

## BEST PRACTICES ADVISORS

### *Why does the Fiduciary Standard Matter to Clients*

Best Practices Advisors speak out ... On why they formed their RIA, the differences between brokers and advisers and avoiding as opposed to accepting and disclosing conflicts, and what this means for their clients. Here are some of their comments.

**Joseph Alfonso**  
**Aegis Financial Advisory**

I formed my firm with the goal of providing non-conflicted, comprehensive financial advice. I work solely for my clients, not a financial services company, and my primary loyalty is to them. ... A business model that places the burden on the client to know when their adviser is acting in their best interest and when he is not is fundamentally flawed. Clients deserve the reassurance that their adviser is acting in their best interest 100% of the time. Simply put, fiduciary advice places the focus on where it belongs: doing what is best for the client, not the adviser or his employer.

**Richard Stott**  
**Connectum**

Based on extensive personal experience from the Financial Services Industry both Nils Tønnevold and realized that there had to be a better way to ensure that investors receive the full benefit of their hard earned money that they have invested. It quickly became clear to us that a fee only, fiduciary approach to advise was the only sustainable way to provide truly independent and un-conflicted advice.

By the way they earn money, brokers have an inherent conflict of interest with their clients in that they are incentivized to action, which often may not be in the client's best interest. A fiduciary will always seek to recommend that action which they truly believe is in the client's best interests and which may in some cases actually be detrimental to their own short term interests. Complete transparency from a fiduciary approach is the only long term way to ensure that the vital bond of trust is maintained between client and adviser including disclosing potential conflicts of interest. Avoiding disclosure of conflicts serves only to weaken the strength of the relationship and is unsustainable in a world of ever increasing transparency.

Genuine fiduciary advice not only enables clients to meet their investment goals. More importantly it helps ensure that clients can focus on those issues which are truly important to them because they know that they have an adviser ensuring their financial interests are cared for properly. A fiduciary approach ensures not only a proper return on investment, but an improved return on life.

**Mark Sievers**  
**Epsilon Financial Group**

I started an RIA firm to provide useful objective services to clients. Our goal is, “to help clients make sound financial decisions”. This is not possible in the broker-dealer arena because the emphasis is on sales and revenues, usually commissions. In the broker-dealer arena, the level of training and understanding, whether academic degrees or professional credentials, is limited, often embarrassingly so. Clients need competent advisors just as they need competent medical doctors. An RIA firm provides the latitude so the advisor can actually do provide such services.

Every human interaction would benefit by both sides understanding the relationship and the conflicts of interest which influence decisions. Full disclosure is sure better than guessing and wondering.

The role of the broker is to develop and distribute financial products. The role of the fiduciary is to advise in the best interest of the client. An apt analogy is the difference between pharmaceutical companies and medical doctors. Drug companies make and sell drugs but cannot diagnose and give medical advice. Doctors have the training and the obligation to work in the best interest of their patients. Doctors cannot manufacture and sell the drugs which they may prescribe. The patient should use the doctor for medical advice and use the pharmaceuticals for the treatment.

Clients will have peace of mind and confidence in the decision if they believe that the advisor is concerned with the client’s pocketbook and not their own. A sound financial decision is based on information, competent analysis and objective recommendations. A fiduciary has the duty to act in the best interest of the client, a role which requires care, competence and objective recommendations.

**David B. Schram**  
**Elements 5**

As an attorney for almost 20 years, I’ve been giving advice to clients to help them solve complex legal problems to achieve an outcome that they desire. I started my own financial planning and investment advisory firm to continue doing the same, just in a different area that I love, respect, and am truly fascinated by, and without having obligations to anyone else but to my clients.

Representatives of brokers-dealers, banks and other financial institutions who sell products (like annuities and mutual funds) have an obligation to their employers to sell those products and earn commissions; a true fiduciary who is only paid directly by the client has an obligation only to the client. Disclosing conflicts, whether by a fiduciary or institutional rep, is helpful but it is impossible for these representatives to avoid conflicts when they earn commissions or have obligations to the institution.

There is a real impact on clients when they receive complete, objective advice and solutions crafted in their best interest, including all of the relevant information. They are able to make informed decisions about how they want to use the advice or how to instruct their adviser on its implementation. We think this gives clients the greatest probability of achieving success in reaching their goals.

**Preston McSwain**  
**Fiduciary Wealth Partners**

After many years as a Managing Director inside large asset management, investment banking and brokerage organizations, I wanted to start a firm that could be in a position to truly sit on the same side of the table as clients and form long-term partnerships with them built on transparency.

If we are all honest with ourselves, everyone has conflicts. The key is how open and transparent you are. Nothing is wrong with being compensated for selling products as a broker. The problem is when brokers suggest that they have "fiduciary values", but then don't freely disclose that they are often paid one way. For selling products on 100% commission, with incentives structures that frequently put them in significantly conflicted positions.

