

# Brokers Manage Products; Investment Advisors Manage Process

**The absurdity of suggesting that investment advisors and broker-dealers often provide indistinguishable services demonstrates a stunning depth of misunderstanding regarding the two industries.**

By **Steve Weydert, CFP, MS** | July 24, 2012 at 08:00 PM | The original version of this story was published on [Investment Advisor](#)

*In late April, House Financial Services Chairman Spencer Bachus reintroduced his draft bill calling for a self-regulatory organization for advisors. As Washington Bureau Chief Melanie Waddell wrote in May, FINRA is a lead candidate in assuming the SRO role.*

*The prospect of falling under FINRA's oversight has incited loud opposition throughout the advisory industry. Below is one example, submitted by a user on AdvisorOne.com, Steve Weydert of Weydert Wealth Management.*

The absurdity of suggesting that investment advisors and broker-dealers often provide “indistinguishable services” demonstrates a stunning depth of misunderstanding regarding the two industries.

Brokers manage products; investment advisors manage process. With brokers, process is incidental; with investment advisors, products are incidental. With brokers, it's pay-and-then-go (on to the next transaction and hidden commission); with investment advisors, it's pay-as-you-go (100% transparent and invoice only). Equating the two models demonstrates a kind of mind-numbing ignorance that almost makes one wonder why a decent person would try to serve the retail investment space. In the eyes of the law, investment advisors are not much different than brokers. Lumping us together as if we share the same industry is beyond revolting.

Do you know who else finds this revolting? How about Britain? How about The Netherlands? How about India? How about Australia? In these countries, financial advisors are banned from brokering products on commission. It's flat-out illegal. The idea that an advisor should be allowed to personally profit from his own advice via a transaction-based sale is considered so patently absurd that it's simply outlawed. Yes, that's right; the entire broker-dealer business model is banned from the investment advice industry in countries with the common sense to see how vital this is to protect the public and the advice industry from the sales world.

Yet some have the audacity to suggest that “it's time to level the playing field” in the name of protecting consumers from investment advisors, or that bad apples will flock to where there's perceived to be less regulation, i.e., the transparent, process-driven, non-sales, fiduciary investment advisory industry. Huh? Mind-bending.

Indeed, allowing product distributors to dually register as investment advisors has blurred the line between the two industries and helped to create a chaotic regulatory environment. But that's easy to fix. Outlaw dual registration as a first step in separating product vendors from advice givers, thereby making a good-faith effort to preserve the integrity of the investment advisory industry.

It's beyond embarrassing that our industry is allowed to be so contaminated by those who should be completely and unceremoniously extracted from the investment advice industry (i.e., FINRA) that our legislators are actually considering expanding the powers of this sales overlord. Indeed, FINRA is an organization that essentially knows how to do one thing: chase around sales reps and rules-based brokers.

Keep in mind that FINRA is an organization that changed its name a few years ago from the National Association of Securities Dealers to the Financial Industry Regulatory Authority as if (a) it had something to do with the financial advice industry; (b) it actually had some authority over the financial industry; and (c) it was no longer simply the sales overlord. Audacious to say the least, considering none of these presumptions are even remotely true. Yet our legislators are now considering expanding this organization's powers to oversee an investment advisory industry it knows nothing about and may even want to see dismantled almost as much as investment advisors would like to see this sales overlord dismantled.