FINRA
Financial Industry Regulatory Authority

Investor Education Series

Investor Info

Key Topics:

- How to Select an Investment Professional
- Avoiding Fraud
- Opening a Brokerage Account

WHAT'S INSIDE

Where Do I Start?

How to Find and Work With an Investment Professional

Are you approaching retirement, or recently retired? Have you experienced a major event in your life that has changed your financial situation? Are you just beginning to invest?

These and other situations might have made you think about contacting an investment professional. Maybe one has recently contacted you. If so, this resource from the Financial Industry Regulatory Authority (FINRA) is for you. FINRA oversees the professionals and firms that sell stocks, bonds, mutual funds and other securities products. As regulators, we can't recommend any particular firm, individual or type of investment professional. Our goal is to equip—and empower—you to weigh your options and provide tips for smart choices.

Here are six steps to help you find, and successfully work with, an investment professional.

Step 1. Shop smart for investment professionals.

A good place to start when shopping for an investment professional is to ask friends, family and colleagues who already invest for the names of people they've used. And beyond gathering names, ask direct questions, such as how long they've done business with the investment professional, the types of services that were provided, how much they've relied on the professional's advice and what drove them to choose that particular person or firm. Also ask if they've ever had any problem with that person and, if so, how well and quickly it was resolved.

But don't stop there—and don't say "yes" to the first investment professional you speak to (or who speaks to you). Identify and interview a selection of candidates.

Even if you get a good recommendation, you should always do your own independent review of the investment professional to make sure he or she is the right person to meet your needs. We all have different financial goals—and everyone's financial goals can change over time. Do an internet search of the investment professional and his or her firm, as well as any investments that might have been recommended. Do this before you sign any documents, make any investments or turn over any funds.

Step 2. Work with registered firms and individuals.

A vital step in selecting an investment professional is to check to see if the person and his or her firm are registered.

There are many types of investment professionals. But when it comes to buying and selling stocks, bonds and other securities products, only individuals and firms registered with FINRA (for securities brokers), the Securities and Exchange Commission (SEC) (for certain investment advisers), and in those states where required by law, can do so.

Check out each person on FINRA BrokerCheck. It's a free online tool that helps investors research the backgrounds of brokers and brokerage firms. BrokerCheck also searches the SEC's Investment Adviser Public Disclosure website, which contains information about investment adviser representatives and investment adviser firms.

BrokerCheck can tell you if an individual or firm is registered. It provides an overview of an individual's work history, as well as the firm's history. BrokerCheck also provides other important information such as regulatory actions, criminal convictions and customer complaints involving the investment professional.

Using BrokerCheck is easy. Go to *www.FINRA.org/BrokerCheck* or call (800) 289-9999.

It's a good idea to also consult your state securities regulator, especially if an individual or firm is not found in BrokerCheck. You'll find a list of state regulators on the FINRA website at *www.finra.org/investors/state-securities-regulators*.

WHAT'S IN A NAME?

The term "financial advisor" is a generic term. On the one hand, it could refer to a broker or investment adviser, professions that require registration with securities regulators. On the other, it could refer to a financial planner (who may or may not be a registered broker or investment adviser), financial call center representative, accountant or the author of a book that provides financial information. Whether these individuals must register with securities regulators will depend on the services they provide.

You often cannot tell from a title whether an investment professional is properly registered. So always check using BrokerCheck. For more information on the differences between brokers and investment advisers, including what services each provides and how they're overseen, check out *Choosing an Investment Professional*. And to decode the credentials a financial advisor holds, use our *Professional Designations* database.

Step 3. Ask key questions.

Before you hire an investment professional to manage your portfolio, or purchase any securities or services, ask the following questions:

1. What experience do you have working with people like me?
2. What professional licenses do you currently hold?
3. Are you registered with FINRA, the SEC or a state securities regulator? If so, for how long and in what capacity?
4. Do you have any disciplinary actions, arbitration awards or customer complaints? If so, please explain them. Compare responses to information found in BrokerCheck and other third-party sources.
5. Do you or your firm have an overarching investment philosophy? What type of investment products and services do you offer? Are there any products or services you don't offer? Why?
6. Do you or your firm impose any minimum account balances on customers? If so, what are they? What happens if my portfolio falls below the minimum?
7. How do you get paid? Do you receive commissions on products I buy or sell? A percentage of the amount of my assets you manage? A flat fee? Any other method?
8. What other fees and expenses do you charge?
9. Can you provide me with any customer references?
10. Are there conflicts of interest that we have not discussed? What are they and how do you resolve them?

