McIlrath | Eck

INVESTMENT - RETIREMENT - LEGACY PLANNING

YOUR Financial Advisor

As a consumer, you probably make many assumptions about products, services, and their providers in the open market. Financial advice is no exception. A common assumption here is that the financial advisor that you trust with your money and future will be working under a principle whereby during the management of your finances, he or she will have your best interests at heart. However, under the legal and regulatory guidelines as well as industry practice, this concept is not as simplistic as you would think.

Two types of financial professionals have different standards of care when they are working with you. The first type provides advice and guidance and is held to a “Fiduciary” standard of care which requires your interests to be put first by the advisor. The second type merely sells financial products. This financial professional is only held to a standard of suitability under which they must only ask, “is the investment suitable for the client?” There is a sizeable gap between what is “suitable” and what is “in your best interest”. Unfortunately, it is not always easy for you to determine which type of financial professional you are dealing with.

With that said, progress towards a better consumer protection in this industry has been made. The standard of care gap has just been bridged for <u>Retirement Planning Services</u> by the U.S. Department of Labor. Under the new rule, almost all advisors working with retirement savers are identified as investment advice fiduciaries, and are subject to an Impartial Conduct Standard that requires recommendations be made in the best interests of the client. What this means in practice will be determined as the rule starts to be enforced.

Regardless of the standard of care you are legally due, there are steps you can take to make sure you are getting a fiduciary who puts your interests first. Things like asking the professional at the outset of your relationship about the level of care he or she owes you, researching what others have said about dealing with them, and/or determining the scope of their services will allow you to get a better sense of the type of financial professional you are engaged with. Additionally, recommending fiduciaries over other financial professionals to future advice-seekers and only engaging with them yourself will encourage lawmakers and apply pressure to the industry to make the fiduciary relationship mandatory for all financial professionals, no matter the scope of their job description.

We have included (an attachment/ a link) that will allow your friends and family to assess where the interests of their potential financial professional may lie. Diligence goes a long way and will make sure informed decisions are being made about who to trust when deciding to act on advice from an advisor.

References:

- http://www.naifa.org/advocacy/federal-issues-positions/fiduciary-(retirement-accounts)
- “You Set The Standard For A Financial Advisor” – Chuck Jaffe – Seattle Times (2/19/17)