Registered Investment Advisor (RIA) Definition

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Part of the Series
Guide to Hiring a Financial Advisor

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What Is a Registered Investment Advisor (RIA)?

A registered investment advisor (RIA) is a financial firm that advises clients on securities investments and may manage their investment portfolios. RIAs are registered with either the U.S. Securities and Exchange Commission (SEC) or state securities administrators.

RIAs and the people who work from them have fiduciary obligations to their clients, meaning that they have a fundamental duty to always and only provide investment advice that is in their client's best interests.

KEY TAKEAWAYS

- Registered investment advisors (RIAs) are financial firms which manage the assets of individual and institutional investors.
- RIAs must register with the U.S. Securities and Exchange Commission (SEC) or a state regulatory agency, depending on the value of assets under the RIA's management.
- RIAs typically earn their income through management fees, calculated as a percentage of a client's assets under management (AUM) by the RIA.
- Unlike broker-dealers, RIAs have a fiduciary duty to put the best interests of the client first.
- Investment advisor representatives (IARs) are the financial professionals who work for RIAs.

Understanding Registered Investment Advisors (RIAs)

The rules on investment advisors were formulated by the Investment Advisers Act of 1940. This law requires individuals or businesses that dispense professional investment advice to register with the SEC, although there are exemptions for smaller firms. Advisors might also be considered qualified professional asset managers (QPAMs).

Investment advisors are permitted, although not required, to register with the SEC if they manage a minimum of $25 million in assets. However, it becomes mandatory for those firms that manage $100 million or more, as RIAs managing at least that amount are required quarterly to disclose their holdings to the SEC. Investment advisors who manage smaller sums of investment money are typically required to register with state securities authorities. [1]

RIA vs. IAR

Note that there is a difference between a registered investment advisor (RIA) and an investment advisor representative (IAR). An RIA is a company that offers financial guidance to clients. The IAR is the person who gives the financial advice. The RIA can have many employees, including several IARs, or it can be just one person who is both the RIA and the IAR. The IAR thus works for the RIA and provides the actual financial services to the clients.

Registering as an RIA

Registering as an RIA does not imply any recommendation or endorsement by the SEC or any other regulator. It means only that the investment advisor has fulfilled all of that agency's requirements for registration. Registering with the SEC requires disclosing information that includes: [2]

- Investment style of the advisor
- Assets under management (AUM)
- Their fee structure
- Any disciplinary actions that were taken against the advisor
- Any current or potential conflicts of interest
- Key officers, if the RIA is a company

RIAs must annually update their information on file with the SEC, and the information must be made available to the public.

Services of an RIA

RIAs provide more services than just investment advice. Their services and advice may cover the following subjects:

- Financial planning
- Retirement planning
- Estate planning
- Wealth management

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- Investment management
- Budgeting
- Debt repayment
- Insurance

Requirements of RIAs

RIAs must follow certain practices and procedures when furnishing advice to their clients. These include:

- **SEC registration**: RIAs with more than a certain level of AUM are required to register with the SEC, as well as a state governing body depending on the location and the number of clients.
- **Disclosure**: RIAs are required to disclose any risks or possible conflicts of interest pertaining to the specific transactions that they recommend to their clients. RIAs must also ensure that the client understands any risks.
- **Assumption of burden of proof**: RIAs, if confronted by a client about the suitability of an investment, bear the burden of proof—meaning that the RIA must prove that the risk was disclosed and that the investment could be considered suitable.
- **Fiduciary duty**: RIAs are required to act as fiduciaries, meaning that they must act in the best interests of clients and avoid any conflict of interest concerning products and services offered to them.
- **FINRA compliance**: RIAs are required to meet certain compliance requirements with the Financial Industry Regulatory Authority (FINRA). Besides providing online applications for registering RIAs, the FINRA requires Form ADV to be filed.
- **Documentation**: RIAs are required to keep extensive documentation in compliance with SEC record-keeping regulations.

RIAs vs. Broker-Dealers

RIAs differ from broker-dealers in important ways. RIAs provide advice on all matters related to finance, including investments, taxation, and estate planning. Broker-dealers tend to focus more narrowly on facilitating purchases and sales of assets like stocks.

Most importantly, in interactions with clients, RIAs are expected to act in a fiduciary capacity, while broker-dealers are only required to satisfy the standard of suitability. Clients of RIAs can be assured that their advisors always and unconditionally put their best interests first. Clients of broker-dealers need to be aware that the broker-dealer is permitted to dispense advice that is merely "suitable" for their client's investment portfolios. [1]

> **Important:** Unlike RIAs, broker-dealers are not required to disclose potential conflicts of interest or make their clients aware of less expensive or more tax-efficient investment alternatives.

How RIAs Make Money

The following are some common fee structures for investment advisory firms:

- **Management fees**: An RIA can collect a management fee annually as a percentage of the RIA's AUM. Management fees can align incentives, as an RIA who can raise the value of a client's portfolio can collect a higher management fee.
- **Performance-based fees**: An RIA can assess a fee based strictly on the performance of a portfolio. Not all clients are eligible for this type of fee structure, though—in general, only those with at least $1.1 million in assets managed by the RIA or $2.2 million in net worth can qualify. [3]
- **Asset-class-based fees**: Some RIAs who charge management fees vary the percentage rates based on asset class. An RIA might charge a management fee of 1.5% for equities like stocks and a 0.75% management fee for fixed-income investments such as bonds.
- **Hourly or flat fees**: RIAs are increasingly providing fee-based services that are not contingent upon how much money the client has to invest. Investors can work with RIAs who charge fees on an hourly basis or at a flat rate, with some RIAs offering subscription-based services.

