



## The Differences: Broker vs. Registered Investment Advisor

A “**Fiduciary**” is a person or entity that manages money for the benefit of another called a “Beneficiary”. A **Fiduciary** is bound by law to place the interests of its beneficiary **FIRST** - before the fiduciary’s own interests. **Registered Investment Advisors (RIA’s)** are **Fiduciaries** under the *Investment Advisers Act of 1940*.

It is wrong to assume anyone offering financial advice to their clients is a **Fiduciary**. Stockbrokers [also called “Registered Representatives”, “Account Executives”, “Financial Advisors”, “Wealth Managers” or, “Certified Financial Planners<sup>(1)</sup> (CFP)”] that are affiliated or employed by broker-dealers are **NOT Fiduciaries**, even though engaged in high-visibility and expensive advertising to portray themselves as full-service financial advisors.

The legal investment advising standards that govern a **NON-FIDUCIARY** and a **RIA** are quite different, and extremely meaningful to those charged with employing either.

A **NON-FIDUCIARY** [stockbroker, agent, representative, etc. employed by a broker-dealer] follows only the “suitability” standard, which does not require placing the interest of the client above their own. They are required to provide only “suitability advice” to its clients - even if it is known that the advice is not the best advice for the client.

A **FIDUCIARY RIA** must follow the “**trust**” standard - the highest known in law - which requires one to place the interests of its clients ahead of its own and fulfill critical fiduciary duties of “trust and confidence.” Under the *fiduciary trust standard*, a **Registered Investment Advisor** must provide its “best advice” to a client.

Even if a **NON-FIDUCIARY** stockbroker under a broker-dealer wanted to follow the “trust” standard of law, and become a fiduciary to its clients, it cannot do so because of the contract it has with its broker-dealer. Such contracts require the broker/agent/representative/manager etc. to place the interests of their licensed broker-dealer before the interests of the stockbroker’s clients.

**A stockbroker owes fiduciary duties only to its broker-dealer - not its investment clients. A RIA owes Fiduciary duties only to its investment clients because it does not have a broker-dealer.**

Though they maintain being heavily regulated by the SEC, stockbrokers who are subject only to the SEC 1934 Act are less strictly controlled by much more stringent standards imposed upon RIA’s who are bound by the higher requirements of the 1940 Act. Intense efforts over many years by broker-dealers have been expended to fight the “Merrill Lynch Rule” that still continues to allow stockbrokers to operate without Fiduciary status, while often giving the false impression that they are obligated to it.

**The critical difference between a stockbroker and a RIA is that the RIA is subject to the high fiduciary legal standard when providing advising services while the stockbroker is not.**

Trent Capital Management, Inc. [www.trentcapital.com](http://www.trentcapital.com)

<sup>(1)</sup> To be considered a Fiduciary, a certified financial planner (CFP) cannot be affiliated or employed with a broker-dealer.