

Financial Industry Designations, Explained

*Fiduciary? CFP®? Broker/dealer?
What does it all mean?*

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There are times when the financial services industry can seem a bit arcane. CFP®, CLU, ChFC... financial planner, financial advisor, financial consultant, insurance agent... fiduciary, registered representative, broker/dealer... most people have no idea what those little letters after someone's name mean, and professional designations and terms may seem obscure even to those who have invested.

It is time to break down some of that jargon and explain what some of those letters and designations mean. In addition to that, it is time to note the levels (and varieties) of education they connote, because two advisors out promoting the same financial services may have quite different skill sets.

How does a financial advisor differ from a financial planner? Here comes a (relatively) long answer. The first thing to note is that not all financial professionals are alike – their education and experience can vary widely. The second thing to note is that anyone in this country can call themselves a financial advisor or a financial planner.

Because of that second factor, *bona fide* financial advisors and financial planners study for and earn professional designations – designations that signify an advanced understanding of financial planning, retirement planning, and tax and estate issues, as well as an ongoing commitment to continuing education.

Some designations are much more respected than others. At the top of the list, you find CERTIFIED FINANCIAL PLANNER™. Many young financial professionals put becoming a CERTIFIED FINANCIAL PLANNER™ practitioner high on their to-do lists. Each CFP™ possesses a bachelor's degree (at least) and 3 or more years of full-time personal financial planning experience.¹

Most CFP™ practitioners have several years or even decades of experience in the financial services industry, and they have studied 100+ financial subjects (investment classes, taxes, risk management, retirement and estate planning and more) pursuant to the CFP™ certification exam, which is administered by the Certified Financial Planner Board of Standards Inc. They must also abide by the CFP Board's code of ethics and standards.²

The Chartered Financial Analyst (CFA) and Certified Investment Management Analyst (CIMA) designations are also quite esteemed. More than a few advisors who focus on portfolio management have earned these designations.²

The American College at Bryn Mawr has for years issued the Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU) designations to insurance professionals who have completed extensive studies in insurance, investments, taxation, and financial and retirement planning and passed related exams. So when you see these designations, you are looking at a financial advisor who has come up through the insurance industry. Some investors like having a financial advisor with insurance industry experience, and some investors don't.²

The Personal Financial Specialist (PFS) designation is conferred by the American Institute of Certified Public Accountants (AICPA) to CPAs who have also become CFP™ practitioners. So when you see the PFS mark, you are looking at both a CPA and a CFP™ practitioner.²

While the CFP® mark is considered the most prestigious designation these days, holders of the ChFC, CFA and CIMA designations have argued that their designations should be viewed just as prestigiously, as the curriculum pursuant to those designations requires intensive study and examination as well.

So while the terms “financial planner,” “financial advisor,” “financial consultant,” “investment consultant,” and “investment advisor” are used frequently, it is the education and experience of that financial professional that matters most.

Some “professional” designations are too easily obtained. Take the Certified Senior Advisor (CSA) designation, which requires a 3-day training course and one “approved” class among a list of prerequisites. The Chartered Senior Financial Planner (CSFP) designation requires three days of study and an open-book test.^{3,4}

What are these designations worth? Ask the state of Nebraska, which bans financial industry professionals from using any form of “senior advisory” designation. The curriculum required to obtain such designations pales in comparison to that required for the truly professional ones – the ones that signify education, competence and experience.³

Are all financial advisors paid the same way? No, some earn the bulk of their income from fees while others are paid partly or mainly off commissions linked to product sales. Some financial advisors (and financial planners and financial consultants, etc.) are entirely compensated by commissions, some are fee-based (mostly fees, some commissions), and some are fee-only. Sometimes the compensation method varies per client – for some clients, it may be more reasonable to charge only advisory fees, but in other cases a balance of fee compensation and commission compensation may be less costly.

