# The Critical Difference Between a Stockbroker and Registered Investment Advisor

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Maybe you've heard the word "fiduciary" mentioned a lot in the media over the past few years. A "fiduciary" is someone 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.

You would think that anyone offering financial advice to their clients is a fiduciary. If you think that, you'd be wrong. Stockbrokers (also called "Registered Representatives," "Account Executives," "Financial Advisors" or "Wealth Managers") are not fiduciaries, even though they have engaged in high-visibility advertising to portray themselves as full-service investment advisors. (Ask your stockbroker/registered representative/account executive/financial advisor/wealth manager if he or she holds a series 7 securities license. If he or she does, then it's probable that they aren't a fiduciary.)

A "Registered Investment Advisor," subject to the Investment Advisers Act of 1940, is a fiduciary.

The legal investment advising standards that govern a non-fiduciary stockbroker and a fiduciary Registered Investment Advisor are very different.

A non-fiduciary stockbroker follows only the "suitability" standard, which doesn't require a stockbroker to place the interests of its clients ahead of its own. Under the non-fiduciary suitability standard, a stockbroker need provide only "suitable advice" to its clients - *even if the stockbroker knows that the advice is not the best advice*.

A Registered Investment Advisor must follow the "trust" standard - the highest known in law – which requires it 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 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 stockbroker to place the interests of the broker-dealer before the interests of the stockbroker's clients.

A stockbroker, then, owes fiduciary duties only to its *broker-dealer* - not to its investment clients. A Registered Investment Advisor owes fiduciary duties only to its *investment clients* because it doesn't have a broker-dealer.

Stockbrokers, subject to the Securities Exchange Act of 1934, maintain that they are regulated heavily by the Securities and Exchange Commission ("SEC"), the National Association of Securities Dealers and/or the various agencies in the states in which they do business. None of this less strict regulation concerning the "suitability" standard, though, registers stockbrokers with the SEC as

investment advisors under the more strict regulation concerning the "fiduciary" standard of the Investment Advisers Act of 1940.

The critical difference between a stockbroker and a Registered Investment Advisor is that the Registered Investment Advisor is subject to the high fiduciary legal standard when providing investment advising services while the stockbroker is not. This difference could have a major impact on your investment portfolio and hence your retirement lifestyle.