

Who's your fiduciary?

IT'S GETTING A LOT MORE DIFFICULT TO DETERMINE WHO'S ON YOUR SIDE.

A lot of people want to help plan and execute your investments. These people have different levels of experience and expertise. Different licenses and accreditations. And fundamentally different ways of being compensated for their services. Once you understand the distinctions, you're going to find it a lot easier to interview firms and find yourself one you can trust.

A practical definition of fiduciary

At the root of this discussion is a concept called "fiduciary." There are various definitions out there. But the basic idea is this: a fiduciary is someone who has the highest possible ethical obligation to offer financial advice that is in your best interest. Your best interest trumps every other consideration.

Who isn't a fiduciary.

Anyone working as a broker on a commission basis isn't a fiduciary. Their primary responsibility is not to you, it's to themselves and their company. Their incentive is to make commissions by selling you securities, mortgages, insurance. They may recommend their company's own proprietary products. In that case, their product selection on your behalf is limited — and biased. Their recommendations might be in your best interest. But they might not. Typically, their credentials include Series 66, Series 7 and Series 6 licenses, which allow them to sell investment products, but carry with them no fiduciary responsibility.

Who is a fiduciary.

Fiduciaries typically charge you a percentage of your assets under management. That gives them an incentive to help you grow the value of your holdings. They may also charge a fee for specific services, such as building you a financial plan. Fiduciaries sell you objective advice, not financial products. They must put your interest first, regardless of their compensation.

Fiduciaries may refer to themselves as financial planners, financial advisors, investment advisors or wealth managers. However, the title itself is no guarantee that they're a fiduciary. A better indicator is their accreditation. If an individual or firm is a Registered Investment Advisor, then by law they must act as a fiduciary. A Certified Financial Planner™ (CFP®) also has a fiduciary responsibility to you. Their credentials often include an MS in Financial Planning, MBA or CFA (Chartered Financial Analyst).

Why you don't hear more about this subject

The Investment Advisors Act in 1940 established a clear definition of fiduciary. In recent years, however, the term has been hijacked by the securities industry, which is contorting the terminology to imply a fiduciary responsibility where none exists. The SEC has yet to assert itself and require full disclosure of the fiduciary relationship. Investors have to do their homework.

In summary

Financial services providers are held to different ethical standards. One who acts as a fiduciary has the highest ethical obligation to put your best interests ahead of every other consideration. When interviewing firms or individuals, ask them point blank if they are a fiduciary. Ask them about their business model, and specifically how they get paid. Ask if they are an RIA, or a CFP. This will give you a clear framework and dramatically increase your odds of finding a partner you can trust.



Private Ocean founder and CEO Richard Stone was co-author of the financial planning industry's first code of ethics in 1974. He is a recognized expert on fiduciary responsibility.

