

The Roles of Investment Brokers and Advisors Explained

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Understanding the landscape of investment options is crucial for individuals exploring investment opportunities abroad, particularly in the US. This initial stage involves aligning the investment strategy with personal financial health and risk tolerance. This involves evaluating regulatory requirements, assessing project viability and ensuring that the investment meets stringent criteria.

Since this is complex, it is critical to select the right professionals to guide you through the process.

With all US security investments, two key figures emerge: broker-dealers and registered investment advisors (RIAs). While both play pivotal roles in guiding investors through complex investment projects, their responsibilities, expertise and the nature of their advice significantly differ.

The Role of Investment Broker-Dealers

Broker-dealers, operating under the FINRA Series 7 license, are primarily focused on selling securities. They typically earn commissions from the projects they recommend, which is an important consideration for investors. Many brokers have a deep understanding of the investment landscape and strive to recommend projects with the best

potential for success. However, their commission-based compensation has the potential to influence their recommendations. It's crucial for investors to conduct their due diligence or consult with an independent advisor before making a decision.

The Role of Registered Investment Advisors

RIAs, holding a Series 65 license, are authorized to offer investment advice for a fee. The law also places on them a fiduciary duty, legally obligating RIAs to act in their clients' best interests and fully disclose any potential conflicts of interest. RIAs offer a broader range of services beyond transactional advice, including strategic financial planning and investment guidance tailored to the individual's long-term goals.

Unlike brokers, advisors often take a more holistic approach to their clients' financial situation. They evaluate an investor's overall financial health, risk tolerance and goals to provide tailored advice that aligns with the investor's broader financial strategy. RIAs can help investors understand the complexities of the investment process, the risks associated with different investment options, and the implications of these investments on their overall financial plan.

Compensation and Transparency

Compensation models not only underscore the difference between broker-dealers and RIAs but also reflect their adherence to different standards of care—the fiduciary duty and the suitability standard. Brokers typically earn commissions from product sales, which may not be disclosed until after the transaction. This commission-based compensation structure aligns with the suitability standard, which requires brokers to recommend investment products that are suitable for the client's financial situation and objectives, but not necessarily in the client's best interest.

In contrast, RIAs manage assets for a management fee, around 1% to 2% of the assets invested, with all fees disclosed upfront. This fee-based compensation model is in line with the fiduciary duty that RIAs are bound to. The fiduciary standard obligates RIAs to act in their clients' best interests at all times, offering investment advice and recommendations that they believe are the best for the client's financial goals, rather than products that might yield the highest commission for themselves. This standard of care requires complete transparency regarding fees, conflicts of interest and investment rationale, ultimately fostering a relationship built on trust and mutual interest.

Choosing Between a Broker and an Advisor

The choice between consulting a broker or an advisor depends on an investor's specific needs. If the primary goal is to identify potential investment opportunities, a broker with a strong track record in the investment marketplace may be beneficial. However, investors

should be mindful of the broker's commission-based incentives and independently validate the information provided.



Conversely, individuals seeking a more comprehensive analysis of how an investment fits into their broader financial picture might prefer consulting with an advisor. An advisor can provide personalized advice that considers the investor's financial goals and risk tolerance.

Navigating with Knowledge



Navigating investment complexities requires a clear understanding of the roles and responsibilities of brokers and advisors. While brokers can offer a gateway to investment opportunities, advisors provide a broader scope of financial guidance tailored to the investor's personal goals. By making informed decisions and leveraging the expertise of the right professionals, investors can ensure their investments align with their broader financial strategies.

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