The difference between a Broker and a Investment advisor or commonly known as a Fiduciary

Transactions vs. Advice

Broker (Transactions): The Dictionary.com definition says it well: A broker can be defined as “a person who purchases financial products on behalf of another for a commission.” Brokers sell products for a fee, which are sold by the brokerage firm they are affiliated with. Each investment decision is a distinct transaction for which the broker gets paid. Consultation and advice between the broker and client is common, but essentially it is mostly a transaction-based relationship.

Inherently, this leaves room for conflicting interest, because the commission-generating products they sell aren’t always the most prudent for the client. Brokers are driven to maximize profits for the firm and themselves, which often conflicts with acting in clients’ best interest.

Generally speaking, brokers get paid a commission from the products they sell. Wrap accounts are becoming more popular and are a way for brokers to select investments and make trades for clients, while charging them a flat quarterly or annual fee instead of collecting a commission for each purchase or sale of a security. Although this has, to some extent, reduced the art of “churning” (frequently buying and selling securities within client accounts to generate commission dollars), it doesn’t always mean that brokers are always making the best decisions for their clients.

Advisers (Advice): Registered Investment Advisers (RIAs) offer a more comprehensive set of services, including investment and planning guidance instead of selling financial products. RIAs examine a client's entire financial picture, assess the client’s goals and determine the time horizon for each set of assets to be invested: retirement, college savings, general investment, etc. After completing this asset allocation function, the adviser then selects appropriate investment vehicles to achieve specific objectives.

Another differentiator is that independent advisers often work in coordination with other professionals (i.e., CPAs, Trust and Estate Attorneys, Philanthropic Planners, etc.) on behalf of the client to ensure comprehensive planning.

Comprehensive wealth advisers can be thought of as your personal CFO (Chief Financial Officer).

Some RIAs charge an hourly fee, but most charge a percentage of the assets under their care. There are two different compensation models: fee-only and fee-based. The difference is important because **fee-based** advisers do sell products. Fee-based compensation is popular because advisers can earn compensation from fees paid directly by clients plus fees they receive in the form of commissions from products they're licensed to sell (e.g., insurance). They are not required to inform their clients in detail how their compensation is accrued. As you might imagine, the fee-based model opens up the conflict-of-interest door.