> **Tip:** Many RIAs collect fees based on how much investment money they manage. But other fee structures are emerging that may be better suited for smaller investors.

How to Choose an RIA

Always do some careful research before selecting an investment advisor. You need a firm that is aligned with your interests and needs. An excellent source and starting point is the SEC's Investment Adviser Public Disclosure website, which allows you to search for every RIA in the country.

Note that when you are choosing an RIA, you are choosing the financial firm that you will be working with, and not necessarily an individual advisor. Investment advisor representatives (or IARs) are the individuals who work for the RIA and directly provide advice to clients. It's quite possible that an RIA have just a single advisor, or else have several IARs, each with their own unique areas of expertise and approach to investing.

Therefore, when you're selecting an RIA, you're not just choosing a firm but also potentially choosing among the individual IARs within that firm. Make sure to understand both the philosophy and standards of the RIA and the specific skills and qualifications of the IAR who may be handling your portfolio.

What Else to Check

Once you select those firms that fit your location requirements, you can review each firm's website and social media. Also:

- **Check the type of services that they provide**. The type and level of advice that RIAs provide can vary widely from firm to firm, so make sure the areas on which they focus fit your needs.
- **Check their Form ADV**. RIA firms are required to file Form ADV, which is the uniform form used by investment advisors to register with both the SEC and state securities authorities. The form, which should be offered to you by the firm in which you are interested, provides detailed information about the firm, from fees and client types to assets under management and more.
- **Check out their IARs.** In addition to the RIA firm, check out the investment advisor representatives (IAR) employed at the firm using FINRA's free BrokerCheck tool. This tool allows you to see the IAR's registration status, employment history, disciplinary actions, and customer complaints. You can also compare different IARs and find out their qualifications, certifications,

and areas of expertise. By using this tool, you can make an informed decision about who will manage your investments and how they will do it.
- **Check the assets under management (AUM)**. Search the total AUM of the firm in which you are interested by using the SEC's Investment Adviser Public Disclosure website, and compare them with yours to see if your assets are on the low or high side for the firm.

RIA or IAR: What is the Difference?

- An RIA is a firm that is registered with the Securities and Exchange Commission (SEC) or a state's securities agency. The firm gives advice about securities and engages in other related activities. As a fiduciary, an RIA has a fundamental obligation to provide investment advice that always acts in their clients' best interests.
- An IAR, on the other hand, is an individual who works for an RIA. They are the actual persons who interact with clients and provide the advice. An IAR must pass certain qualifications to be associated with an RIA and must adhere to the same fiduciary standards.

In other words, the RIA is the entity (or firm), while the IARs are the individuals working under that entity. The RIA firm as a whole has a fiduciary duty to their clients, and each individual IAR also has that duty. When a client hires an RIA, they will typically interact with an IAR who will be their personal advisor.

How do you register as an RIA?

A firm can register as an RIA by filing Form ADV with the SEC. Within 45 days of the filing, the SEC must either grant registration or begin proceedings to deny it. In addition, RIAs are also required to abide by the "brochure rule," which requires them to inform clients with information about their practice, educational, and business backgrounds. RIAs must also maintain accurate books and records, subject to examination by the SEC. [4]

Which regulatory agency do RIAs register with?

RIAs may register with the SEC if they manage at least $25 million in assets, and are required to do so if they manage more than $100 million. Investment advisors managing smaller amounts of money are typically required to register with state-level agencies. [1]

What fees do RIAs charge?

RIAs can charge fees in several ways. The most common type of fee is the annual management fee, which is based on the value of a client's assets under management (AUM) with the RIA. RIAs can also charge fees based on performance, asset class, or hours worked.

The Bottom Line

You don't need an RIA to invest money. Nonetheless, demand for RIAs is growing, with the assets managed by U.S. RIAs increasing annually by 12% from 2016 through 2021. The consulting firm McKinsey & Co. finds that younger clients are preferring to consolidate where they receive their financial services. [5]

If you decide to work with an RIA, that advisor doesn't even need to be human. You have a choice of robo-advisors—automated software tools that dispense investment advice based on information about yourself and investment preferences that you provide. The availability of this technology has further lowered the price of working with an RIA.

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1. U.S. Securities and Exchange Commission. "General Information on the Regulation of Investment Advisers, https://www.sec.gov/investment/divisionsinvestmentiaregulationmemoiahtm."

2. U.S. Securities and Exchange Commission. "Form ADV, https://www.sec.gov/about/forms/formadv-instructions.pdf."

3. U.S. Securities and Exchange Commission. "Order Approving Adjustment

for Inflation of the Dollar Amount Tests in Rule 205-3 Under the Investment Advisers Act of 1940, https://www.sec.gov/rules/other/2021/ia-5756.pdf."

4. U.S. Securities and Exchange Commission. "How to Register as an Investment Advisor, https://www.sec.gov/divisions/investment/iaregulation/regia.htm."

5. McKinsey & Co. "Registered Investment Advisors: How US Banks Can Weigh the M&A Potential, https://www.mckinsey.com/industries/financial-services/our-insights/registered-investment-advisors-how-us-banks-can-weigh-the-m-and-a-potential."