

## **Regulation of financial planners and investment advisors -- Introduction**

**Category : Regulation of Financial Advisors and Investment Advisers**

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Summary: In a series of articles, The Skilled Investor provides information on how financial planners and investment advisors are regulated and certified. These articles also provide information to help you find online background information about advisors. If you are working with one of the many competent, objective, and ethical financial advisors in business today, you may not need to have more than a general understanding of his or her registrations, licenses, and certifications. However, it is wise to pay close attention to these topics, when you are first selecting an advisor. Doing so can help you evaluate the strengths and weaknesses of various advisors, research their backgrounds, and check their professional standing and disciplinary background. In addition, if for some reason in the future you encounter a problem with an advisor, knowing about these topics can be very useful. Practically anyone can call himself or herself a financial planner or investment advisor. According to the National Association of Securities Dealers, Inc. (NASD), "Financial Analyst, Financial Adviser (Advisor), Financial Consultant, Financial Planner, Investment Consultant or Wealth Manager are generic terms or job titles used to refer to investment professionals. Anyone can use these terms without registering with securities regulators or meeting any educational and experience requirements." (See: <http://www.nasd.com> then go to: Investor Information > Tools & Calculators > Investment Choices > [Understanding Professional Designations](#)) Since these planner and advisor titles may indicate nothing about the competence, ethics, legal standing, or objectivity of an advisor, individuals in search of professional advice need to dig deeper. While often used interchangeably, there is sometimes a difference between the terms "licensing" and "registration". Federal and state securities laws require that certain brokers and advisors register in accordance with various laws and regulations. Individual agents, brokers, and advisors hold various licenses to conduct specific activities, such as selling securities or insurance products. Registration means that a firm or individual has registered at the state or federal level. Registration does not mean that particular individuals are properly educated or have obtained any voluntary certifications. For a firm, registration means the firm completed the prerequisites and requirements for registration and paid the required fees. The registration process requires firm representatives to attest to the accuracy of the information that it provides. To register firms commit that principals and employees will hold necessary licenses. Regarding securities, in general, persons and firms that sell securities must be registered. Persons and firms must also register, if they are compensated for determining specific recommendations, providing specific recommendations and advice on investments, managing client portfolios and accounts, and/or offering or negotiating the sale of investment advisory services. Investment advisory firms must register with either the U.S. Securities and Exchange Commission (SEC) or the states. Larger firms with more assets under management register with the SEC (<http://www.sec.gov>). A firm "may" register with the SEC, if they manage greater than \$25 million in client assets, but they "must" register if the total exceeds \$30 million. Other SEC registration rules also apply. Other advisory firms may register only with the states, and they are prohibited from registering with the SEC. In general, financial and investment advisors -- particularly those

who sell securities, insurance, and other financial products and those who provide specific and actionable recommendations &ndash; are subject to various state and federal laws. A firm that buys or sells securities is a broker-dealer, and an individual is a broker or registered representative. Someone who gives advice about securities investments is an investment advisor. Individuals must hold various registrations and licenses to conduct these activities. Regarding insurance and related products such as annuities, the states regulate insurance company sales practices, and they work to ensure that insurance companies remain solvent and can meet claims. Insurance firms and sales personnel are required to hold certain licenses. A &ldquo;financial planner&rdquo; may or may not be subject to various laws and regulations, because legal requirements for licensing tend to focus on whether the person or firm engages in sales of securities, insurance, etc. In many cases, persons and their firms calling themselves financial planners are subject to some forms of licensing, because they conduct transactions or facilitate sales. You should simply assume that a financial planner must be licensed in some manner. If a planner or advisor is not licensed, then ask them why they are not. They should be able to point to a clear exemption of their activities in your state&rsquo;s laws and regulations. When in doubt, check with your state government to verify that what you have been told is true.1) National Association of Securities Dealers, Inc. (NASD) website, &ldquo;NASD -- Investor Education -- Understanding Investment Professional Designations&rdquo; <http://www.nasd.com> then go to: Investor Information > Tools & Calculators > Investment Choices > [Understanding Professional Designations](#) (as of October 2005)

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