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# Financial Analysts and Personal Financial Advisors

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## Significant Points

- Good interpersonal skills and an aptitude for working with numbers are among the most important qualifications for financial analysts and personal financial advisors.
- Keen competition is anticipated for these highly paid positions, despite rapid job growth; those who have earned a professional designation or an MBA are expected to have the best opportunities.
- Almost one third of personal financial advisors are self-employed.

## Nature of the Work

Financial analysts and personal financial advisors provide analysis and guidance to businesses and individuals in making investment decisions. Both types of specialists gather financial information, analyze it, and make recommendations. However, their job duties differ because of the type of investment information they provide and their relationships with investors.

*Financial analysts* assess the economic performance of companies and industries for firms and institutions with money to invest. Also called *securities analysts* and *investment analysts*, they work for investment banks, insurance companies, mutual and pension funds, securities firms, the business media, and other businesses, helping them make investment decisions or recommendations. Financial analysts read company financial statements and analyze commodity prices, sales, costs, expenses, and tax rates in order to determine a company's value and to project its future earnings. They often meet with company officials to gain a better insight into the firm's prospects and to determine its managerial effectiveness.

Financial analysts can usually be divided into two basic types: those who work on the *buy side* and those who work on the *sell side*. Analysts on the buy side work for companies that have a great deal of money to invest. These companies, called institutional investors, include mutual funds, hedge funds, insurance companies, independent money managers, and charitable organizations, such as universities and hospitals, with large endowments. Buy side financial analysts work to devise investment strategies for a company's portfolio. Conversely, analysts on the sell side help securities dealers to sell their products. These companies include investment banks and securities firms. The business media also hire financial advisors that are supposed to be impartial, and as such occupy a role somewhere in the middle.

Financial analysts generally focus on a specific industry, region, or type of product. For example, an analyst may focus on the utilities industry, Latin America, or the options market. Firms with larger research departments may divide the work even further so their analysts can maintain sharp focus. Within their areas of specialty, analysts assess current trends in business practices, products, and competition. They must keep abreast of

new regulations or policies that may affect the investments they are watching and monitor the economy to determine its effect on earnings. Some experienced analysts called *portfolio managers* supervise a team of analysts and help guide a company in selecting the right mix of products, industries, and regions for their investment portfolio. Others who manage mutual funds or hedge funds perform a similar role and are generally called *fund managers*. Other analysts, called *risk managers*, analyze portfolio decisions and determine how to maximize profits through diversification and hedging.

Some financial analysts, called *ratings analysts*, evaluate the ability of companies or governments that issue bonds to repay their debts. On the basis of their evaluation, a management team assigns a rating to a company's or government's bonds, which helps them to decide whether to include them in a portfolio. Other financial analysts perform budget, cost, and credit analysis as part of their responsibilities.

Financial analysts use spreadsheet and statistical software packages to analyze financial data, spot trends, and develop forecasts. Analysts also use the data they find to measure the financial risks associated with making a particular investment decision. On the basis of their results, they write reports and make presentations, usually with recommendations to buy or sell particular investments.

*Personal financial advisors* assess the financial needs of individuals. Advisors use their knowledge of investments, tax laws, and insurance to recommend financial options to individuals. They help them to identify and plan to meet short- and long-term goals. Planners help clients with retirement and estate planning, funding the college education of children, and general investment choices. Many also provide tax advice or sell life insurance. Although most planners offer advice on a wide range of topics, some specialize in areas such as retirement and estate planning or risk management.

Personal financial advisors usually work with many clients, and they often must find their own customers. Many personal financial advisors spend a great deal of their time making sales calls and marketing their services. Many advisors also meet potential clients by giving seminars or lectures or through business and social contacts. Finding clients and building a customer base is one of the most important aspects of becoming successful as a financial advisor.

Financial advisors begin work with a client by setting up a consultation. This is usually an in-person meeting where the advisor obtains as much information as possible about the client's finances and goals. The advisor then develops a comprehensive financial plan that identifies problem areas, makes recommendations for improvement, and selects appropriate investments compatible with the client's goals, attitude toward risk, and expectation or need for a return on the investment. Sometimes this plan is written, but more often it is in the form of verbal advice. Advisors sometimes meet with accountants or legal professionals for help.

