Benefit Financial Services Group

BFSG Insights

Finding a Financial Advisor That Puts You First

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In the interest of educating our clients, prospective clients, and the network of professionals with whom we work on issues affecting our industry, we offer the following article published by Karen Hube in the June 18, 2018 issue of Barron's.

Reliable, conflict-free advice. That's what you usually want when you hire a skilled pro to help build and manage your financial portfolio. But there's no guarantee you'll get it. Some investment advisors, motivated by commissions, bonuses, or other financial incentives, steer clients into products that aren't in their best interests, resulting in some $17 billion in lost retirement savings per year, according to a 2017 report by the White House's Council of Economic Advisers.

These practices are an ignoble yet legal facet of the financial industry, and led to an effort by regulators to establish a standard to put clients' interests first. The imperfect Obama-era law, proposed by the Department of Labor, would have required investment advisors to act as fiduciaries when dealing with retirement investments. But a court ruling in March 2018 iced the rule. Meanwhile, the Securities and Exchange Commission is working on a similar proposal.

So where does that leave investors?

You're mostly on your own to discern the great, the mediocre, and the ugly of the investment advisory world (though we offer some help through the Barron's rankings of financial advisors). "If regulators and Congress aren't going to do anything, investors have to take things into their own hands," says Harold Evensky, president of Evensky & Katz in Coral Gables, Fla., and a professor of finance at Texas Tech University.

The first step is to understand that there is a divide in the investment-advisory industry's standard of service. Some advisors adhere to a fiduciary standard, and others to a suitability standard.

The fiduciary standard requires an advisor to put clients' interests first, generally meaning to disclose and avoid any conflicts of interest. Under a suitability standard, advisors have to believe that an investment is a perfectly fine choice for a client, but don't have to disclose conflicts or that there are cheaper, more tax-efficient or otherwise more competitive products available. Brokers and insurance agents are supposed to adhere to this standard.

For example, under the suitability standard, an advisor with an in-house mutual fund can recommend it to a client on the basis that it is a decent fund, regardless of whether there is a similar, less expensive option run by an outside manager. A fiduciary would be obliged to disclose the conflict of interest, and the cheaper alternative.

"With the fiduciary standard, you have to consider the client's bigger picture," says Jamie Hopkins, retirement income program co-director at the American College of Financial Services. "With the suitability standard, you can consider whether a product is suitable as a single transaction."

While the fiduciary standard is the highest quality of service, its definition can vary among investment professionals. Yet the titles you see on websites and marketing materials tend to look very similar.

"There are so many people that call themselves wealth advisors that I do think it's confusing for consumers," says Marty Bicknell, CEO of Mariner Wealth Advisors, in Leawood, Kan. So it's important to understand the standards behind an advisor's title.

The only advisors legally held to a fiduciary standard are registered investment advisors, or RIAs. Often referred to simply as "independent" advisors, these are practices made up of an individual or a group of advisors. Practices with more than $110 million under management must register with the SEC. Smaller practices must register with their state. Consequences for impropriety can range from a censure to crippling fines.

But the RIA fiduciary standard applies only to investment management, not to broader financial planning. To compensate, some RIA firms go to lengths to assure clients that they are broadly applying their fiduciary obligations. For example, Evensky & Katz has collaborated with about a dozen other RIA firms to create a Fiduciary Oath, which it signs for its clients, promising loyalty, good faith, prudence, and transparency. “Ask your advisor to sign one. If they don’t, it’s a huge red flag,” Evensky says. The National Association of Personal Financial Advisors, or Napfa, also requires members to take, and renew, a fiduciary oath.

Certified Financial Planners, or CFPs, are also under obligation to be fiduciaries—not by the SEC, but by the CFP Board of Standards, which issues the CFP designation to those who complete coursework, pass an exam, and complete ongoing educational requirements.

The CFP’s fiduciary standard is broader than the RIA’s, applying to all aspects of financial planning. Enforcement, however, doesn’t have the legal bite of the SEC’s. The CFP Board can revoke the CFP designation—certainly a major bruise for a career advisor, but not as dire as paying reparations and fines.

Yet other financial advisors behave as fiduciaries because they feel ethically motivated to do so, or understand that it gives them more credibility. Indeed, many firms that geared up to adhere to the now-void new rules are acting as fiduciaries simply because the industry is heading that way.

So why would any investor want to hire a nonfiduciary advisor? First, there’s the issue of fees. Registered investment advisors and CFPs typically charge a percentage of assets, partly to remove the motivation to push one product over another, and to encourage long-term relationships with clients.

This arrangement can make sense for people with substantial investible assets, rather than those with smaller portfolios, Hopkins says. Folks with more-modest portfolios might handle their own affairs, and simply need a commission-based professional to facilitate transactions, he says.

Or, consider a family with $1 million in 401(k) assets but fairly straightforward financial needs. At the standard fee of 1% of assets, they could find themselves paying $10,000 a year for very little guidance after their financial plan is in place. To accommodate such situations, some advisors charge an hourly rate or a flat fee.

High-net-wealth clients can be attracted to the big financial firms for many reasons, including access to more investment options and the comfort of working with a huge institution and the controls that come with it, such as a vast compliance department. In the unlikely event that something goes wrong, a family with a $50 million fortune might like to know there’s an institution with deep pockets to be held responsible.

Which leads to the question of whom you trust. At the root of an advisor-client relationship is a strong rapport. “There are great folks who work on the broker-dealer side who are terrific advisors,” says Grant Rawdin, founder and CEO of Wescott Financial Advisory Group, a Philadelphia-based registered investment advisory.

And it’s important to understand that an advisor’s claim of adherence to a fiduciary standard doesn’t amount to a guarantee. No matter what standard an advisor is working under, investors must be vigilant and ask probing questions.

“The best way investors can protect themselves is to understand the advice they’re getting,” says Allan Roth, founder of Wealth Logic, a registered investment advisory in Colorado Springs, Colo. “Make sure it’s simple, because in almost every case, a complex investment is a bad investment.”

We hope that you found this article to be interesting and informative. If you have any questions about anything in the article, please contact us. We at BFS Wealth Management are proud to serve our clients as fiduciaries. The professionals at the firm who hold the Chartered Financial Analyst or the Certified Financial Planner designations are also held to the fiduciary standard. We take the duty to do so very seriously!

Sincerely,

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1. Hube, Karen. “Finding a Financial Advisor Who Puts You First.” Barron’s, 18 June 2018.

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