The Difference between Investment Advisors and Stockbrokers

• Investment advisors have a fiduciary duty to act in the best interests of their clients at all times. Brokerage firms generally are not fiduciaries to their customers and therefore do not make decisions that are solely in their customers' best interests.

• Investment advisors provide their clients with a Form ADV that describes exactly how the investment advisor does business and obtains the client's consent to any conflicts of interest that do exist in the investment advisor's business. Brokerage firms are not required to provide customers with any comparable type of disclosure.

• Investment advisors cannot trade with their clients as principal except in extremely limited circumstances. Brokerage firms often earn significant undisclosed profits by trading as principal with their customers.

• Investment advisors charge clients a fee negotiated in advance and cannot earn any other profits from their clients without the clients' prior consent. Most investment advisors are paid an asset-based fee, so their interests are aligned with their clients. Brokerage firms' revenues may increase even if the customers' assets shrink.

• Investment advisors manage money in the best interests of their clients. They do not engage in other business activities like investment banking or underwriting, which brokerage firms do. These other businesses may cause a brokerage firm's interest or attention to focus on other areas of the firm outside of their retail brokerage business and customers.

What are the advantages of working with an independent Registered Investment Advisor over a Stockbroker?

Independent Registered Investment Advisors (RIAs) are held to a higher standard than stockbrokers when it comes to putting investors' interests first and doing the right thing for their clients' investments. Independent RIAs have a fiduciary duty to their clients which means they must:

• Act in the best interest of their client
• Identify and monitor illiquid securities
• Employ fair market valuation procedures where appropriate
• Observe procedures regarding the allocation of investment opportunities: including new
• Monitor for best execution of trades
• Have policies regarding affiliated broker-dealers and maintenance of brokerage accounts
• Disclose conflicts of interest
• Have policies on use of brokerage commissions for research
• Have policies regarding directed brokerage, including step-out trades and payment for order flow
• Adopt and administer a code of ethics: Stockbrokers are held to suitability obligations on the part of their broker-dealer:
• Reasonable Basis Suitability – the broker-dealer must believe that the recommended security is suitable for any investor
• Customer-Specific Suitability – the broker-dealer must believe that its recommendation is suitable for that particular investor.