Step 4. Comparison shop for financial products.

When it comes to shopping for, and buying, financial products, your investment professional and his or her firm are not the only place to look. It's possible to buy securities products, such as mutual funds, college savings plans and other investments, directly from a fund provider, state or other entity, sometimes at a lower cost than through a broker or investment adviser.

It is a sound investment principal to diversify within and among different asset classes (owning a variety of stocks and bonds, for instance). Investors can also choose to diversify assets among different types of accounts (such as bank accounts, brokerage accounts, mutual fund accounts and college savings accounts).

ONE PRODUCT, MANY QUESTIONS

One type of investment—the variable annuity—generates considerable questions and concerns, which often arise after the product has been purchased. In part, this is because variable annuities tend to be complicated. The typical variable annuity investor often doesn't understand the product or its risks. For instance, many investors are surprised that it can be difficult and costly to access the money they have invested. You often have to pay what are called "surrender charges" to withdraw your money early. To learn more about various types of annuities, visit: *www.finra.org/investors/annuities*.

Step 5: Do your homework.

Spend time learning about the basic principles of investing and investment products before you engage an investment professional or purchase a securities product.

It's important to know that all investments carry some degree of risk, and that different investment products carry different types of risk. For instance, bonds carry interest rate risk: if interest rates rise, bond prices are likely to fall. Stocks are subject to market fluctuation, the risk that prices will move up and down, sometimes significantly and quickly. Because risks tend to vary across different types of investments, it is a sound strategy to diversify across a number of investments categories.

FINRA's website is a good place to start your education: *www.finra.org/investors*. It has information about preparing to invest, key investment principles, investment products and professionals, and other aspects of investing.

Step 6: Know the warning signs of fraud.

Financial fraudsters set their sights on people who have money. Often, you can avoid fraud by asking questions and researching any investment professionals you are considering.

Know the warning signs of fraud—including promises of quick profits, "guaranteed" returns or pressure to send money immediately. Go to: *www.finra.org/investors/red-flags-fraud*.

Also, an investment professional should never ask to borrow money from you or encourage you to name them as a beneficiary or executor of your estate.

BE CAREFUL WHO YOU TRUST

You may be tempted to invest your money in a particular investment if you hear that your friends, family or someone from a group with which you are affiliated are also investing. Psychologists call this "social consensus." Our brains tell us that when people around us are all doing something,
it must be okay.

Criminals who commit "affinity fraud" exploit social consensus by targeting groups that look or act like them. So be careful who you trust, including someone who may (or may claim to) share your beliefs, heritage or interests. Don't allow this shared background to give you a false sense of trust.

Opening an Account: Important Considerations

You have worked through the six steps to finding and working with an investment professional, but your job isn't over yet.

As you move to the account agreement phase with your investment professional and his or her firm, here are some aspects to consider.

➤ **Account type.** There are different types of accounts you can choose when working with an investment professional. Decide which type of account you're most comfortable with before signing any documents.

- Discretionary accounts give levels of trade authority to the investment professional. For example, full discretion gives an investment professional the ability to trade securities and initiate money movements, while limited discretion might only entail buying and selling securities. These types of accounts are also known as managed accounts.
- A non-discretionary account is one in which your investment professional discusses each investment with you and gets your permission before buying and selling securities for your account. While the investment professional may make recommendations to you, you will have the final say on investment decisions related to your account.
- With a margin account, you can borrow money from your brokerage firm to purchase securities. The loan from the firm is secured by the securities you purchase.Read a firm's margin agreement and margin disclosure statement. Ask whether you will automatically be placed into a margin account. If so, what rate of interest will be charged, and what circumstances would trigger a margin call.

