

Registered Investment Advisors vs. Broker-Dealers: Our Perspective

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Registered Investment Advisors (RIAs) and broker-dealers (BDs) are two prevalent types of financial professionals or firms you'll hear about when looking for a financial advisor. While both can provide value to clients, they aren't the same. Before partnering with any advisor or firm, make sure you understand their role, how they are regulated, and what they can do for you.

Broker-dealer (BD)

BDs act as intermediaries when purchasing securities for client portfolios. They can offer a variety of services, whether it involves just trading for clients or operating a full-service firm that guides clients in picking investments suitable for their goals. For these services, they can either charge a fee or be paid through commission.

A BD is regulated by the Financial Industry Regulatory Authority, Inc. (FINRA), which is a private corporation that acts as a self-regulatory organization for securities dealers and their representatives.

Regulated financial professionals are held to certain standards when working with clients. Currently, broker-dealers are held to a regulation best interest standard. This means they must act in your best interest at the time an investment recommendation is made, or when developing investment strategies.

Registered Investment Advisor (RIA)

An RIA is a financial professional or firm that provides financial advice to clients. Often, you'll find they offer a variety of services outside of financial planning, such as investment management, income strategy, etc. For these services, RIAs are often compensated through a management fee instead of commission.

RIAs are regulated by the U.S. Securities and Exchange Commission (SEC). The SEC is an agency of the federal government that regulates medium and large-sized investment advisors (those managing \$100 million assets or more).

Due to their regulatory body, RIAs must operate under a fiduciary standard. Following a fiduciary standard means the advisor must always act in your best interest, even above their own or their firm's.

Exchange's Perspective

Regardless of which financial professional you partner with; you should always conduct due diligence and assess if you can trust them to manage your assets. While both BDs and RIAs can be competent, trusted financial professionals, the regulations set in place for RIAs promote more transparency in client relationships.

Committed to transparency, we built our firm as an RIA that offers financial planning and in-house investment management. Simply stated, we are compensated by providing trustworthy advice that helps our clients reach their goals. We pride ourselves on our fiduciary promise, requiring us to always act in our client's best interest.

The Bottom Line

We believe being an RIA is the most transparent way to build client relationships. We strongly believe in upholding a fiduciary standard, using simple pricing, and being a trustworthy advisor for clients.

If you are interested in learning more about how Exchange operates, consider giving us a call. We'd love to discuss the value of partnering with an RIA firm.