Financial advisors usually meet with established clients at least once a year to update them on potential investments and adjust their financial plan to any life changes—such as marriage, disability, or retirement. Financial advisors also answer clients' questions regarding changes in benefit plans or the consequences of a change in their jobs or careers. Financial planners must educate their clients about risks and various possible scenarios so that the clients don't harbor unrealistic expectations.



*Personal financial advisors often meet with their clients to help them make investment decisions.*

Most personal financial advisors buy and sell financial products, such as securities and life insurance. Fees and commissions from the purchase and sale of securities and life insurance plans are one of the major sources of income for most personal financial advisors.

*Private bankers* or *wealth managers* are personal financial advisors who work for people who have a lot of money to invest. While most investors are simply saving for retirement or their children's college education, these individuals have large amounts of capital and often use the returns on their investments as a major source of income. Because they have so much capital, these clients resemble institutional investors and approach investing differently from the general public. Private bankers manage portfolios for these individuals using the resources of the bank, including teams of financial analysts, accountants, lawyers, and other professionals. Private bankers sell these services to wealthy individuals, generally spending most of their time working with a small number of clients. Unlike most personal financial advisors, private bankers meet with their clients regularly to keep them abreast of financial matters; they often have the responsibility of directly managing customers' finances.

**Work environment.** Financial analysts and personal financial advisors usually work in offices or their own homes. Financial analysts may work long hours, travel frequently to visit companies or potential investors, and face the pressure of deadlines. Much of their research must be done after office hours because their days are filled with telephone calls and meetings.

Personal financial advisors usually work standard business hours, but they also schedule meetings with clients in the evenings or on weekends. Many also teach evening classes or hold seminars in order to bring in more clients. Some personal financial advisors spend a fair amount of their time traveling,

usually to attend conferences and training sessions, but also occasionally to visit clients.

Private bankers also generally work during standard business hours, but because they work so closely with their clients, they may have to be available outside normal hours upon request.

### **Training, Other Qualifications, and Advancement**

Financial analysts and most personal financial advisors must have a bachelor's degree. Many also earn a master's degree in finance or business administration or get professional designations. Because the field is so specialized, workers frequently attend training and seminars to learn the latest developments.

**Education and training.** A bachelor's or graduate degree is required for financial analysts and is strongly preferred for personal financial advisors. Most companies require financial analysts to have at least a bachelor's degree in finance, business administration, accounting, statistics, or economics. Coursework in statistics, economics, and business is required, and knowledge of accounting policies and procedures, corporate budgeting, and financial analysis methods is recommended. A master's degree in finance or business administration also is desirable. Also useful are advanced courses in options pricing or bond valuation and knowledge of risk management.

Employers usually do not require a specific field of study for personal financial advisors, but a bachelor's degree in accounting, finance, economics, business, mathematics, or law provides good preparation for the occupation. Courses in investments, taxes, estate planning, and risk management are also helpful. Programs in financial planning are becoming more widely available in colleges and universities.

**Licensure.** The Financial Industry Regulatory Authority (FINRA) is the main licensing organization for the securities industry. Depending on an individual's work, many different licenses may be required, although buy side analysts are less likely to need licenses. The majority of these licenses require sponsorship by an employer, so companies do not expect individuals to have these licenses before starting a job. Experienced workers who change jobs will need to have their licenses renewed with the new company.

Almost all personal financial advisors need the Series 7 and Series 63 or 66 licenses. These licenses give their holders the right to act as a registered representative of a securities firm and to give financial advice. Because the Series 7 license requires sponsorship, self-employed personal financial advisors must maintain a relationship with a large securities firm. This relationship allows them to act as representatives of that firm in the buying and selling of securities.

If personal financial advisors choose to sell insurance, they need additional licenses issued by State licensing boards.

**Other qualifications.** Strong math, analytical, and problem-solving skills are essential qualifications for financial analysts. Good communication skills also are necessary, because these workers must present complex financial concepts and strategies. Self-confidence, maturity, and the ability to work independently are important as well. Financial analysts must be detail-oriented, motivated to seek out obscure information, and familiar with the workings of the economy, tax laws, and money markets. Financial analysts should also be very com-

comfortable with computers, as they are frequently used in doing work. Although much of the software they use is proprietary, they must be comfortable working with spreadsheets and statistical packages.

