



Why You Should Look for a Registered Investment Advisor

Standards matter, especially in wealth management.

Who should manage significant wealth? In recent years, more and more high net worth households have found their answer to that question: a Registered Investment Advisor.

What is the RIA difference? RIAs have a fiduciary duty to act in your best interest. That is a legal obligation, and it is expressed in the investment recommendations the RIA and their representatives make and the advice and guidance they offer. If even the potential for a conflict of interest exists, it must be fully disclosed.^{1,2}

Investment brokers are not asked to work by a fiduciary standard, only a suitability standard. Under a suitability standard, a broker is asked to recommend investment products that are “suitable” for a client – an investment that is regarded as appropriate for his or her objectives. An investment conveniently offered by his or her broker might meet that standard – one offered with little or no evaluation of other options, one that may have high fees and bring that broker a relatively large commission.¹

In fact, the typical investment broker works on a commission basis – a percentage of his or her compensation depends on product sales. Just who ends up paying the broker those commissions? They may be paid by the investment companies involved – or the client. They may not even be mentioned until after the product sale.¹

In contrast, many RIAs manage the assets of high net worth investors on a fee basis. The management fees usually represent a percentage of invested assets belonging to the client. Hourly or per-project fees may be charged for other services. These fees are disclosed up front. RIAs are not affiliated with brokerage firms, so the potential for brokerage directives coloring the advisor-client relationship is diminished.^{1,2}

As the designation implies, an RIA is an investment advisor that has registered with either the Securities and Exchange Commission (SEC) or the securities authorities in the state(s) in which they operate. Technically speaking, an RIA is a financial firm. The individual advisors working for the RIA are IARs, or Investment Advisor Representatives – but the phrase “RIA” is often informally used to refer to both an IAR and the firm for which she or he works.^{1,2}

The demand for RIAs is growing. Individuals, couples, families and institutions with sizable wealth management concerns often turn toward RIAs. From 2008-12, assets under management by RIAs increased an average of 8.8% annually, to the point where they were managing \$1.5 trillion of invested assets in 2014. Additionally, the number of RIAs grew by 8% per year from 2008-12.³

Those statistics bear out an emerging truth: high net worth households want unbiased investment consulting, and see value in working with RIAs that are fee-based or even fee-only.

The typical RIA firm is built to address varied client priorities. An independent RIA firm is usually owned and operated by a highly experienced financial professional with prestigious designations (such as the CERTIFIED FINANCIAL PLANNER™ designation). That individual does not usually work alone. Often, the RIA firm employs or retains a “team” of professionals skilled in disciplines that may include portfolio management, tax planning, estate planning and retirement planning. These individuals are usually financial professionals who have spent significant time in the industry, and who have committed themselves to continuing education.²

Standards matter in life, and they especially matter in wealth management. As you want a wealth manager with high standards, a Registered Investment Advisor is the clear choice.

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Citations.

1 - sfchronicle.com/business/networth/article/Proposed-rule-would-lead-to-better-advice-on-6207776.php [4/17/15]

2 - nerdwallet.com/finance/question/what-s-the-difference-between-a-registered-investment-advisor-and-the-traditional-advisor-working-at-a-large-bank-or-brokerage-f-521 [8/13/13]

3 - forbes.com/sites/halahtouryalai/2014/04/16/still-booming-top-riAs-keep-getting-bigger/ [4/16/14]

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