A Publication of the Texas State Securities Board
Regulating the securities industry and
protecting investors since 1957

For Investors

CHOOSING A FINANCIAL PROFESSIONAL

At some point you may turn to a professional for help, particularly if you're trying to achieve different goals – such as planning for retirement, financing children's education, and buying a home.

Before you begin the search for a financial professional, you need to identify the type of help you need.

Essentially there are two types of financial professionals you might consider working with—brokers and investment advisers.

Brokers and investment advisers provide different services, have different responsibilities to their clients, and differ in the way they charge for the work they do.

What they have in common, though, is that they are both certified, meaning they have passed required examinations and have received licenses to offer their services to investors. Equally important, they are both subject to rules and regulatory agencies, such as the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the State Securities Board.

Before working with a financial professional, you should always be sure to check their credentials.

One of the primary responsibilities of the State Securities Board is to ensure that people selling financial products and offering financial services are licensed to do so. The Agency also ensures that practitioner adhere to all of the rules and can take administrative and legal action against those who ignore or violate those rules.

If you have questions about a specific professional, or want to file a complaint about a professional whom you suspect of fraud, you should contact the Agency by phone, email, or written letter.

Choosing a Financial Professional

- Investment Advisers
- Brokers
- Robo-Advisers
- The Investor's Checklist

Contact Information

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INVESTMENT ADVISERS

Investment advisers (IAs) help you make investment decisions and manage your portfolio. They have a fiduciary duty, or legal requirement, to act in your best interest and not for their own personal gain. An investment adviser may work as a sole practitioner or at an advisory firm that employs a number of advisers.

Unlike brokers, who earn a commission on trades they make on your behalf, investment advisers charge a fee for their services, sometimes based on a percentage of the money they manage, sometimes on an hourly basis, and sometimes on a retainer basis for a package of services.

Form ADV: Researching an Adviser

In selecting an adviser, be sure to do your homework: Advisers must provide you with key information, such as their credentials, years and type of professional experience, the services they provide, how they are compensated, and any conflicts of interest that may apply. They are required to disclose this key information on **Form ADV.**

Part 1 of the ADV is a check-the-box form with information about the IA's business, employees, ownership, and any disciplinary actions involving the firm or its employees. Part 2 of the form will tell you:

- The IA's business practices
- Fees and compensation
- Multiple costs folded into a "wrap fee"
- Potential conflicts of interest in working with you
- Firm's social media accounts
- Types of clients the IA works with
- Disciplinary information, if any
- How the IA reviews client accounts
- Financial information about the IA's firm

You should also ask about a prospective adviser's work with other clients whose financial situation may be similar to your own.

You can read Parts 1 and 2 of the ADV on the Investment Adviser Public Disclosure (IAPD) website. The IAPD system provides information entered by the advisory firm as well as information about the firm's representatives who are authorized to offer investment advisory services to Texas residents.

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Checking an Adviser's Registration

If you cannot find any record of registration for your adviser, contact our Registration Division at (512) 305-8301 or email your inquiry.

BROKERS

Brokers and broker-dealers buy and sell securities, such as stocks and bonds, on behalf of customers.

Brokerage firms employ salespeople, or stockbrokers, who are officially referred to as registered representatives. These individuals may use unofficial titles, too, including financial consultant, financial adviser, and investment consultant. In part, these titles represent the broader range of investment planning services that brokerages now offer in addition to trading securities.

Many brokers' compensation is based on the commissions clients pay each time they buy or sell a security. However, some brokers' compensation is based on a percentage of the size of the accounts they serve. You should understand how a broker is compensated before you start working with one.

Broker Responsibilities

Unlike investment advisers, brokers are under no legal obligation to act as fiduciaries. They are only required to recommend assets that are suitable for you, based on your financial situation and other securities you hold. Brokers also have no legal responsibility to inform you of conflicts of interest. Other parties – specifically, the companies offering the securities or the firms that brokers work for – may compensate brokers for selling you certain investments.

Brokers may be required to be registered with more than one regulatory authority, depending on where they live, to whom they offer securities, and the type of business they operate. Brokers who offer and sell securities in Texas, for example, must be registered with the Texas State Securities Board.

Researching a Broker

To research a broker, brokerage firm, or securities dealer, you may start with the Financial Industry Regulatory Authority's BrokerCheck, which provides key information about a broker, including:

- Employment history for past 10 years
- Disciplinary actions taken by federal, state, or other entities
- Professional designations
- Whether the broker or agent holds other professional designations
- Civil judgments, arbitrations, and disputes
- Criminal convictions or indictments
- Outstanding liens and judgments

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More Broker Information

BrokerCheck is derived from the Web CRD system, the central licensing and registration system for the U.S. securities industry and its regulators, and may not be a complete record. So it may not include information that would affect your decision to work with a specific broker.

If you wish to obtain all of the information from the Web CRD system, please contact our Registration Division at (512) 305-8301, or email your request.

ROBO-ADVISERS

Investors who are comfortable handling financial matters mostly online have another option for help: a so-called robo-adviser that provides automated but still personalized investment guidance.