Speak with your investment professional or check your firm's website for any changes in margin policies. Firms can make changes at their discretion, and are more likely to do so in volatile markets.

➤ **Rollovers.** When you're starting a new job or getting ready to retire, you may have to make a decision about your 401(k) or other employer-sponsored retirement account if you have one. You often can leave the money where it is. Or you can move some or all of your assets to an individual retirement account (IRA), or withdraw the money as a lump sum. Make sure you know the benefits, tax implications and penalties involved with each choice. You can learn more by reading "The IRA Rollover: 10 Tips to Making a Sound Decision" at *www.finra.org/ira-rollover-tips*.

Keep this in mind: moving your retirement account generally is not an "either/or" decision. It is usually possible to keep some money in your 401(k) or other employer-sponsored retirement account AND transfer some money to an IRA.

When an Investment Professional Chooses You

Sometimes investment professionals actively seek out clients. For instance, they will host free seminars that promise to educate people about investing strategies or managing money in retirement—often with an expensive meal provided at no cost.

In many cases, free-meal investment seminars are not solely about education. The investment professionals' ultimate goals are to recruit new clients and sell products. Learn more about these seminars and how to deal with persuasive salespeople by reading "'Free Lunch' Investment Seminars—Avoiding the Heartburn of a Hard Sell" at *www.finra.org/free-lunch-investment-seminars*.

It's Your Money

Don't feel obligated to entrust any investment professional with all of your assets.

Remember, it's your money, and your investment professional works for you. Make sure you understand any investment your professional recommends and that you're comfortable with it. If you don't understand something, be sure to ask for more information.

Contact FINRA

If you want to learn more about investing, visit www.finra.org/investor or call (202) 728-6964.

Use the FINRA Securities Helpline for Seniors if you are an older investor. Call our helpline toll-free at (844) 574-3577 or visit our website at www.finra.org/seniorhelpline. Get assistance or raise concerns about issues with brokerage accounts and investments.

More About FINRA

FINRA is an independent, non-governmental regulator for all securities firms doing business with the public in the United States. We're authorized by Congress to protect America's investors by making sure the securities industry operates fairly and honestly.

FINRA

FINRA, the Financial Industry Regulatory Authority, is an independent regulatory organization empowered by the federal government to ensure that America's 90 million investors are protected. Our independent regulation plays a critical role in America's financial system—at no cost to taxpayers. We register brokers and brokerage firms, write and enforce rules governing their activities, examine firms for compliance, and foster market transparency and educate investors. For more information, visit www.finra.org.

Investor Resources

FINRA Investor Information—Investor Alerts, tools and much more to help you invest smarter and safer.

- Investor Alerts
- Saving for College
- Fund Analyzer
- Bond Investing
- 401(k) Investing
- Financial Calculators

Website: www.finra.org/investor
Phone: (202) 728-6964

FINRA Market Data—Data on equities, options, mutual funds and a wide range of bonds, including real-time corporate bond prices and FINRA-Bloomberg Bond Indices.

Website: www.finra.org/marketdata

FINRA BrokerCheck—Check the background of a broker or brokerage firm.

Website: www.finra.org/brokercheck
Toll-free: (800) 289-9999

FINRA Investor Complaint Center—If you feel you've been treated unfairly.

FINRA Investor Complaint Center
9509 Key West Avenue
Rockville, MD 20850-3329

Website: www.finra.org/complaint
Fax: (866) 397-3290

FINRA Dispute Resolution—If you seek to recover damages.

FINRA Dispute Resolution
One Liberty Plaza
165 Broadway, 27th Floor
New York, NY 10006

Website: www.finra.org/ArbitrationMediation
Phone: (212) 858-4400
Fax: (212) 858-4429

FINRA Securities Helpline for Seniors—HELPS™—A toll-free number that senior investors can call to get assistance from FINRA or raise concerns about issues with brokerage accounts and investments.

Website: www.finra.org/seniorhelpline
Toll-free: 844-57-HELPS (844-574-3577)

1735 K Street, NW
Washington, DC 20006-1506
www.finra.org

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