What does “Registered Representative” mean? That term signifies a regulated securities professional who makes investment trades on behalf of clients while working for a firm that is registered with the Securities & Exchange Commission.⁵

What is an RIA as opposed to an IAR? The RIA acronym stands for Registered Investment Advisor. An IAR is an Investment Advisor Representative.^{5,6}

An RIA is either an individual financial professional or a financial services firm that provides investment advice while being registered with either the Securities & Exchange Commission (SEC) or state securities authorities. An IAR is an Investment Advisor Representative, an individual or firm also registered with the SEC or a state securities regulator, depending on the amount of client assets under management (AUM).^{5,6}

Different names for the same thing, just a bit of hairsplitting? In the big picture, perhaps, but these acronyms signify something very, very important. IARs, RIAs and their representatives and all CERTIFIED FINANCIAL PLANNER™ professionals who provide financial planning services must uphold a fiduciary duty, or a fiduciary standard.^{5,6,7}

A fiduciary standard – what exactly does that signify? In abiding by a fiduciary standard, a financial services professional *must* place a client’s best interests above his or her own in each and every client relationship. It is what is right for the client that counts, not what might be most profitable for the advisor.^{7,8}

In the past, the suitability standard was the norm in the financial services industry (and the insurance industry, for that matter). By the terms of this standard, a financial or insurance product only needed only to be “suitable” for a client or

customer to be appropriate. Some financial professionals claim there is nothing flawed about the suitability standard – and many still abide by it. The flaw is evident, however: it permits financial or insurance professionals a slight opportunity to put their best interests before yours.⁸

A good advisor upholds the fiduciary standard in an ongoing professional relationship. Financial planning or retirement planning is not treated as an event which is over and done, but a goal-oriented process with an eye on the long run (and correspondingly, a commitment to serving your best interests through the years).

Series 6, Series 7, Series 63 ... what does that stuff mean? If you want to offer investments or financial services industry products to your clients, you must have the appropriate financial securities licenses. You obtain these licenses through study and examination. They are offered by FINRA, the Financial Industry Regulatory Authority (formerly known as the NASD, or National Association of Securities Dealers).⁹

These are just a few of the categories of representative registration. A Series 6 license is the registration an insurance or investment professional needs to sell “packaged” investment products. You must pass a 6-hour exam to obtain the Series 7 license (General Securities Representative), which is the gateway to being able to sell nearly any kind of security. All Registered Representatives have a Series 7 license. If you have a Series 6 or Series 7 license, you also need to get the Series 63 license by passing a 75-minute Exam. If you want to conduct securities transactions in any of the 50 states, you must have a Series 63 which authorizes you to do so.¹⁰

The Series 65 and Series 66 exams are also important. You have to take and pass the 3-hour Series 65 exam if you want to work as a fee-only or fee-based financial advisor. The Series 66 exam combines the content of the Series 63 and Series 65 tests; it is offered for those who already have Series 7.¹⁰

Once you pass the appropriate exams, you register your securities licenses with an approved broker/dealer. (If you have become a Registered Investment Advisor, you aren't required to associate with a broker/dealer.)¹⁰

What exactly is a broker/dealer? Essentially, a broker/dealer is an investment resource for a financial advisor. An independent financial advisor is not a “captive” employee of a broker/dealer, but he or she draws on the B/D’s capabilities. The B/D holds the advisor’s licenses and supervises his or her business, and the B/D may receive a percentage of any commissions earned by the advisor.¹¹

There are “boutique” B/Ds and behemoth B/Ds such as the giant Wall Street brokerages. When a financial advisor’s client wants to buy or sell an investment, it is the B/D that executes the order and facilitates the trade.¹¹

What is a clearing firm? A clearing firm (also called a clearing house or clearing corporation) is a necessary partner to a stock or commodity exchange. The clearing firm oversees the trades being made on the exchange and confirms that they are being “cleared” expediently. In doing so, it assumes responsibility for the transactions. Different broker/dealers rely on different clearing firms; a given clearing firm may oversee transactions for many broker/dealers.¹²

And finally, just what is a custodian? The custodian firm is the (very large) financial company assigned to guard your invested assets. It is the “keeper” of your funds or IRAs or retirement savings, as opposed to the broker/dealer which carries out trading instructions given by the advisor and the investor. It is not an arm of the broker/dealer; it is a third party.¹³

The designations and lingo of the financial services industry may be tough to grasp at a glance, but once explained they make sense. You may retain this eBook as a quick and handy guide.

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