Maybe the best way to think about this is with a story. A client once said, "Preston, long-ago we hired you to manage our money. We have been pleased, but do you know what we have come to realize we really pay for and value the most? Transparency, simplicity and peace of mind."

**Kristopher Behn**  
**Fieldstone Financial**

When I started in this business more than twenty years ago, I did so to make an indelible positive mark on the industry. At the time, I swam against the current by offering objective financial advice under our trademarked Advice. Not Products<sup>®</sup> approach. Today, we continue our quest but have expanded our mission to building a grass roots effort to support purveyors of objective advice throughout the United States within the Fieldstone Financial Advisors Network.

Stark differences exist between brokers and fiduciaries. Look, everyone is simply doing their best to provide for their families in everything they do and, with the exception of a select few, people in our industry are good people. The fiduciary divide persists today due to a lack of proper training and understanding both at the advisor level and at the consumer level. The way things were done in the 80's and 90's no longer work today and I think consumers are beginning to see that this is the case. Consumers need leadership, not product sales. The conflict free fiduciary model is best positioned to provide the required leadership.

There is no question that the conflict free fiduciary model offers consumers a strategic advantage by placing objective information at their fingertips. Objective information from which more educated decisions can be made. And in the end, educating both the advisor community and the consumer will allow this country as a whole to come together in what clearly should be the standard of care in the financial services industry—the fiduciary standard.

**Scott Mackillop**  
**First Ascent Asset Management**

I started First Ascent with the goal of making high quality portfolio management services accessible to a wide range of investors at a fair price. The focus at our firm is squarely on serving clients so we start every conversation by asking, "What would be best for our clients?"

A broker is in the business of selling products, while a fiduciary is in the business of serving clients. A broker may sell any product that is “suitable” for a client, but is not required to put a client’s interests first. A fiduciary must put the client’s interests first and may only recommend a course of action that is in the best interest of the client.

The client is best served by working with a true fiduciary because that assures that the client’s interests will be paramount. The client does not need to be concerned that the advice they receive is compromised or conflicted in any way. Working with a fiduciary contributes to a client’s peace of mind

**Tim Decker**  
**ISI Financial Group**

My staff and I can provide completely independent, fee-only, objective guidance to our clients while always putting their best interests first. A broker represents the company they work for and their best interests. In contrast, a fiduciary must always represent their client’s best interests, first and only. This is why it’s paramount to understand that the only way to avoid these conflicts of interest is to work with a 100% fee-only advisor who will sign a fiduciary oath.

Working with a 100% fee-only financial fiduciary cannot be underestimated. This allows clients to have complete confidence that their advisor is always representing their best interests alone. This is foundational, and ignoring such, often leads to financial disaster for many individuals and institutions.

**Dan Moisand**  
**Moisand Fitzgerald Tamayo**

I wanted to work for clients as a true advisor not for a financial services company as a sales representative. The difference in perspective and outcome (between a broker and an adviser) can be significant. A broker can pull a suit off the rack that fits you ok and their boss will say they did their job. With a fiduciary, you (the client) are the boss and a fiduciary should select and tailor a suit so that you look good. Avoided conflicts are never an issue. Disclosed conflicts must be managed and can still be an issue.

Clients can proceed with more confidence that the advice they are getting is in their interest and if the advice is in question, the burden is on the fiduciary to show they acted in the clients’ best interest. In a sales relationship, the customer has the burden to show the seller mislead them.

**Paula Hogan**  
**Hogan Financial**

I wanted to serve clients in a way that reflects our view of the right relationship with clients: Smart, nice, independent, and honest. In an independent RIA firm, we are aligned with those personal values; we operate at all times, with no restrictions and no caveats, for the client and only the client. Period.

You would not go to a Cadillac dealer for transportation advice. The salesperson is not going to suggest a different car type better suited to you, or raise the idea getting a driver—because you hate

driving or can't see well, or introduce the notion of saving up until you can afford to buy a Cadillac. But if you know you want and can afford to buy a Cadillac, you can have a gratifying sales experience and come home with the right Cadillac. Similarly, you go to a fiduciary for advice and to a broker to make a purchase.

Would you rather go to a financial professional who has chosen to operate as a fiduciary in all instances with no fine-print caveats needed, or are you comfortable identifying for yourself the instances where your financial person may not be working solely for you, e.g. by finally finding in the middle of page 18 of a long account application a fine-print paragraph that "discloses" when and how your financial person has loyalties other than to you—and then deciding what to do about that probable conflict of interest?

It is a transformative difference when your financial person works solely for you, about what you care about, and without having to constantly monitor and maximize the products s/he sells to you. When your financial person works for you, there is a promise of more financial safety, more financial understanding, more informed personal choices, more vibrant career choices, more meaningful family conversations, more knowledge about social and economic policy—and, oh yes, —higher lifetime wealth. Fiduciary objective advice offers peace of mind and more effective progress towards your goals. You are the focus of attention; not how much you buy.