You can start the process of enlisting a robo-adviser by filling out an online questionnaire on the website of one of the many firms offering this service. You'll be asked to detail your financial goals, income, assets, risk tolerance, short- and long-term goals, and investing time horizon.

The robo-adviser crunches the data you've provided and churns out what it determines to be the most appropriate mix of assets for your portfolio.

Robo-Adviser Features

Robo-advisers can handle single accounts, such as an Individual Retirement Account, as well as multiple portfolios of taxable accounts, college savings accounts, or other categories of investment accounts.

Fees for robo-advisers typically are less than those charged by traditional advisers because the service is largely automated. In addition, robo-advisers use low-cost index funds and exchange traded funds to build portfolios.

Some robo-adviser services offer a dose of human interaction. The cost varies, depending on whether you chat online or call by phone, and how often. You may, for example, want to speak with a human expert to discuss strategy during periods of market turmoil.

One thing you should make sure you're clear on is how often your robo-adviser rebalances assets in your account. Rebalancing, which involves selling some assets and buying others, ensures that the overall mix of investments in your portfolio doesn't significantly differ from your target allocation.

Besides being an essential element of an investment strategy, rebalancing can also can affect your taxes. For example, if the robo-adviser updates your portfolio frequently, you could have several short-term gains that are taxed at your regular tax rate rather than at the lower rate that applies to long-term capital gains.

Finally, be sure to consider a robo-adviser's approach to investing before signing up. Just like their human counterparts, robo-advisers have varying investing styles and offer different investment products. The final decision on how you should allocate assets in your portfolio is up to you.

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Registered Robo-Advisers

Firms that offer robo-adviser services are typically registered with either the Securities and Exchange Commission or a state regulator like the Texas State Securities Board. Robo-advisers are required to file the same Form ADV as investment advisers.

FINANCIAL DESIGNATIONS

A financial professional may use various titles, whether or not he or she is registered or licensed with a regulatory authority.

Unlike the terms investment adviser and broker, financial planner is not a legally defined term. It generally refers to someone who develops, and may also implement, comprehensive financial plans for clients based on their long-term goals.

A financial plan typically covers such topics as estate planning, tax planning, insurance needs, and debt management, in addition to more investment-oriented objectives, such as retirement and college planning. But you'll want to be sure to ask about a planner's experience and credentials before you sign a contract to work with him or her.

Certain designations require extensive testing and continuing education, and have an oversight body that may impose disciplinary sanctions. One such designation is Certified Financial Planner (CFP), the type of professional you may engage to develop a financial plan.

Earning the CFP designation requires the completion of seven financial courses and three years of financial planning experience.

Another is the Chartered Financial Analyst (CFA). Earning the CFA designation requires hundreds of hours of study to pass three six-hour exams, and four years of work experience.

There is a vast, murky alphabet soup of designations, however, and the requirements for obtaining and using professional designations varies widely, from rigorous to very little.

The proliferation of "senior adviser"-type certifications targeted elderly clients is a growing problem. There are more than 50 such senior-expert designations in use, with many of the titles practically identical.

Investors need to look beyond the acronym or designation to determine what's behind it: the exams, ethical standards, and oversight body, as well as the continuing education required to maintain the designation.

The Financial Industry Regulatory Authority (FINRA) maintains a Professional Designations database that tracks the requirements for approximately 200 financial designations. It can help you decide on the value of the designation: Does the acronym represent a valuable store of knowledge, or is it just something added to a business card to impress potential clients?

Tricky Titles

FINRA's Professional Designations resource provides a snapshot description of approximately 200 titles currently in use.

You can see whether the issuing organization requires continuing education, reequires a certain amount of experience, takes complaints, or has an oversight body for you to contact with questions.

THE INVESTOR'S CHECKLIST

The following guidelines will help you invest wisely, avoid misunderstandings, and potentially avoid inappropriate investments or outright scams:

- Receive complete information about the risks, obligations, and costs of any investment before you invest.
- Don't be rushed into an investment. Make a quick decision today and you may regret it for a lifetime.
- Contact the Texas State Securities Board to obtain all regulatory information about firms and individuals handling your accounts.
- Receive copies of all completed account forms and agreements.
- Make sure you understand your account statements and check for accuracy.
- Confirm that you can access your funds in a timely manner and receive information about any restrictions or limitations on access.
- Know precisely how much an investment is costing you in fees, commissions, and other charges.

Be sure to clear up any questions ahead of time, and if necessary, consult with a trusted third party, such as your lawyer or accountant.

Also, check your account statements and trade confirmations for any suspicious activity. If you find a discrepancy, put your questions to the firm in writing so you have a record of your complaint.

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Read the Contract!

Regardless of the type of financial professional you choose, there is absolutely one critical step to take before you act: *Read the contact.*

This sounds like obvious advice, but too many investors fail to take it. If you know the precise terms of the contract, you may be able to avoid any disagreements, misunderstandings, or even lawsuits, down the line.