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What It Means to Work With a Financial Fiduciary

Financial professionals — the people we hire to handle various aspects of our financial lives, from managing investments to planning for retirement and much more — come with a head-spinning variety of monikers, specialties and areas of expertise. A title like “financial planner,” “investment advisor” or “wealth manager” on their business card might by accompanied by a string of acronyms representing the professional licenses or credentials they earned along the way.

As a consumer who entrusts their money and their financial well-being to a professional advisor, it’s important to read between the lines of that business card by asking an essential question that cuts to the very nature of the services they provide and the relationships they cultivate with clients:

> **As an advisor, are you required to *always* put the best interests of me, the client, first — above your own business interests?**

Advisors who answer “Yes” to that question are considered fiduciaries. Being a **fiduciary** means they are obligated under the terms of their professional license or designation to always put the interests of their clients first, above their own interests and those of their firm or the company (or companies) whose products and services they represent. The Committee for the Fiduciary Standard, a group that supports holding financial advisors to certain ethical standards in their dealings with clients, outlines five core principles for a fiduciary:

1. Put the client’s best interests first.
2. Act with prudence; that is, with the skill, care, diligence and good judgment of a professional.
3. Do not mislead clients. Provide conspicuous, full and fair disclosure of all important facts.
4. Avoid conflicts of interest.

“Fiduciaries are held to the highest standard of the law when making recommendations for products and services,” explains Laila Marshall-Pence, a Certified Financial Planner™ in Newport Beach, CA. “In addition, the best fiduciaries will often leverage subject matter experts by tapping an entire industry for knowledge, not just the offerings of one company. This helps to ensure you receive the best advice and recommendations.”

Not all financial professionals are held to a fiduciary standard. Indeed, today only a a handful of designations and licenses come with an explicit requirement that designees/licensees meet a fiduciary standard. Those include:

- a **CERTIFIED FINANCIAL PLANNING™ (CFP®) professional**, a designation earned by financial and insurance professionals and conferred by the Certified Financial Planner Board of Standards. The CFP® designation carries a fiduciary responsibility under which the advisor must act solely in the client’s best interest when offering personalized financial advice, and must adhere to rigorous ethical standards. It also means the advisor has completed an extensive course of study in comprehensive financial planning.

- a **Registered Investment Advisor (RIA)**, who is bound to a fiduciary standard established and enforced by the U.S. Securities and Exchange Commission. The license to work as an RIA carries a duty of loyalty and care under which an advisor must act in the best interests of his or her client.

- an **Accredited Investment Fiduciary®**, a designation conferred by the organization fi360 under which advisors must adhere to a Code of Ethics that applies to personal and professional conduct.

- a **Chartered Financial Analyst® (CFA)**, a designation awarded by the CFA Institute under which the analyst must give undivided loyalty to their clients and must place client interests before their own, while adhering to a code of ethics and standards of professional conduct.

Advisors who aren't subject to a fiduciary requirement, such as brokers, instead are apt to be subject to a less stringent set of requirements called a **suitability standard**. Most brokers and advisors who work under a suitability standard are regulated by the independent body FINRA. The standard requires them to recommend products that are "suitable" to the client — that is, that the recommended security or product fit the client's investing objectives, needs and circumstances.

Unlike with fiduciaries, the allegiances of advisors who operate under a suitability standard ultimately lie first with their firm and/or the company whose products they're recommending and selling. So while they're required to recommend "suitable" products to their clients, the products they recommend might not be the *most* suitable in light of factors such as fees, commissions, etc. Just because a product is suitable doesn't mean it's the best fit for the consumer.

For example, an advisor to whom only the suitability standard applies may recommend a suitable product that happens to carry a higher cost to the consumer and a higher sales commission for the advisor, instead of a nearly identical but lower-cost, lower-commission product. The advisor opted for one suitable product because of the opportunity to earn a higher commission, even though another, more suitable (less costly) product for the client was available. Whose interests did the advisor put first in this case? Probably not the client's.

Working with an advisor who's a fiduciary removes these degrees of suitability and these potential conflicts of interest from the equation. When evaluating products that are identical except for their fees, the fiduciary is obligated to recommend the lowest-cost product to the client, even if it means a lower commission in their pocket.

The distinction is important, and one that can make a material financial difference to the consumer, as the money an investor pays in fees could instead have gone toward the investment, where it would have the opportunity to grow over time. This can mean hundreds, even thousands, of dollars of appreciated investment value over the long term.

"As fiduciaries, our mandate is to monitor and control the expenses our clients incur [for financial and advisory services], and to be open and transparent about fees and costs," explains Mark Johannessen, CFP®, managing director at Sullivan, Bruyette, Speros & Blayney, Inc., in McLean, Va.

More advisors soon could be subject to a fiduciary standard, as efforts are underway in Washington, DC, to extend fiduciary requirements to brokers who now operate under the suitability standard and to advisors who handle retirement accounts. Later in 2016, the SEC is expected to propose a rule to implement a uniform fiduciary duty for investment advisers and broker-dealers, while the U.S. Dept. of Labor has proposed a rule that would require more retirement investment advisors to put their clients' best interests first.

Posing a few questions to an advisor with whom you work or are considering working should help you find out if he or she is obligated by a fiduciary standard to protect your interests first and foremost:

- *Are you obligated to act under a fiduciary standard, and can you please spell out, in writing, the fiduciary responsibilities to which you must adhere?*
- *Which licenses and designations do you have, and which of those do and do not include a fiduciary standard?*
- *Are you willing to fully disclose all potential conflicts of interest as well as the compensation you may receive as a result of products you recommend, and your rationale for recommending them.*
- *If you do not hold a license or designation that carries a fiduciary responsibility, have you chosen to adhere to a fiduciary standard anyway, and if so, can you please describe, in writing, the fiduciary responsibilities to which you have chosen to adhere?*

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