INSTITUTE FOR
THE FIDUCIARY STANDARD

June 12, 2020

Why Choose a Fee-Only Fiduciary Advisor?

Simple. They are better for you. Fee-only fiduciary advisors can be more candid, clear and transparent about what they do, what they charge and what you get. Advisors often look alike -- but they don't act alike. What they do can be as different as night and day.

Every day thousands of investors seek financial advice. But finding a fee-only fiduciary can be tough. All advisors say they put your interest first or are a *fiduciary*. Are they?

Fiduciaries must meet the legal duties of loyalty, due care and utmost good faith. ***Loyalty.*** Put a client's best interest first. ***Due care.*** Act with prudence and specialized skills. ***Utmost good faith.*** Act with integrity, honesty and transparency.

These duties are well established. Yet, their meaning can be confusing and who follows them unclear. This e-book clarifies these questions and helps investors identify fiduciaries by how they *act*.

Fiduciaries are better for investors

Fiduciaries are better for investors because of what they can do. Fiduciaries work for and are paid by you, the client, for advice. Sales brokers work for and are paid by firms to distribute products. What fiduciaries do is common sense. Here are five specific fiduciary common sense ideas. A fiduciary will:

- Be loyal. Always. Advise clients in relationships of two – not three.
- Only accept client fees as compensation. Avoid conflicts if at all possible.
- Disclose all fees and expenses the client pays and the firm receives.
- Put disclosures and agreements in plain language writing.
- Maintain a recognized designation with ongoing professional education.

Real Fiduciary™ Advisors get these commonsense ideas and sign the Real Fiduciary™ Code of Ethics. Get your advisor to sign. Then you will know you have an advisor who can act as a fiduciary.

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Loyalty is law. *Fiduciaries are loyal to clients. It's the law. They work in relationships of two. Brokers are different. They work for manufacturers in relationships of three.*

Independent investment advisers and securities brokers are like night and day. Take their purposes and roles. Advisers *advise* and are required by law to be loyal. They act as fiduciaries. Advisers are in relationships of two with clients. Brokers, on the other hand, are in relationships of three. They are obliged to distribute products of manufacturers and other firms to their customers. The core differences: Brokers work for and are paid by other firms. Fiduciaries work for and are paid by clients.

Takeaway: The fiduciary's loyalty is to you. Loyalty is law. Brokers' firm loyalty is to the firms that pay them. It is not complicated. It is common sense.

Conflicts can be deadly*. A fiduciary treats conflicts as a "Mortal threat" to be avoided. Brokers' firms disagree. Brokers' firms welcome conflicted compensation.*

Several years ago a senior regulator at the SEC said conflicts of interest are like "Viruses that threaten an organization's well-being" and if left alone are "A mortal threat to the body."

Fiduciaries and brokers see conflicts differently. Fiduciaries avoid conflicts like a deadly virus and mitigate unavoidable conflicts. Commissions and fees from manufacturers are obvious conflicts.

In, contrast, Brokers' firms welcome conflicted compensation. They don't seek to avoid conflicts. They suggest these conflicts benefit investors. No surprise that brokers firms' conflicts are greater and more complex. Take fees. Fiduciaries describe their fees in a few sentences, a table or a page. Brokers firms often use many pages. Ameriprise uses 16 pages to explain "How we get paid".

Takeaway: Fiduciaries seek to avoid conflicts. Brokers' firms disagree. They welcome conflicts. They are wrong. Conflicts are like a virus. It is not complicated. It is commonsense.

Hiding fees is no game*. Fiduciaries believe clients should know what they pay, and what their firm earns. Brokers' firms disagree.*

The relationship between a fiduciary and a client is based on trust that depends on transparency. This includes disclosure of the fees and costs that a client pays and that the firm earns from the client. Fiduciaries accept this responsibility.

