

# Researching Your Broker or Advisor

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### **Investment Advisers**

- An Investment Adviser (also called Registered Investment Advisers (RIAs) is an individual or company who is paid for providing advice about securities to their clients
- Registered as such with either the Securities and Exchange Commission (SEC) or a state securities regulator, or both
- Regulated by the SEC
- Many are also registered as a "broker" ("registered representative")

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### **Investment Advisers**

- Common names for investment advisers: asset managers, investment counselors, investment managers, portfolio managers and wealth managers
- Investment Adviser Representatives (IARs) are individuals who work for a RIA and give advice on behalf of RIAs
- Paid a flat fee or percentage of Assets Under Management (AUM) to advise clients on securities and/or manage portfolios

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### **Investment Advisers**

- · Have a "fiduciary duty" to their clients:
  - A fiduciary must put their clients' interests ahead of their own, with a duty to preserve good faith and trust
  - Required to disclose any potential conflicts of interest
  - Being a fiduciary thus requires being bound both legally and ethically to act in the other's best interests
  - Higher legal standard than brokers

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### **Investment Advisers**

- Are not the same as "financial advisors" and should not be confused
  - The term "financial advisor" is a generic term that usually refers to a registered financial professional (or, to use the technical term, a registered representative)

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# **Brokers (Registered Representatives)**

- Brokers are paid commissions to execute trades or buy and sell assets for clients
  - Can also receive shares or warrants to purchase shares as payment
- Regulated by Financial Industry Regulatory Authority (FINRA)
- Not uncommon to see brokers dual-registered as investment advisers

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# **Brokers (Registered Representatives)**

- Have to meet a less-stringent suitability standard, which doesn't require putting the client's interests ahead of their own
- The suitability standard only requires that an investment be 'suitable' for a client
  - Not required to disclose potential conflicts of interest or make a client aware of less expensive or more tax-efficient alternatives

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## How to Check the Background of your RIA or Broker

- Broker: FINRA BrokerCheck <u>BrokerCheck Find a broker</u>, <u>investment or financial advisor (finra.org)</u>
- •RIA or IAR: SEC <u>IAPD Investment Adviser Public Disclosure</u> <u>Homepage (sec.gov)</u>
- State securities regulators can also help you research a representative or firm doing business in your state. The contact information for the regulators in your state can be found on the website of the North American Securities Administrators Association <a href="https://www.nasaa.org">www.nasaa.org</a>
  - Colorado Division of Securities: (303) 894-2320 or online <u>Securities</u> <u>Home | DORA Division of Security (colorado.gov)</u>

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### What Information Does BrokerCheck Provide?

- Whether a person or firm is registered to sell securities (stocks, bonds, mutual funds), offer investment advice as required by law
- Licenses held and date earned
- Employment history
- Regulatory actions
- Investment-related arbitrations or complaints

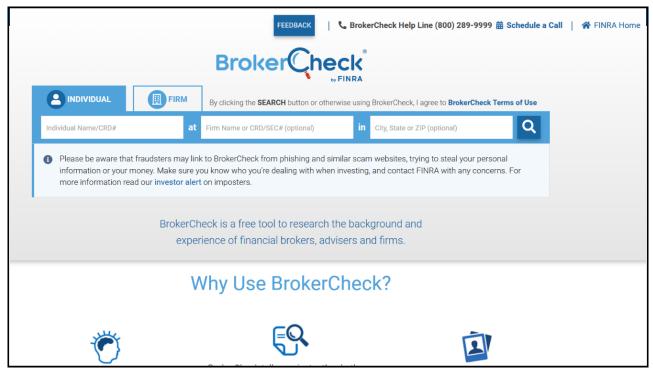
# Where Does the Information Come From?

- The Form U4 (Uniform Application for Securities Industry Registration or Transfer)
  - Representatives of broker-dealers, investment advisers, or issuers of securities must use Form U4 to become registered in the appropriate jurisdictions and/or Self Regulatory Organization(s) (SROs)

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- Form U4 is filed with the Central Registration Depository (CRD®) (brokers) or the Investment Adviser Registration Depository (IARD) (investment advisor representatives)
- Individual is under a continuing obligation to amend or update the information on Form U4

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# What are Disclosures?

- Broker's/Adviser's history of complaints:
  - Allegations of unauthorized trading, unsuitable trades, breach of fiduciary duty, etc., made by former customers of the broker
    - Must allege or result in damages (losses) of \$5,000 or more to be disclosed
  - It also shows the disposition of such complaints, whether through settlement or arbitration, and the amount of any compensation paid to the complaining customer
- Regulatory proceedings against the Broker/Adviser brought by state securities authorities, FINRA or the SEC

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### What are Disclosures?

- May include pending actions or proceedings where the allegations are contested, unresolved or unproven
- In the end, these actions may be resolved in favor of the representative or concluded through a negotiated settlement with no admission or finding of wrongdoing
  - The representative neither admits nor denies the allegations of the complaint or claim

