Who is an Investment Adviser?

For years, the Wall Street community has had a field day offering the promise of a bright future while keeping largely mum about the kinds of profits it reaps from selling its broad array of great opportunities. Those who have seen the movie, ***The Wolf of Wall Street***, got a glimpse of the seamy underbelly of the world of investments. Indeed, there was a time when customers' men (a.k.a., stockbrokers) spent the day getting their shoes shined and opining about the latest marvelous stock ideas with minimal concern about the ultimate benefit to those they served.

The picture changed dramatically on May 1, 1975, when brokerage houses switched from fixed commissions to negotiated commissions. Before then, typical transaction charges were $100-150 or more, which weighed heavily against participation by those who were not well heeled. Those were the halcyon days when brokers lived the good life unburdened by the outcomes of their efforts or intrusive regulation by the authorities.

Fast forward to the present, things have changed dramatically. Commission costs are down to the cost of a Big Mac and there is increasing scrutiny of people who call themselves advisers. Until now, it seems, almost anyone could hang out a shingle and offer financial advice.

Recently minted stockbrokers, most of whom are little more than glorified salespeople, call themselves advisers. Indeed, on Day One in their careers, they begin as Assistant Vice Presidents, a title intended to impress their would-be clients. But titles are by no means substitutes for training and experience, which is why those who smile and dial are finding it increasingly difficult to reap the kinds of rewards their predecessors enjoyed.

Even so, there is remains a distinct separation of standards applied to the broad range of those who would be considered advisers. Those who, for example, are stockbrokers or insurance agents, are generally held to the suitability standard. So long as what's being offered might be suitable for the client, this group will meet the test.

The fiduciary standard, which is the requirement for registered investment advisers, is far more stringent. In plain English, this standard means that what's being offered is in the best interest of the client. Although a stockbroker would meet the suitability standard even if the shares of a mutual fund being sold carried a 5% front-end load and even if a comparable no-load fund would be available, a registered investment adviser could only offer the latter.

Early efforts to deal with this dichotomy began with the Department of Labor, which focused on tax-deferred company retirement accounts such as 401(k) plans. A logical extension would cover the full range of the investing public, including both tax-deferred and taxable accounts. The give and take on this topic has been under way for a number years and most likely to continue at a glacial pace.

With that said, however, investors needing competent advice would be well-served by seeking assistance at https://www.napfa.org/find-an-advisor#tab=filters. That's the find-an-advisor website of the National Association of Personal Financial Advisors (NAPFA), which is recognized as the premier organization in its field. NAPFA members are required to be Certified Financial Planners, not just people who took a cram course to pass the Series 7 exam.

When going to the site, it would be worthwhile to call a few nearby advisers, meet with them, and select the one with whom you are most comfortable. That would be far better than using the Yellow Pages and letting your fingers do the walking.