduciary"

RIAs and IARs have a duty of loyalty and are obligated to act in your best interests. In regulatory-speak, this is referred to as acting as a "fiduciary". As a fiduciary, every consideration, decision and transaction must be made exclusively for your benefit without regard to the financial interests or other interests of your RIA/IAR. Any conflicts of interest 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 adviser is part of the advisory agreement and must be plainly spelled-out.

Special Note: The fiduciary standard doesn’t guarantee protection from unethical practices. Also, you can’t assume that an adviser held to the fiduciary standard is necessarily more ethical than an insurance agent or registered representative held to the lower, suitability standard of care. It all comes down to the intent and integrity of the individual adviser.

Regulation and Oversight

State securities regulators for RIAs with assets under $100 million, the Securities and Exchange Commission (SEC) for RIAs with assets over $100 million.

Legal Title

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

Example Products/Investments Offered

- ☐ Mutual fund “wrap” (fee-based) accounts
- ☐ Separately managed accounts (SMA) through outside investment firms
- ☐ Individual stocks and 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.
- ☐ Hourly rate billed monthly or quarterly
- ☐ Flat dollar amount based upon the size or complexity of the account.
- ☐ 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 prefer ongoing investment advice.
- ☐ You are more comfortable having your advisor held to the fiduciary standard of care in the handling of your account rather than the suitability standard of care.
- ☐ You don’t necessarily want to be involved in discussing investment ideas and recommendations with your advisor, and then authorizing each transaction before your advisor can execute it. You’d prefer to give your advisor the written authority to make decisions and act on your behalf.
- ☐ You prefer to pay a fee for services rather than pay commissions.

Important Note: if you are a trustee or guardian 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.

Registered Reps and RIA/IAR: General Comparison

Item:	Registered Representative:	RIA or IAR:
Other titles:	"Broker", etc.	"Adviser"
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/broker, and a registered investment adviser can all be "financial planners" within the scope that their licensing permits.

Other Financial-Related Services

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

- ☐ College planning
- ☐ Financial planning
- ☐ Insurance planning
- ☐ Tax-efficient investment/income 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 kinds of services through your advisor, make sure your advisor is qualified to provide those services to you, meaning they have either

- ☐ authoritative knowledge and extensive experience in providing the service,
- ☐ specialized training,
- ☐ a professional designation, or
- ☐ other credentials that make them qualified to provide the service.

Note: just because your advisor can generate a plan or report through their brokerage/ advisory firm doesn't mean your advisor is truly qualified to provide that service.

Professional Designations

Some advisors choose to earn a professional designation by taking specialized coursework. 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.

Disclaimer

This guide is for informational purposes only. It does not in any way constitute investment advice, tax or accounting advice, legal or regulatory advice or an offer to sell or a solicitation of an offer to buy any security. Nothing in this guide constitutes an endorsement of any individual financial advisor, tax or legal professional. Nothing in this guide in any way constitutes a recommendation of any specific investment strategy or as to the suitability of any transaction, security or other financial product or service. Use of this guide does not guarantee protection from abusive sales practices, unsuitable or inappropriate account activity, loss of principal or investment fraud. DecisionPoint Services LLC members and the Michigan Department of Insurance and Financial Services (DIFS) do not accept any responsibility or liability for the accuracy, content, completeness, legality, reliability, suitability or otherwise of the information. DecisionPoint Services LLC members and DIFS shall have no liability, duty or obligation associated with the use of this guide. Any reliance you place on this guide is strictly at your own risk and any decisions you make based on such information are solely your responsibility.