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ADVISOR NETWORK (/ADVISOR-NETWORK) 8/01/2012 @ 1:36PM | 45,048 views

Is Your Financial Advisor Independent, An RIA Or Wirehouse Rep? You Have No Idea But You Should

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The financial services landscape is not one size fits all; volumes could be written about each model, type of advisor and brokerage term.

The days of simply picking up the Yellow Pages and selecting a stock broker at random or even "listening" to what E.F. Hutton has to say have gone the way of the rotary telephone.

Today, there are a dizzying number of ways for an investor to invest his or her money and a plethora of folks who have their hands out to invest those funds. But who are these people and who is the most qualified to invest your hard earned cash for you? What is a wirehouse? And, isn't a custodian someone who cleans up after your kids at their school?

With a few simple definitions, acronym decrypting and some background, you will be able to differentiate between them. In a time when transparency in financial services seems in short supply, having this information as you do your due diligence could make a significant impact on your financial well-being.

The types of investment firms out there today, strictly from an investor's point of view, are similar in most respects. If we think of the landscape of the financial services industry as a continuum, the first type of firm that many go to for investment advice is a **bank**.

Many people go to their local bank for their investment needs because it is convenient, familiar and less intimidating. However, the class of products that are offered by banks is somewhat limited and in general, despite the perception, as with other investment firms, your money is not guaranteed by the FDIC (Federal Deposit Insurance Corporation) or similar programs (According to the FDIC's website, the FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities or municipal securities, even if these investments are purchased at an insured bank).

Banks are pushing their investment services more today than ever in an effort to capture a greater share of your wallet. They often cross sell in an attempt to get your mortgages, commercial business, life insurance, retirement plans, etc. Remember, one single financial institution may not be right for all of your investment needs.

For a more investment-centric option, there are the **wirehouses;** a somewhat anachronistic term defined by Merriam-Webster as "a brokerage firm connected with its branch offices and correspondents by private leased telephone or telegraph wires." Today, wirehouses are seen more as mega-firms that have hundreds of offices world-wide that share financial information, research and prices (see Investopedia (http://blogs.forbes.com/investopedia/)).

These are the big 4 remaining national firms (Morgan Stanley (http://www.forbes.com/companies/morgan-stanley/) Smith Barney, Bank of America (http://www.forbes.com/companies/bank-of-america/)'s Merrill Lynch (http://blogs.forbes.com/merrilllynch/), UBS (http://www.forbes.com/companies/ubs/) and Wells Fargo). These are **full service brokerages** (firms that provide a large variety of services to their clients, including research and advice, retirement planning, tax advice, and much more.) Clients can choose to be charged on a **fee basis** (where the advisor is paid a percentage of your assets under management regardless of the number of trades made) or on a **transactional** or **commission** basis (you pay the firm each time a security is bought or sold).

Regional firms (such as Raymond James, Ameriprise Financial, Janney Montgomery Scott, etc.) are similar to wirehouses except that they are generally only located in certain areas of the country. Generally, their product offerings are not as broad as the wirehouses and are much smaller insofar as headcount, assets under management and revenues.

For the more well-heeled client, **boutique** firms (e.g. Credit Suisse, Deutsche Bank, Barclay's) offer more white-glove service for their clients. They generally don't cater to clients with less than $2 million in investable assets and are only located in large wealth centers such as New York, Chicago, Los Angeles, etc. These firms are clearly not geared for the average investor.

With many clients and advisors becoming turned off to the big name firms, there has been a large uptick in the interest in **independent broker dealers**. These are similar to full service broker dealers except that their advisors are not employees, they are independent contractors. They do not answer to anyone except the compliance department and so they are free to service their clients any compliant way they choose. Financial advisors generally rely upon their broker dealer firms for varying levels of support, execution and compliance and either do business under their own firm name or that of the mother-ship (LPL for example).

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