



Finances

The Most Important Question: Are You Held to a Fiduciary Standard?

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Here's the most important question to ask your financial professional: Will you accept the fiduciary responsibility to act in my best interest in all aspects of our financial relationship?

This appears to be a simple question. But be prepared: Not all financial professionals can answer in the affirmative. That's because not all financial professionals are held to the high standard of a fiduciary.

To be quite clear, this is a legal standard. And how, then, does this contrast with the standard of one who is not a fiduciary? Stockbrokers and registered representatives fall outside the fiduciary category and are held to a weaker "suitability" standard.

Unfortunately, deciphering who is a fiduciary is not always easy, given the array of titles we see in the marketplace. There are asset managers, financial advisors, financial consultants, investment consultants, investment counselors, investment managers, portfolio managers, and wealth managers. These titles confuse investors.

Let's shed a little light on the subject. Brokers are primarily in the business of buying and selling securities on behalf of customers. Recently, brokerage firms have begun to offer other investment planning services, in addition to trading securities.

On the other hand, investment advisors are in the business of giving advice about securities. Investment advisors provide ongoing management of investments based upon the client's objectives. Usually, the client gives the investment adviser discretionary authority to make investment decisions.

Investment advisers are subject to a fiduciary

duty and, by law, must act solely in their clients' best interests. They must recommend investments they believe are in the best interests of their clients. They must provide up-front disclosures about their qualifications, identify what services they provide, how they are compensated, and when possible conflicts of interests occur.

Brokers and registered representatives generally are not considered to have a fiduciary duty to their customers. They are required to know and understand their clients' financial situations and needs. Then, based upon this knowledge, they recommend investments that are suitable for clients. They are not required to provide similar up-front disclosures that investment advisors must provide.

The Securities and Exchange Commission requires that brokers and other professionals who are not fiduciaries to include the following disclosure on their materials:

"Your account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and sometimes by people who compensate us based on what you buy. Therefore, our profits, and our salespersons' compensation may vary by product and over time."

A financial professional should be knowledgeable, responsive, competent, innovative, and caring. But greatest of all, a financial professional should be a fiduciary and to place clients' interests first.

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