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How to Check Up on Brokers

The market rally underscores the importance of knowing the standard to which your financial pro is held.

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Who should investors turn to for financial advice?

Brokers, advisers and planners have different training and credentials. And even when markets are strong, as they are now, it is important to know what professional standards apply in each case.

Some are held to a so-called fiduciary standard, which requires them to act in a client's best interest. But others aren't.

The Dodd-Frank Act, signed into law in 2010 amid the financial crisis, gave the Securities and Exchange Commission authority to require brokers to meet the fiduciary standard, but the SEC is still pondering a possible rule.

For now, investors should interview investment professionals just as they would a job candidate, says Ohio Securities Commissioner Andrea Seidt, president of the North American Securities Administrators Association.

Inquire about the credentials and licenses they hold to help ensure you are entrusting your money to someone who can meet your needs. Check their backgrounds with state regulators, and run names through BrokerCheck, a website run by the Financial Industry Regulatory Authority, or Finra, an industry-funded Wall Street watchdog.

"People spend more time researching a car for $20,000 than they do when handing over their life savings," Ms. Seidt says.

Brokers. Brokers can buy and sell securities—stocks, bonds, mutual funds and other products—for customers or for their own accounts. They must pass exams to qualify with state securities regulators and Finra. They are often employed by Wall Street banks, whose products they may favor even if a better or lower-cost option is available from another firm.

Some brokers like to call themselves "financial advisers" or "investment consultants." But they aren't obligated to give what they consider the best advice.

Instead, they are required only to recommend "suitable" investments based on a customer's risk profile, financial status, age, investment goals and liquidity needs, among other factors.

That means, in practice, that they can recommend investments with high fees or conflicts of interest that can benefit themselves or their firms ahead of the clients.

"Unfortunately, when the market is going up in value like it is now, unsuitable investments are really hard to identify," says Jason Doss, president of the Public Investors Arbitration Bar Association.

Unsuitable investments become more obvious when markets sour, exposing unforeseen risks. Finra opened 560 arbitration cases involving the sale of unsuitable products to investors through May, on pace to surpass last year's total of 1,243 cases.

Registered investment advisers. These advisers, also known as RIAs, are typically regulated under state and federal laws that require them to act solely in the best interests of their clients.

Registered investment advisers who manage less than $100 million must register with their state securities agency, while those who manage more than that are generally required to register with the SEC. RIAs also are required to disclose conflicts of interest.

Still, not everyone who is supposed to act in a client's best interest does so. Finra opened 975 arbitration cases involving an alleged breach of fiduciary duty by a financial professional through May this year.

Certified financial planners. Investors who want a professional to look at all their assets and liabilities and develop a plan for reaching their financial goals might opt for a certified financial planner. Many brokers and registered investment advisers also are CFPs.

CFPs must pass an exam administered by the Certified Financial Planner Board of Standards, an industry group. They also need three years of professional experience in financial planning or two years of apprenticeship, and have to undergo a background check.

Like RIAs, CFPs are supposed to adhere to a high standard. They must act in "utmost good faith, in a manner he or she reasonably believes to be in the best interest of the client," according to the CFP Board rules of conduct.

Depending on whether CFPs also are practicing insurance agents or brokers, they may, however, recommend only products on which they earn commissions or other payments. Investors should ask if a planner's offerings are limited, and why.

So which investment professional is right for you? First, figure out what you want from the relationship. An adviser or a planner might be a better choice if you want help from someone who is looking at the bigger picture or you are worried about being pushed to make risky investments.

On the other hand, a broker who comes with references from family or friends and who has a clean record with state regulators might offer more diverse financial products than an independent planner or adviser, Ms. Seidt says.

With all investment pros, experts say investors should request that the terms of the relationship, including fees and commissions, be put in writing. And stay vigilant.

"It's not just once and done," Ms. Seidt says.