**Kimerly Polak Guerrero**  
**Polero Ice Advisers**

After several decades experience in finance, I knew there was a very big gap between how people were served and how they should be served. Many were reaching retirement without the resources required, due to the huge fees and commissions that had been siphoned out of their accounts during their working decades. In addition, I could see that many were not receiving good advice about non-investment areas that greatly affected their finances, and that there was a need for comprehensive financial assistance provided by knowledgeable professionals, who weren't salespeople. I started my firm because I wanted to offer a service where I would be working on behalf of my clients all the time – 100% of the time – without any pressure to push someone else's agenda.

There is a significant difference between the services provided by many brokers who are basically salespeople, and who have something to personally gain if they extract fees from their clients, versus someone who only has an incentive to do what is best for their clients. Every client has a right to know when the person with whom they are dealing is not completely on their side of the table. Therefore, it's critical that all conflicts of interest be clearly disclosed and explained to every potential client before any business is transacted.

When clients truly receive objective, competent advice from someone working as a fiduciary, they do not have to be concerned that they are being sold less-than-optimal solutions. A fiduciary wants the best for clients and has no incentive to offer anything less.

**David Lewis**  
**Resource Advisory Services**

While working in an insurance agency that called itself a financial planner, I heard tapes of speech's by NAPFA founders, who taught me a fee-only, fiduciary business model could serve clients in ways that would be very different, as well as in line with my personal beliefs about the best client-advisor relationship. That was 1984 and 1985. May 1, 1985 I moved into a \$100-a-month shared office space and have been serving clients this way since.

A broker has a responsibility to make transactions happen and is most often paid for success in making transactions happen, while a fiduciary is voluntarily charged with bringing their expertise into relationships for the primary benefit of those served.

Meaningful conflict of interest disclosure involves clear communication for a reasonably tested belief that all parties in the relationship have understanding for the ways specific conflicts of interest could influence behavior in their service. When I have a conflict of interest, it is too easy for me to convince myself my advice is not influenced by it, which can lead to unintentional or intentional avoidance of complete disclosure. A way to erroneously believe I have given disclosure is to obscure the conflict with language that makes it difficult to understand, instead of easy.

When clients come to rightfully believe they are getting fiduciary, objective advice, their sense of security and wellbeing improves dramatically. They can focus on the substance of the advice, rather than guarding against the possibility of mishandled trust. We find it is still worthwhile to frequently remind our clients to test whether our advice is in their best interest, because they can help us avoid conflicts of interest we may not recognize. It makes the relationships stronger.

**Rob Schulz**  
**Schulz Wealth**

I formed my RIA in 2014 to create the type of unbiased client/adviser relationship I had always envisioned. Schulz Wealth offers a clear, simple, and direct connection between who we work for and how we are compensated. In short, the better our clients do, the better we do as a firm. That's the way it should be when the end goal is to maximize and build wealth for our clients.

A broker is paid by commissions, which can vary greatly based on the type and number of investments they recommend. RIAs are compensated according to a clear fee schedule, regardless of which investments they recommend or how many trades they execute. This is why many brokers fear full disclosure of compensation because they are unsure of the value they provide to the client. As a fiduciary, I welcome full disclosure because the unencumbered advice I provide has great value and always puts my clients' best interests first. As a fiduciary, my goals are aligned with my clients' goals. I have a specific legal obligation, in addition to the moral obligation I put upon myself, to always act in my clients' best interests. This alignment provides the opportunity for a lifetime relationship that is based upon my clients' financial success. We act as true strategic partners and have a vested interest in each of our client's success.

**Ben Tobias**  
**Tobias Financial Advisors**

My goal was to build a business with other compassionate advisors who are enthusiastic about seeing their clients achieve better financial futures. After a successful start as an accountant with an international accounting firm as well as owning my own CPA firm, I decided that what clients needed was an expert in wealth management and financial planning. After earning a CERTIFIED FINANCIAL PLANNER™ professional, I converted my accounting firm to Tobias Financial Advisors, which combined all areas of financial planning with quality service in order to provide ongoing financial solutions for each individual or family served.

Not all financial advisors are the same. To be honest, there is a lot of difference between us. Brokers are ultimately salespeople who are generally compensated by commission, or a production-based bonus, and whose primary loyalty is to their employers. Brokers follow the Suitability Standard which merely calls for brokers to sell investments they believe are suitable for their clients, not necessarily what's best for the client. A fiduciary has a defined, legal obligation to act in the client's best interest. As fiduciaries, we at Tobias Financial Advisors are committed to providing unbiased financial advice and acting exclusively in the best interests of our clients.