Brokers' firms do not. They will not say *what* you pay and *what* the firm makes. They will tell you *how* you pay and *how* the firm makes money from you. Here is a quote from a disclosure (**More revenue** is bolded) from a broker-dealer RIA form ADV on "fee disclosure":

… For brokerage accounts there is an incentive for our financial advisors to sell a fund that pays a load or a fund that pays a 12b-1 fee over funds that do not. … (Financial advisors receive) … ***More revenue*** *from the purchase of products and services than from Wrap Fees.* ***More revenue*** *as the size of any margin account balance increases. …****More revenue*** *when you purchase certain types of products, such as insurance and annuity products and direct investments. …*

Brokers firms call this "fee disclosure". We call it playing games. This describes *how* fees are generated, not *what* you pay. This is laughable. Consider. Would you fix your car, renovate your kitchen or prepare a will not knowing what you pay? Would you accept just being told how you can pay -- by Zelle or credit card?

Takeaway: Fiduciaries disclose what their clients pay for advice and investments. This is basic. This is no game and is not complicated. It is commonsense.

Know what you get. *Clarity, candor and plain language writing. Fiduciaries believe this is what you deserve. Brokers disagree.*

Finance is famous for legalese in agreements and disclosures. Legalese that is incomprehensible is too common. Warren Buffett is famous for writing reports understandable to ordinary investors.
He criticizes legalese. An excerpt of a brokers' firm disclosure:

"This Summary of Programs and Services summarizes, for informational purposes only, the type of advice, investments and fees associated with the various programs and services available to you. It is … not meant to replace your close review of the terms and conditions of the programs . ...

Fiduciaries will put in plain language writing their fiduciary status, important agreements, the services they provide, their conflicts and how they handle them, and what you pay for advisory and investing services. Some brokers want to put these items in writing, but they cannot. Their firms won't let them.

Takeaway: Fiduciaries explain and put what they do in plain language writing. You can understand important terms. Again, this is not complicated. It is common sense.

Education matters. *Fiduciaries have a recognized designation or education. Ongoing continuing professional education matters.*

FINRA, the regulator of brokers, counts over 200 designations or credentials that advisors use to show investors they are qualified. It's generally believed that only a handful of these designations are recognized and credible. Such designations require significant study and knowledge, experience and ongoing continuing education requirements, such as the CFP®, CPA/PFS, or CFA designations.

Takeaway: Fiduciaries highlight their finance education or professional designation. It is not complicated. It is common sense.

Find a Fiduciary; it is better for you. *Finding a fiduciary doesn't have to be confusing. Look for someone who acts with common sense.*
Common sense is powerful and helped form the nation. It can help identify a fiduciary.

Fiduciaries are better for investors because of what they can do. Fiduciaries work for and are paid by clients. Brokers' firms are paid by firms to distribute products. Five common sense ideas highlight what fiduciaries can do. Common-sense ideas are key to Real Fiduciary™ Advisors and can help you find a fiduciary. They also helped form the nation.

Institute for the Fiduciary Standard
Real Fiduciary™ Advisors Code of Ethics

Name of Firm:
Source: Institute for the Fiduciary Standard
Topic: Real Fiduciary™ Advisors
Type of Registration: Registered Investment Advisor (SEC or State)

Fiduciary: A fiduciary occupies a special position of trust and confidence, the highest standard in law. A fiduciary must act in the best interest of the client, without regard to the fiduciary's financial interest.

Fee-Only: The advisor's only method of compensation is a fee: Asset-based, fixed, or hourly. Real Fiduciary™ Advisors do not accept any type of commission for the sale of financial products, transactions, or revenue sharing.

Validation: Real Fiduciary™ Advisors validate their fiduciary practices by publishing:

- The Institute's Real Fiduciary™ Practices.
- Online content that educates investors about fiduciary issues.

Real Fiduciary™ Advisors agree to:*

1. Serve our clients as fiduciaries at all times.
2. Only accept compensation paid to us by our clients.
3. Disclose clients fees and expenses in writing.
4. Avoid conflicts to the best of our ability.
5. Disclose and explain important information and agreements verbally and in writing.
6. Maintain our designations with ongoing education of knowledge and skills.
7. Provide advice based on clients' goals, circumstances, concerns, and tolerances for risk.

Acknowledged By:

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Firm Signatory / Date

*The Real Fiduciary™ Code of Ethics summarize the Real Fiduciary™ Practices of the Institute for the Fiduciary Standard. Our advisors commit to meet these practices. View the Real Fiduciary™ Practices, at: https://thefiduciaryinstitute.org/wp-content/uploads/2019/03/Real-Fiduciary-Practices-2019-02-22.pdf

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