

Terminology

Professional financial advice involves specific terminology regarding roles, compensation models, investment strategies, and planning pillars. Key terms define the legal obligations of the advisor and the structure of the services provided. The following list was compiled with the help of generative AI:

Advisor Roles, Standards & Accountability

- **Fiduciary:** A person or organization legally and ethically bound to act in the client's [best interest](#), prioritizing the client's needs above their own.
- **Registered Investment Advisor (RIA):** A firm registered with the SEC or state securities regulators to provide investment advice.
- **Investment Advisor Representative (IAR):** An individual licensed with an RIA to offer advice.
- **Certified Financial Planner (CFP®):** A [professional](#) who has met rigorous education, experience, and ethical requirements to provide comprehensive planning.
- **Broker (Registered Representative):** An individual who sells securities (stocks, bonds, mutual funds) on commission on behalf of a firm.
- **Dually Registered:** A professional who acts as both a broker and an investment advisor representative (often called "hat switching").
- **IPS (Investment Policy Statement):** A formal document outlining a client's goals, risk tolerance, and investment strategies used to guide the advisor's decisions.
- **Suitability Standard:** A lower requirement where an advisor only needs to ensure a product is "suitable" for a client, even if it is not the absolute best or lowest-cost option.
- **Best Interest (Reg BI):** A [standard](#) established by the SEC that requires broker-dealers to act in a retail customer's best interest when making recommendations.

Compensation Models

- **Fee-Only:** Advisors are paid directly by the client (e.g., hourly, flat fee, or percentage of assets) and do not receive commissions from products.
- **Fee-Based:** Advisors receive compensation from both the client and commissions from products they sell, creating potential conflicts of interest.
- **Assets Under Management (AUM):** A [fee structure](#) where the advisor charges a percentage of the total assets they manage for the client, often calculated annually.

Core Financial Planning Areas

- **Asset Allocation:** Dividing an investment portfolio among different asset classes (cash, fixed income, equities) to balance risk and reward.

- **Cash Flow Management:** The process of analyzing income and expenses to manage liquidity and meet financial goals.
- **Estate Planning:** The preparation of tasks to manage an individual's asset base in the event of their incapacitation or death, including wills and trusts.
- **Risk Management/Insurance Planning:** Identifying, analyzing, and accepting or mitigating uncertainty in investment decisions, often through insurance products.
- **Tax-Efficient Planning:** Strategies designed to minimize tax liability, such as utilizing tax-advantaged accounts like IRAs and 401(k)s.
- **Rebalancing:** Realigning the weightings of a portfolio's assets by buying and selling to maintain the original risk level.

Investment and Market Terms

- **Basis Point (BPS):** A unit of measure for interest rates and financial percentages (1/100th of 1%, or 0.01%).
- **Cost Basis:** The original purchase price of an investment, used to calculate capital gains or losses.
- **Liquidity:** The ease with which an asset can be converted into cash without significant loss of value.
- **Diversification:** Reducing risk by investing in a variety of asset classes and industries.
- **Required Minimum Distribution (RMD):** The minimum amount that must be withdrawn annually from a retirement account (like an IRA) starting at a certain age.

Compliance and Ethics

- **Know Your Customer (KYC):** Mandatory policies requiring advisors to verify a client's identity, risk tolerance, financial position, and investment knowledge.
- **Suitability Standard:** A less stringent standard than fiduciary, requiring brokers to ensure recommendations are "suitable" for the client, even if not the best option.
- **Acceptance, Waiver, and Consent (AWC):** A document used in FINRA [disciplinary actions](#).

Other resources:

Investopedia: [What Does a Financial Advisor Do?](#)

Kaplan Financial Education: [Financial Advisor vs. Financial Planner](#)

Bankrate: [How much money should you have before hiring a financial advisor?](#)

Investnet: [Pros and cons of different advisory fee models](#)