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Understanding Your Financial Advisor's Professional Designation(s): CFA vs CFP vs Stockbroker

The term "financial advisor" encompasses a wide variety of financial professionals and is not itself a regulated – or even defined -- designation. Among financial advisors, perhaps the three most common credentialing pathways are the CFA, the CFP and the Broker's License. Investors should carefully consider credentialing when selecting an appropriate advisor.

Chartered Financial Analyst (CFA)

The CFA is a professional designation issued by the CFA Institute to college graduates with over four years of financial industry experience who have passed three levels of increasingly rigorous exams in security analysis, portfolio management, accounting, economics and ethics. While the CFA designation does not automatically impose fiduciary duty on its chartholders, Standard III.A. of the CFA Institute Code of Ethics and Standards of Professional Conduct requires that "Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests" – a standard similar to that of fiduciary duty.

Certified Financial Planner (CFP)

The CFP designation is conferred on college graduates with three years of financial planning experience who have passed a 10-hour exam covering investment planning, estate planning, risk management, insurance, taxes and retirement planning. With few exceptions, these individuals must pass six courses on:

- Financial planning: process and environment
- Fundamentals of insurance planning
- Income taxation
- Planning for retirement needs
- Investments
- Fundamentals of estate planning

Under the CFP Board's new Code of Ethics and Standards of Conduct, CFP professionals must adhere to a "fiduciary duty at all times" obligation whenever providing financial advice.

Broker

To become a broker – commonly known as a "stockbroker" -- an individual must earn a college degree, secure sponsorship from a Financial Industry Regulatory Authority (typically a registered brokerage firm or investment bank), and in most states pass two special licensing exams: the Series 63 and the Series 7. Brokers, who often work for brokerages or investment banks, are not subject to the fiduciary standard; instead, they are held to the less stringent "suitability obligation" that requires them to "have a reasonable basis to believe a recommended transaction or investment strategy involving a security or securities is suitable for the customer." By focusing on client "suitability" rather than "best interest," a broker is more likely to experience conflict of interest than a CFA or CFP when it comes to recommending, for example, more expensive investment products with higher payouts.

We strongly urge investors to seek out financial professionals who are held to the fiduciary standard or its equivalent.

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