You know what an investment advisor’s job is: To try to make you money while also protecting you against losses.

What many clients don’t know, however, is that there are times when certain kinds of advisors may not be able to protect you. Because their hands are tied by regulations, they may be prevented from taking action to shield your portfolio from significant—and completely unnecessary—losses.

Specifically, we’re talking about brokers, whose business model involves being paid commissions for selling you stocks, mutual funds and other investments. Brokers’ business model is different from the Registered Investment Advisor (RIA) model that’s used by firms like ours. RIAs typically charge an ongoing fee rather than sales commissions, and that minimizes or eliminates the temptation to sell clients something that’s not right for them.

Many people already know about the potential conflicts of interest in the brokerage business. Stories of unethical brokers “churning” accounts—having clients buy and sell investments frequently in order to rack up commissions—are well-documented.

But even the most ethical broker can find it impossible to do the right thing for clients in certain situations. The reason has to do with the rules many brokers operate under. Here’s an example: Suppose it’s January 2008. The stock market is in the midst of a long rally, and your broker sells you a growth-style stock mutual fund.

But before long, he realizes he’s made a serious mistake. The market is showing signs that it’s about to fall apart. The broker knows that the right thing to do at this point is to sell that mutual fund and move you into a money market fund or other safe investment.

But there’s a problem: The legal compliance department at his parent company won’t let him do it.

In an effort to prevent churning, brokerage firms have put in place rigid rules that prohibit quick, back-to-back transactions that would generate multiple commissions for the broker. Selling the growth-stock mutual fund earned the broker a commission, and moving your money into a money market mutual fund would potentially earn him another. And that's a big compliance no-no for brokers.

The result is that you end up absorbing a huge loss in that growth fund as the market tanks. And by the way, the manager of that growth mutual fund probably can't sell his growth stocks and go into cash either, because his prospectus limits his ability to do so.

This sort of scenario is one of the many reasons why I choose to operate under an RIA model. I want the flexibility to make my clients money, but also to pull them out of harm's way when necessary. All advisors should put their clients' interests first. But the ones who are most able to actually do it are RIAs—whose business model is un-conflicted and flexible—and not brokers.