Personal financial advisors need many of the same skills, but they must emphasize customer service. They need strong sales ability, including the ability to make customers feel comfortable. It is important for them to be able to present financial concepts to clients in easy-to-understand language. Personal financial advisors must also be able to interact casually with people from many different backgrounds. Some advisors have experience in a related occupation, such as accountant, auditor, insurance sales agent, or broker.

Private bankers work directly with wealthy individuals, so they must be polished and refined. They should be able to interact comfortably with people who may be well-known in the community.

**Certification and advancement.** Although not required, certifications can enhance professional standing and is recommended by many employers.

Financial analysts can earn the Chartered Financial Analyst (CFA) designation, sponsored by the CFA Institute. To qualify for this designation, applicants need a bachelor's degree and four years of work experience in a related field and must pass three examinations. The first exam is administered twice per year, while the second and third are administered annually. These exams cover subjects such as accounting, economics, securities analysis, financial markets and instruments, corporate finance, asset valuation, and portfolio management. Increasingly, personal financial advisors, sometimes called wealth managers, working with wealthy individuals have the CFA designation.

Personal financial advisors may obtain the Certified Financial Planner credential, often referred to as CFP. This certification, issued by the Certified Financial Planner Board of Standards, requires 3 years of relevant experience; the completion of education requirements, including a bachelor's degree; passing a comprehensive examination, and adherence to a code of ethics. The exams test the candidate's knowledge of the financial planning process, insurance and risk management, employee benefits planning, taxes and retirement planning, and investment and estate planning. Candidates are also required to have a working knowledge of debt management, planning liability, emergency fund reserves, and statistical modeling.

Financial analysts advance by moving into positions where they are responsible for larger or more important products. They may also supervise teams of financial analysts. Eventually, they may become portfolio managers or fund managers, directing the investment portfolios of their companies or funds.

### Projections data from the National Employment Matrix

Occupational Title	SOC Code	Employment, 2006	Projected employment, 2016	Change, 2006-16	
				Number	Percent
Financial analysts and personal financial advisors .....	—	397,000	544,000	147,000	37
Financial analysts.....	13-2051	221,000	295,000	75,000	34
Personal financial advisors.....	13-2052	176,000	248,000	72,000	41

NOTE: Data in this table are rounded. See the discussion of the employment projections table in the *Handbook* introductory chapter on *Occupational Information Included in the Handbook*.

Personal financial advisors have several different paths to advancement. Many accumulate clients and manage more assets. Those who work in firms may move into managerial positions. Others may choose to open their own branch offices for large securities firms and serve as independent registered representatives for those firms. In most cases, employees of established firms are barred from keeping their clients after they leave a firm, so an advisor who leaves a firm to establish a new business must find new customers. Many newly independent personal financial advisors sell their services to family and friends, hoping to win business through referrals.

### Employment

Financial analysts and personal financial advisors held 397,000 jobs in 2006, of which financial analysts held 221,000. Many financial analysts work at the headquarters of large financial institutions, most of which are based in New York City or other major financial centers. More than 2 out of 5 financial analysts worked in the finance and insurance industries, including securities and commodity brokers, banks and credit institutions, and insurance carriers. Others worked throughout private industry and government.

Personal financial advisors held 176,000 jobs in 2006. Jobs were spread throughout the country. Much like financial analysts, more than half worked in finance and insurance industries, including securities and commodity brokers, banks, insurance carriers, and financial investment firms. However, about 30 percent of personal financial advisors were self-employed, operating small investment advisory firms, usually in urban areas.

### Job Outlook

Employment of financial analysts and personal financial advisors is expected to grow much faster than the average for all occupations. Growth will be especially strong for personal financial advisors, which are projected to be among the 10 fastest growing occupations. Despite strong job growth, keen competition will continue for these well paid jobs, especially for new entrants.

**Employment change.** As the level of investment increases, overall employment of financial analysts and personal financial advisors is expected to increase by 37 percent during the 2006-16 decade, which is much faster than the average for all occupations.

Personal financial advisors are projected to grow by 41 percent, which is much faster than the average for all occupations, over the projections decade. Growing numbers of advisors will be needed to assist the millions of workers expected to retire in the next 10 years. As more members of the large baby boom

generation reach their peak years of retirement savings, personal investments are expected to increase and more people will seek the help of experts. Many companies also have replaced traditional pension plans with retirement savings programs, so more individuals are managing their own retirements than in the past, creating jobs for advisors. In addition, people are living longer and must plan to finance longer retirements.

