

# Finding The Right Financial Professional

by Barbara Bennett, Investor Education Specialist, Secretary of State Securities Division

Millions of Americans from all walks of life own shares in America's public companies. Still, investing in the stock market is a complex business. Whether your primary interest is long-term growth, steady income, tax savings, quick profits or some combination of each, a good stockbroker or other financial specialist is an essential element of success. The type of financial professional you need probably depends on what services you want. If you just want assistance with buying and selling securities, a broker (or their registered representative) may be for you. For ongoing management of investments, an investment adviser might work best. Financial planners help with tax issues, estate planning and other long-term goals. It is important to know the responsibilities of each and who regulates them. This issue will focus on "brokers."

**What they are:** While many people use the word *broker* generically to describe someone who handles stock transactions, the legal definition is somewhat different. A *broker-dealer* is a person or company that is in the business of buying and selling securities, such as stocks, bonds, mutual funds, and certain other investment products, on behalf of its customers (as broker), for its own account (as dealer), or both. Individuals who work for broker-dealers, the sales personnel whom most people call brokers, are technically known as *registered representatives*.

**Who regulates them:** With few exceptions, broker-dealers must register with the Securities and Exchange Commission (SEC) and be members of the Financial Industry Regulatory Authority (FINRA). Individual registered representatives must register with FINRA, pass a qualifying examination, and be licensed by the Securities Division of the NC Department of the Secretary of State before they can do business with you. Investors are strongly encouraged to contact the Securities Division at (800) 688-4507 to check the registration status and disciplinary history of anyone who offers to sell any investment product *before* handing that individual any money or assets. One five-minute telephone call to the Securities Division could avert the loss of the entire investment.

**What they offer:** Broker-dealers vary widely in the types of services they offer, falling generally into two categories—full-service and discount brokerage firms. Full-service firms typically charge more for each transaction, but typically have large research operations that representatives can tap into when making recommendations. They can also handle nearly any kind of financial transaction you want to make, and may offer investment planning or other services. Discount broker-dealer firms are usually cheaper, but you may have to research potential investments on your own. Broker-dealers and their registered representatives are required to "know-their-customer," meaning that they may only recommend investments that are "suitable" for their clients in terms of depth of investment experience, net worth, annual income, investment objectives and other related factors including their risk tolerance. However, a broker has no *fiduciary* responsibility to the client, meaning that the broker is not required to put the client's interests ahead of his own. You should notify your broker whenever there are changes in your goals or financial situation as stated on your New Account Form.

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### Things to remember:

1. Unless you grant your broker “discretionary authority” over your account, (s)he is required by law to get your permission prior to trading in your account.
2. Your broker is obligated to be truthful and complete in presenting investment opportunities to you. For example, a broker stating that investing in a new issue of stock is as “safe as a CD” would be a misrepresentation.
3. Most investment professionals earn commissions when they buy and sell investments on behalf of their clients. If your broker trades excessively in your account for his or her benefit and not yours, you might have a valid claim against that broker for “churning.”
4. While brokers need to pass FINRA’s Series 7 licensing exam, there are no specific educational requirements to become a broker. One does not even need to be a high school graduate or have a GED. Furthermore, a felony conviction for financial-related crimes does not prevent a broker from obtaining a license unless the conviction was within the last ten years! The point is, keep in mind that the top three qualifications brokerage firms want from a broker new to the field are: 1) the ability to sell; 2) the ability to sell; and, 3) the ability to sell!
5. Training in many cases is about as minimal as weekly sales meetings.
6. While a broker can offer investment recommendations, these recommendations could be based on products their firm owns and is trying to sell. In some cases, firms offer incentives (i.e., cash, trips, etc.) to their sales force if the firm is intent on selling these products. This could encourage agents to push clients toward the incentivized products rather than more appropriate products that offer no bonus to the broker.

### What kind of broker should you use?

1. **Full-service brokers** receive commissions based on the number and size of transactions in their clients’ accounts. Generally, only full-service brokers recommend specific stocks or investment strategies. If you like to talk things over, weigh all the angles, and check every source of information before making a decision, then a full service broker may work for you.
2. **Discount brokers** carry out buy and sell orders at reduced rates of commission as compared to full-service brokers. Typically, they provide no [investment advice](#). The number of discount brokers has risen dramatically with the advent of the Internet. If you have no trouble making decisions on your own and would prefer doing your own research, a discount broker may work for you.
3. **Online brokers** are available for those investors who are very comfortable doing business over the Internet and who like to take complete control of their finances.

The North Carolina Secretary of State Securities Division recommends that all investors “Check before you write one” with a quick call to (919) 733-3924 or toll-free at (800) 688-4507, to verify the registration status of stock brokers, financial advisers and their investment products.

By arming yourself with the facts, your investments and financial future will be in safer hands. In the next issue of Tarheel Guardsman Magazine, the focus will be on Investment Advisers. For more information visit our website at [www.sosnc.com](http://www.sosnc.com) or read the brochure, *Choosing a Stockbroker or one of our many other publications* in the education section of the site at <http://www.secretary.state.nc.us/sec/brochures.aspx> .