UNDERSTANDING FIDUCIARY VS. SUITABILITY ADVICE STANDARDS

Financial advice is subject to a double legal standard: **"Fiduciary" advice versus "Suitable" advice.** It is up to **YOU (the client)** to spot the differences between the two, and judge the quality of the advice accordingly.

Fiduciary vs. Suitability: different standards result in different advice
Why the different legal standards? Government regulators assume that a broker's primary role is to place trades, so any advice he or she offers is considered secondary to this main, transactional business. As such:

- A broker's advice must be suitable for you, but it does NOT have to be best for you.
- A broker does NOT have to tell you about underlying incentives that may be influencing his or her recommendations.

Here is an example of how suitable and fiduciary advice can differ from one another. Imagine you are comparing two mutual funds that are equally appropriate for your portfolio, except one entails higher fees that just happen to offer a bigger commission to the trader. Brokers offering suitable advice can freely recommend the fund that compensates them more handsomely at your expense … *without disclosing the underlying incentive to you*.

On the other hand, if all else is equal between two investment selections, a fiduciary advisor must recommend the lower-cost investment (as that choice represents your best interest). As a fee-only firm, we do not accept third-party commissions or any other sales incentives. Our role is to serve your interests, and such enticements would only introduce conflicts of interest.

A Suitable Illustration in In Action
You may wonder whether suitable conflicts of interest really matter. If you're working with a financial pro and your investments seem to be doing okay, is there any harm done if he or she receives a few extra dollars along the way?

The investment damage done can be considerably more significant than most people realize. Take this illustration of a couple in their 70s, the Toffels, who were featured in a *New York Times* piece. The Toffels were not sold an AliBaba IPO for their $650,000 life savings, but their broker did saddle them with a variable annuity that cost more than 4 percent annually. [i]"That's more than $26,000, annually – enough to buy a new Honda sedan every year," observed the columnist. The annuity also included a 7 percent surrender charge, effectively trapping the Toffels into the overpriced holding. Consider this in the context of a typical, no-frills index fund costing less than 0.25 percent, with no surrender charge.

The article points out: [ii]"Like many consumers, [the Toffels] say they didn't realize that their broker wasn't required to follow the most stringent requirement for financial professionals, known as the fiduciary standard."

The Cost of Conflicts of Interest

Not yet convinced? The White House weighed in on the subject with a report, drawing on evidence from more than 50 independent resources including dozens of peer-reviewed academic studies, the report estimated that retirement investors may be losing an aggregate of \$8–\$17 ***billion*** each year from conflicted advice. [iii]

That is why it behooves you to turn to a fiduciary investment advisor whose legal duty is to always advise you strictly according to your highest financial interests, ahead of any such conflicts of interest. When it comes to your life's savings, we believe you deserve better than advice that is merely suitable.

Fee Arrangements

A transparent, **fee-only** arrangement is preferred; you can clearly see what you're spending in exchange for what you're receiving.

A **fee-based** arrangement warrants further inspection. Fee-based advisors are receiving your fees, plus commissions from others, usually from insurance policies or annuities.

Check the Regulatory Reports (Form ADV)

Whether registered with their state or the Securities Exchange Commission (SEC), Registered Investment Advisor firms must file a Form ADV that is typically available on the SEC's Investment Adviser Public Disclosure website. A firm's ADV discloses a number of important details worth knowing.

We invite you to access our Form ADV. We are proud to be a **fiduciary, fee-only, Registered Investment Advisor** offering an evidence-based investment strategy guided by your highest financial interests.

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[i] Bernard, Tara Siegel (2014), Before the Advice, Check Out the Adviser, *The New York Times*, Retrieved from https://www.nytimes.com/2014/10/12/business/mutfund/before-the-advice-check-out-the-adviser.html

[ii] Bernard, Tara Siegel (2014), Before the Advice, Check Out the Adviser, *The New York Times*, Retrieved from https://www.nytimes.com/2014/10/12/business/mutfund/before-the-advice-check-out-the-adviser.html

[iii] Furman, Jason and Stevenson, Betsey (2015), The Effects of Conflicted Investment Advice on Retirement Savings, *White House Publications*, Retrieved from https://www.whitehouse.gov/blog/2015/02/23/effects-conflicted-investment-advice-retirement-savings

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