Deregulation of the financial services industry also is expected to continue to spur demand for personal financial advisors in the banking industry. In recent years, banks and insurance companies have been allowed to expand into the securities industry. Many firms are adding investment advice to their services and are expected to increase their hiring of personal financial advisors.

Employment of financial analysts is expected to grow by 34 percent between 2006 and 2016, which is also much faster than the average for all occupations. Primary factors for this growth are increasing complexity of investments and growth in the industry. As the number and type of mutual funds and the amount of assets invested in these funds increase, mutual fund companies will need more financial analysts to research and recommend investments.

**Job prospects.** Despite overall employment growth, competition for jobs is expected to be keen in these high-paying occupations. Growth in the industry will create many new positions, but there are still far more people who would like to enter the occupation. For those aspiring to financial analyst jobs, a strong academic background is absolutely essential. Good grades in courses such as finance, accounting, and economics are very important to employers. An MBA or certification is helpful in maintaining employment.

Personal financial advisors will also face competition, as many other services compete for customers. Many individuals enter the field by working for a bank or full-service brokerage. Most independent advisories fail within the first year of business, making self-employment challenging. Because the occupation requires sales, people who have strong selling skills will ultimately be most successful. A college degree and certification can lend credibility.

**Earnings.** Median annual earnings, including bonuses, of wage and salary financial analysts were \$66,590 in May 2006. The middle 50 percent earned between \$50,700 and \$90,690. The lowest 10 percent earned less than \$40,340, and the highest 10 percent earned more than \$130,130. The bonuses that many financial analysts receive in addition to their salary can be a significant part of their total earnings. Usually, the bonus is based on how well their predictions compare to the actual performance of a benchmark investment.

Median annual earnings of wage and salary personal financial advisors were \$66,120 in May 2006. The middle 50 percent earned between \$44,130 and \$114,260. The lowest 10 percent earned less than \$32,340 and the highest 10 percent earned

more than \$145,600. Personal financial advisors who work for financial services firms are generally paid a salary plus bonus. Advisors who work for financial investment or planning firms or who are self-employed either charge hourly fees for their services or opt to earn their money through fees on stock and insurance purchases. Advisors generally receive commissions for financial products they sell, in addition to charging a fee. Those who manage a client's assets may charge a percentage of those assets. Earnings of self-employed workers are not included in the medians given here.

### Related Occupations

Other jobs requiring expertise in finance and investment or in the sale of financial products include accountants and auditors, financial managers, insurance sales agents real estate brokers and sales agents, budget analysts, insurance underwriters, actuaries, and securities, commodities, and financial services sales agents.

### Sources of Additional Information

For general information on securities industry employment, contact:

► Financial Industry Regulatory Authority (FINRA), 1735 K St.NW., Washington, DC 20006.

Internet: <http://www.finra.org>

► Securities Industry and Financial Markets Association, 120 Broadway, 35th Floor, New York, NY 10271.

Internet: <http://www.sifma.org>

For information on financial analyst careers, contact:

► American Academy of Financial Management, 2 Canal St., Suite 2317, New Orleans, LA 70130.

Internet: <http://www.aafm.org>

► CFA Institute, P.O. Box 3668, 560 Ray C. Hunt Dr., Charlottesville, VA 22903.

Internet: <http://www.cfainstitute.org>

For information on personal financial advisor careers, contact:

► Certified Financial Planner Board of Standards, Inc., 1670 Broadway, Suite 600, Denver, CO 80202.

Internet: <http://www.cfp.net>

► Financial Planning Association, 4100 E. Mississippi Ave., Suite 400, Denver, CO 80246-3053.

Internet: <http://www.fpanet.org>

► Investment Management Consultants Association, 5619 DTC Parkway, Suite 500, Greenwood Village, CO 80111.

Internet: <http://www.imca.org>

For additional career information, see the *Occupational Outlook Quarterly* article "Financial analysts and personal financial advisors" in print at many libraries and career centers. and online:

<http://www.bls.gov/opub/ooq/2000/summer/art03.pdf>