

What You Might Not Know About Investment Advice

When a client sits down with an investment advisor, there is a lot of assuming that occurs. Investment clients assume that they are getting advice. They assume that their money is being watched. They assume that the advisor is taking their best interests at heart. It is important to understand how the investment business is set-up and to make sure you are making the right assumptions.

So here are the two questions you need to explore.

(1) Is your financial professional just selling you investment products, giving you appropriate advice, and/or watching your investments?

(2) Behind the title financial consultant, financial advisor, or financial planner, what is your financial professional LICENSED and REQUIRED to do as your advisor?

It comes down to whether the financial professional is a **Registered Representative** or a **Registered Investment Advisor**. Forget about the title that the financial professional uses in the introduction. How are they licensed?

A buddy of mine sent me an e-mail that I thought really cleared up the difference. Let's take a look at the difference between the two.

Registered Investment Advisers, who are regulated by states or the SEC depending on the amount of investments they manage, **are legally required** to act in their clients' best interest. They work on a fee basis.

Registered Representatives, who are regulated by the Financial Industry Regulatory Authority, can give "**incidental advice**" in the course of their business and recommend what is **suitable**, but not necessarily best, for clients. They work on a commission basis.

Out of the two types of licenses, only Registered Investment Advisers are **LEGALLY** required to act in their clients' best interest. Here lies the problem with the business of investing. A Registered Representative determines if a product is suitable or is appropriate for the client. Beyond that, the investment that is being recommended does not have to be the best fit for the client.

Wouldn't you want to know that your financial advisor was giving the very best investment recommendation available?

Unfortunately, it is tough when commissions are involved. Registered Representatives only recommend what they can sell or the products that their company is licensed to sell. In that type of environment, those products might be suitable for the client. However, those products don't represent the best strategy for the client. The advisor did their job and the client only received what was suitable.

Buy and hold investing is at the center of the Registered Representative world.
Investment management is at the center of the Registered Investment Advisor world.

Would you rather have an investment plan that is sold to you because it was suitable or an investment strategy that is constantly managed with the objective of being the very best strategy at all times?

The Registered Investment Advisor is either earning the fee or not. With a commission based Registered Representative, they aren't earning a fee to work for you. That commission was already paid at the beginning. In most cases, there is no ongoing management involved.