

# MONEY & INVESTING

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## 'Wait, Let Me Call My ChFC'

Your Stockbroker or Adviser Can Have Many Baffling Names; A New SEC Rule Might Help

By JEFF D. OPDYKE

**T**HE ONLY THING tougher than coming up with a financial plan is finding someone to do it for you.

Investment advisers have developed a baffling array of titles and certifications to make themselves sound like pros. Most people have an idea of what a "broker" is, but what about a "ChFC" or a "CRPC"? (Chartered Financial Consultant, and Chartered Retirement Planning Counselor, respectively.)

In a small but important step to address concerns like these, starting Tuesday, the Securities and Exchange Commission is kicking off a new rule designed to make it easier for consumers to know what they're getting when they hire a financial professional.

The new rule mandates that stockbrokers who hold themselves out as financial planners must be clear about the role they're playing when dealing with clients. In other words, if they're clearly providing advisory services, then they're duty-bound to act in a customer's best interest, as are traditional financial planners. If they're acting as a broker—in other words, essentially, a salesperson—then they must be clear that's the role they're playing.

However, the new rules don't solve the larger



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problem: the more than 100 separate titles used by financial pros to imply expertise in everything from mutual funds to retirement planning to estates. No central regulator keeps tabs on the titles, and some can be earned simply by spending a few hours attending a train-

ing seminar in a hotel ballroom or taking a study-at-home course.

For investors, the alphabet soup creates confusion figuring out who does what—and how qualified they are to do it.

Some titles "are intentionally misleading," says  
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# New Rule May Help You Pick an Investment Adviser

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Barbara Roper, director of investor protection for the Consumer Federation of America. Their goal: giving the consumer the impression that "they're dealing with an 'adviser,' rather than someone who's trying to sell them something."

Last year, securities regulators in Massachusetts cracked down on firms touting "certified senior advisers" specializing in retirement planning. The state found that CSA holders earned the designation after taking a three-day home-study course and a multiple-choice exam. The state found that CSAs steered investors toward high-commission investments "unsuitable for many older investors" because of the fees and the long-term nature of some of the annuities being sold. Pennsylvania issued a cease-and-desist order against a firm pitching the CSA designation as "credentials you can trust."

Last month, the North American Securities Administrators Association issued a warning urging investors to "carefully check the credentials of individuals holding themselves out as 'senior specialists.'"

There are ways to avoid pitfalls like these. The National Association of Securities Dealers has a page on its Web site ([nasd.org](http://nasd.org)) that charts dozens of designations. (Under the investor information tab, click "professional designations.") Information about Certified Financial Planners, who rank among the most reputable advice providers, can be found at [cfp.net](http://cfp.net).

## Self-Policed Organizations

Most financial designations aren't subject to state or federal regulation, but are still highly regarded because of the steps needed to earn those initials. Many also are accountable to professional organizations that set ethical standards on members.

The certified financial planner, or CFP, designation is considered the gold standard in this crowd. CFPs are required to be knowledgeable about financial planning topics including insurance, employee benefits, investments, taxes, and retirement and estate planning.

They must also have at least three years of experience, pass a 10-hour exam, and starting next year, hold a bachelor's degree. The ChFC designation, given by American College, a Bryn Mawr, Pa., institution dedicated to financial-services professions, is also well regarded.

Other professionals whose credentials mean something include the certified financial analyst (CFA), who provides portfolio management and investment strategy, among other things. Getting the CFA designation takes on average four years of preparation in accounting, quantitative analysis, fixed-income and securities analysis, portfolio management, economics and ethics.

For tax services, the professional to go to is a certified public accountant. CPAs who hold the additional designation of personal financial specialist are experts in personal financial planning.

A chartered life underwriter, or CLU, is an expert in life-insurance matters. But you might also go to them for issues of income-replacement, estate planning and wealth transfer.

## Who's Regulated

Generally, only two types of titles are scrutinized by regulators, and therefore offer consumers legal protections: broker-dealers and registered investment advisers. Broker-dealers (think: stockbroker) serve primarily as stock-market order-takers, facilitating trades on Wall Street and in the bond market. They report to the NASD, the brokerage industry's self-regulatory arm. Registered investment advisers (think: financial planners), which report to the SEC, primarily provide services such as building a financial plan or offering tax- and estate-planning advice.

Broker-dealers and advisers are held to different standards when dealing with clients. Brokers must abide by so-called suitability rules requiring they "know the customer" and offer investments suitable to a client's needs.

The concept of "suitability" can be murky, however, and brokers aren't obligated to act solely in your best interest. The NASD has been strengthening suit-

ability rules in recent years. Still the organization last year fined the industry a record \$125.4 million for transgressions including inappropriate sales of annuities and mutual funds.

By contrast, registered investment advisers are subject to a so-called fiduciary duty, a legal standard mandating they act solely in your best interest. Advisers also are subject to disclosure rules requiring they provide to clients Form ADV listing potential conflicts of interest, compensation practices and disciplinary proceedings.

An adviser's Form ADV can be found on the SEC's Web site ([sec.gov](http://sec.gov)) under "Check out Brokers & Advisers." Information on a broker's disciplinary actions is available at [nasd.org](http://nasd.org) under "NASD BrokerCheck."

State securities regulators can provide information as well. The North American Securities Administrators Association, an organization of state and provincial securities regulators, provides links to state regulators at [nasaa.org](http://nasaa.org); look for "contact your regulator."

The new SEC rule deals with situations in which a broker also holds himself out as a financial planner. In such cases, the broker must also register with the SEC as an investment adviser, which means he then has a fiduciary duty to the client.

Individuals and firms are all free to set their own fee structure, which makes it important to ask upfront whether you are paying commissions, by the hour, or a flat fee. In general, fee-only and by-the-hour charges are often the best option when seeking financial-planning advice. The reason: It removes the incentive to try to sell you a product that isn't right for you, but which provides extra fees to the seller.

With a brokerage account, investors who trade a lot or who require a variety of services are generally best suited for so-called wrap accounts that charge a single, annual fee. People who trade infrequently should stick with a commission-based account (in which you pay per transaction), since that approach will often be cheaper in the long run.