

Protect Your Money: Check Out Brokers and Investment Advisers

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Tips for Checking Out Brokers and Investment Advisers

Federal or state securities laws require brokers, investment advisers, and their firms to be licensed or registered, and to make important information public. But it's up to you to find that information and use it to protect your investment dollars. The good news is that this information is easy to get, and one phone call or web search may save you from sending your money to a con artist, a bad financial professional, or disreputable firm.

Before you invest or pay for any investment advice, make sure your brokers, investment advisers, and investment adviser representatives are licensed. Always check and see if they or their firms have had run-ins with regulators or other investors.

This is very important, because if you do business with an unlicensed securities broker or a firm that later goes out of business, there may be no way for you to recover your money — even if an arbitrator or court rules in your favor.

Brokers and Brokerage Firms

The [Central Registration Depository](#) (or "CRD") is a computerized database that contains information about most brokers, their representatives, and the firms they work for. For instance, you can find out if brokers are properly licensed in your state and if they have had run-ins with regulators or received serious complaints from investors. You'll also find information about the brokers' educational backgrounds and where they've worked before their current jobs.

You can ask either your state securities regulator or NASD to provide you with information from the CRD. Your state securities regulator may provide more information from the CRD than NASD, especially when it comes to investor complaints, so you may want to check with them first. You'll find contact information for your state securities regulator on the website of the [North American Securities Administrators Association](#). To contact NASD, either visit NASD's [BrokerCheck website](#) or call NASD's toll-free BrokerCheck hotline at (800) 289-9999.

Investment Advisers

People or firms that get paid to give advice about investing in securities generally must register with either the SEC or the state securities agency where they have

their principal place of business. Investment advisers who manage \$25 million or more in client assets generally must register with the SEC. If they manage less than \$25 million, they generally must register with the state securities agency in the state where they have their principal place of business.

Some investment advisers employ investment adviser representatives, the people who actually work with clients. In most cases, these people must be licensed or registered with your state securities regulator to do business with you. So be sure to check them out with your state securities regulator.

To find out about investment advisers and whether they are properly registered, read their registration forms, called the "Form ADV." The Form ADV has two parts. Part 1 has information about the adviser's business and whether they've had problems with regulators or clients. Part 2 outlines the adviser's services, fees, and strategies. Before you hire an investment adviser, always ask for and carefully read both parts of the ADV.

You can view an adviser's most recent Form ADV online by visiting the [Investment Adviser Public Disclosure \(IAPD\)](#) website. At present, the IAPD database contains Forms ADV only for investment adviser firms that register electronically using the [Investment Adviser Registration Depository](#). In the future, the database will expand to encompass all registered investment advisers—individuals as well as firms—in every state.

You can also get copies of Form ADV for individual advisers and firms from the investment adviser, your state securities regulator, or the SEC, depending on the size of the adviser. You'll find contact information for your state securities regulator on the website of the [North American Securities Administrators Association](#). If the investment adviser is registered with the SEC, you can get the Form ADV at a cost of 24 cents per page (plus postage) from the SEC.

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Because some investment advisers and their representatives are also brokers, you may want to check both the CRD and Form ADV.

Conclusion

Once you've checked out the registration and record of your financial professional or firm, there's more to do. For example, if you plan to do business with a brokerage firm, you should find out whether the brokerage firm and its clearing firm are members of the [Securities Investor Protection Corporation](#) (SIPC). SIPC provides limited customer protection if a brokerage firm becomes insolvent — although it **does not** insure against losses attributable to a decline in the market value of your securities. If you've placed your cash or securities in the hands of a non-SIPC member, you may not be eligible for SIPC coverage if the firm goes out of business.

Here are a few questions to get your started.

- What experience do you have, especially with people in my circumstances?
- Where did you go to school? What is your recent employment history?
- What licenses do you hold? Are you registered with the SEC, a state, or NASD?
- Are the firm, the clearing firm, and any other related companies that will do business with me members of SIPC?
- What products and services do you offer?
- Can you only recommend a limited number of products or services to me? If so, why?
- How are you paid for your services? What is your usual hourly rate, flat fee, or commission?
- Have you ever been disciplined by any government regulator for unethical or improper conduct or been sued by a client who was not happy with the work you did?
- For registered investment advisers, will you send me a copy of both parts of your Form ADV?

For more questions and additional tips, be sure to read our publications, [Ask Questions](#) and [Get the Facts on Saving and Investing](#). In addition, although the SEC cannot recommend or endorse any particular entity, there are a number of non-profit educational and consumer organizations that offer free tools to help investors check financial professionals. For example, AARP offers a [Financial Adviser Questionnaire](#), and the Certified Financial Planner Board of Standards has a [Checklist for Interviewing a Financial Planner](#).

<http://www.sec.gov/investor/brokers.htm>

We have provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

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