

Investment Advisers: What You Need to Know Before Choosing One

The Securities and Exchange Commission (SEC) receives many questions about investment advisers—what they are and how to go about choosing one. This document answers some of the typical questions we receive from investors about investment advisers. This Q&A is for the benefit of investors. You should not rely on it to determine if you need to register as an investment adviser.

Q: What is an investment adviser?

A: An investment adviser is an individual or a firm that is in the business of giving advice about securities to clients. For instance, individuals or firms that receive compensation for giving advice on investing in stocks, bonds, mutual funds, or exchange traded funds are investment advisers. Some investment advisers manage portfolios of securities.

Q: What is the difference between an investment adviser and a financial planner?

A: Most financial planners are investment advisers, but not all investment advisers are financial planners. Some financial planners assess every aspect of your financial life—including saving, investments, insurance, taxes, retirement, and estate planning—and help you develop a detailed strategy or financial plan for meeting all your financial goals.

Others call themselves financial planners, but they may only be able to recommend that you invest in a narrow range of products, and sometimes products that aren't securities.

Before you hire any financial professional, you should know exactly what services you need, what services the professional can deliver, any limitations on what they can recommend, what services you're paying for, how much those services cost, and how the adviser or planner gets paid.

Q: What questions should I ask when choosing an investment adviser or financial planner?

A: Here are some of the questions you should always ask when hiring any financial professional:

- What experience do you have, especially with people in my circumstances?
- Where did you go to school? What is your recent employment history?
- What licenses do you hold? Are you registered with the SEC, a state, or the Financial Industry Regulatory Authority (FINRA)?
- What products and services do you offer?
- Can you only recommend a limited number of products or services to me? If so, why?
- How are you paid for your services? What is your usual hourly rate, flat fee, or commission?
- Have you ever been disciplined by any government regulator for unethical or improper conduct or been sued by a client who was not happy with the work you did?
- For registered investment advisers, will you send me a copy of both parts of your Form ADV?

Be sure to meet potential advisers "face to face" to make sure you get along. And remember: there are many types of individuals who can help you develop a personal financial plan and manage your hard-earned money. The most important thing is that you know your financial goals, have a plan in place, and check out the professional you chose

with your securities regulator.

Q: How do investment advisers get paid?

A: Before you hire any financial professional—whether it's a stockbroker, a financial planner, or an investment adviser—you should always find out and make sure you understand how that person gets paid. Investment advisers generally are paid in any of the following ways:

- A percentage of the value of the assets they manage for you;
- An hourly fee for the time they spend working for you;
- A fixed fee;
- A commission on the securities they sell (if the adviser is also a broker-dealer); or
- Some combination of the above.

Each compensation method has potential benefits and possible drawbacks, depending on your individual needs. Ask the investment advisers you interview to explain the differences to you before you do business with them, and get several opinions before making your decision. Also ask if the fee is negotiable.

Q: Do investment advisers have to register with the SEC?

A: Depending on their size, investment advisers have to register with either the SEC or the state securities agency where they have their principal place of business. For the most part, investment advisers who manage \$100 million or more in client assets must register with the SEC. If they manage less than \$100 million, they must register with the state securities agency in the state where they have their principal place of business.

Q: How do I find out whether an investment adviser ever had problems with a government regulator or has a disciplinary history?

A: Most investment advisers must fill out a form called "Form ADV." They must file their Form ADVs with either the SEC or the state securities agency in the state where they have their principal place of business, depending on the amount of assets they manage.

Form ADV consists of two parts. Part 1 contains information about the adviser's business and whether they've had problems with regulators or clients. Part 2 outlines the adviser's services, fees, and strategies. Before you hire someone to be your investment adviser, always ask for, and carefully read, both parts of Form ADV.

You can get copies of Form ADV by accessing the Investment Adviser Public Disclosure (IAPD) website at <http://www.adviserinfo.sec.gov/>.

You can also get copies of Form ADV from the investment adviser, your state securities regulator or the SEC, depending on the size of the adviser. You can find out how to get in touch with your state securities regulator through the [North American Securities Administrators Association, Inc.'s](#) (NASAA) website or by calling (202) 737-0900. Ask your state securities regulator whether they've had any complaints about the adviser, and ask them to check the [CRD](#) (Central Registration Depository).

If the SEC registers the investment adviser, you can get a copy of the Form ADV by accessing [How to Request Public Documents](#). In addition, at the SEC's [headquarters](#), you can visit our Public Reference Room from 10:00 a.m. to 3:00 p.m. to obtain copies of SEC records and documents.

Q: What should I do if the financial professional claims that he or she is "certified"?

A: If the professional you're considering claims to be a CFP® certificant, you should also visit the website of the [Certified Financial Planner Board of Standards, Inc.](#) (CFP Board) to see if the professional is, in fact, certified as a

CFP® professional and whether the professional's certification has been suspended or revoked by the CFP Board. You can also call the CFP Board at (888) 237-6275 to obtain other disciplinary information about the professional.

Q: Are investment advisers required to have credentials?

A: While some investment advisers and financial planners have credentials -- such as CFP® certification or CFA (chartered financial analyst) -- no state or federal law requires these credentials. Many states require advisers to pass a proficiency exam or meet other requirements.

Investment advisers and financial planners may come from many different educational and professional backgrounds. Before you hire a financial professional, be sure to ask about their background. If they have a credential, ask them what it means and what they had to do to earn it. Also, find out what organization issued the credential, and then contact the organization to verify whether the professional you're considering did, in fact, earn the credential and whether the professional remains in good standing with the organization. For information on various financial professional credentials and the entities that issue them, please visit [FINRA's](#) website and read [Understanding Financial Professional Designations](#).

Conclusion

For more information about choosing investment advisers see [Get the Facts: The SEC's Roadmap to Saving and Investing](#), [Invest Wisely: Advice from your Securities Regulators](#) and [Ask Questions](#).

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.