

Alphabet Soup

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The financial advice world is suffering from a bad case of credential proliferation. The list of initials following many advisors' names may dwarf the name itself. Impressive? Not necessarily. If you are interviewing a new advisor or simply meeting with your existing one, ask what every letter or number means. Don't stop there—ask your advisor what she did to get it and what she has to do to keep it. You might also ask why she got it in the first place. The answers may give you some insight into her background and how she approaches clients.

Those initials and numbers break down into three basic categories: degrees, licenses, and certifications. You can look any of them—and their requirements—up online, but here are the most recognized:

Degrees: Your advisor may have a Masters of Business Administration (MBA) or a Juris Doctor (JD, though occasionally LLB). Neither of these is designed specifically for investment professionals, but both offer useful background. A lawyer or accountant may also hold a Masters in Tax Law—that can be an LLM, an MLT, or for an accountant, an MST (Master of Science in Tax Law). Tax law is a necessary component of any financial advising, and this suggests some competency.

Lawyers and accountants who maintain their state licenses typically must complete continuing education requirements.

Licenses: If your advisor is selling you a product or receiving a commission for trades, she must hold a license to do so. Fee-only registered investment advisors don't need to hold a license. Those who do hold licenses typically have both state and federally issued licenses. What's key here is that a person with a license gets paid a commission to sell you things.

Series 6 and 7 are federal licenses. Series 6 is the more limited of the two—it allows the holder to sell products, such as commissioned mutual funds and variable annuities. Most insurance advisors hold this license. Series 7 allows the holder to sell everything in series 6, plus individual stocks, bonds, and most other common investments. The traditional stock broker holds a series 7 license.

A series 63 license is state-issued and corresponds to the series 7 license; most stock brokers hold both. Maintaining these licenses requires taking online exams every two to three years. Brokerage firms typically also provide their own continuing education.

Designations: These have proliferated in recent years and comprise the vast majority of those initials you see. Some designations take real effort to achieve; advisors can obtain others by sitting through a seminar at a resort. The organizations that have created these designations are self-appointed and self-governing. It's a real case of buyer beware. Some of the most established and well-respected designations follow.

Chartered Financial Analyst (CFA) is the gold standard of designations. Traditionally held by securities analysts, it requires passing three separate examinations over at least three years. The focus is on securities analysis rather than client advice, but with a cumulative pass rate in the low forties, this is a significant designation to hold. Unlike most designations, continuing education is optional.

Certified Financial Planner (CFP™) gets most of the media attention. Typically held by fee-only planners advising individuals, sitting for the exam requires either taking 18 months' worth of classes or already holding one of several licenses or degrees (JD, MBA, or CPA, to name a few). There is a single, ten hour exam, and the pass rate has crept steadily upwards in recent years, from an historic 50% to a recent 70%. Although there is a continuing education requirement, much of it can be fulfilled by reading magazine articles. Essentially, the CFP™ is no guarantee of financial expertise. One thing the CFP™ does have in its favor is that it requires its holders to resolve all potential conflicts of interest in favor of the client.

Chartered Financial Consultant (ChFC) looks very much like the CFP™. There are two key differences—first, no exam is required. Second, the ChFC is not subject to the same conflict of interest rules as the CFP™. As a result, some (but not all) issuers of commissioned investment products want their sales staff to hold the ChFC rather than the CFP™. This is most often the case in the insurance industry. There is a continuing education requirement, which piggybacks on those for other designations and licenses.

Chartered Life Underwriter (CLU) is the oldest financial services designation of all—it was established in 1927. Held by insurance professionals, it requires completing eight different college-level courses but does not include an exam. There is continuing education. Someone with this credential is going to sell you insurance.

Other of the more rigorous, though less common, credentials include Chartered Investment Counselor (CIC), Certified Investment Management Analyst (CIMA), and Certified Fund Specialist (CFS). Many more exist, with widely varying levels of real value.

Look beyond the initials. Most investment advisors working with individuals began their careers elsewhere. Ask yours what she did first and why she changed careers. That may tell you far more than would a string of fancy-sounding credentials.