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La Cañada Flintridge NEIGHBORS

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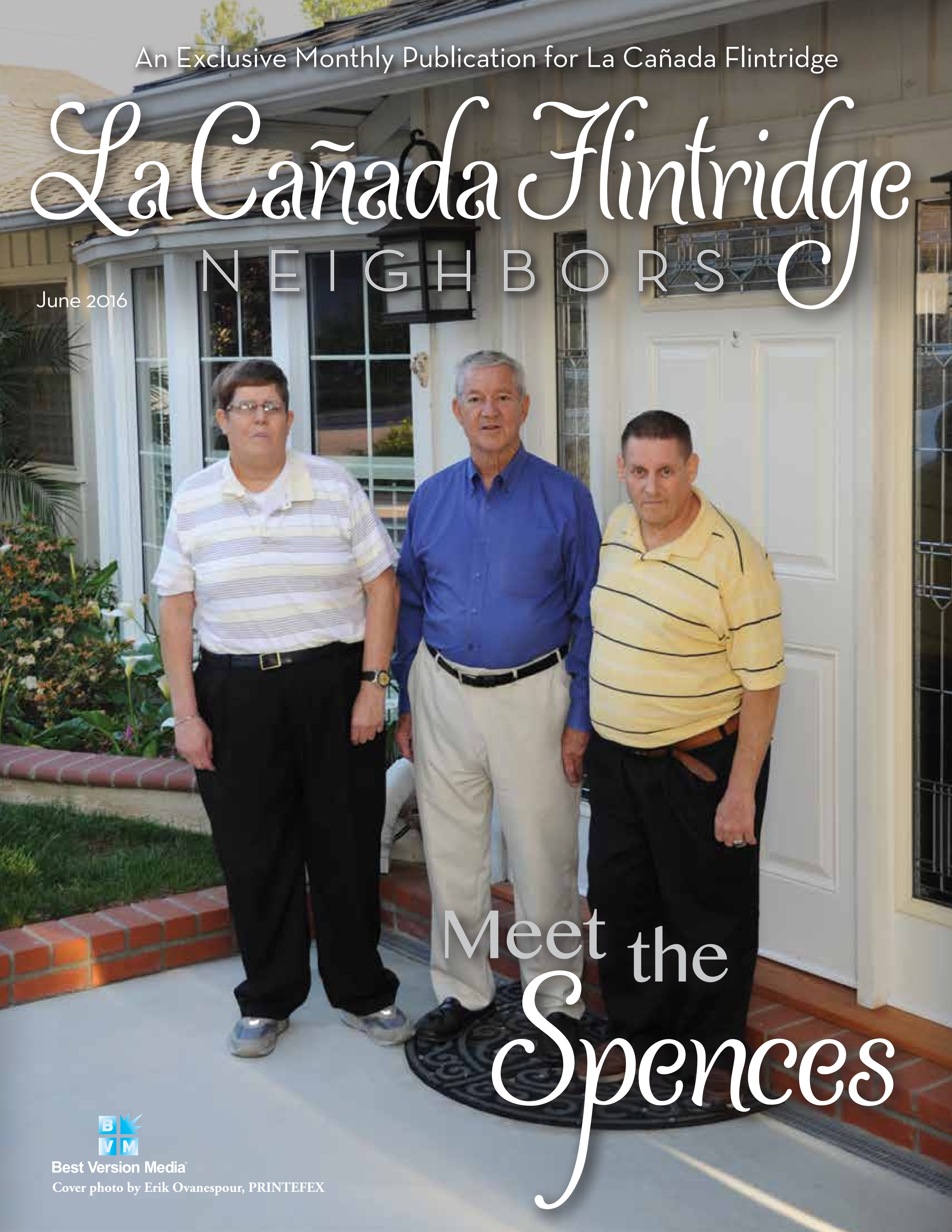

Meet the Spences

Best Version Media
Cover photo by Erik Ovanespour, PRINTEFEX

To Find A Fiduciary or Not?

By Brad Creger – President & CEO, BFF Financial, Inc.

I'm sure you have no doubt heard that the Department of Labor (DOL) recently released their controversial fiduciary rule in early April 2016. You may also have heard that the financial industry was split between those that supported the new fiduciary rule and those that opposed it.

Those that supported the rule argued that a financial advisor should always be held to the Fiduciary Standard thereby putting their clients' interests first. On the surface this would "seem" to be a great idea. A client's best interests should ALWAYS be the advisor's guiding light but this argument was a distraction.

What the new rule actually mandated was the method your financial advisor is compensated. To explain this further you must understand that there are only two methods for compensation when selling financial products. The client will either pay a fee or a commission – but never both on the same investment.

When an investment is sold for a commission through a broker/dealer (or B/D) the advisor is held to the "suitability" standard-of-care – meaning at the time of the sale the investment must have been suitable for the client given their financial situation.

When an investment is sold for a fee through a Registered Investment Advisor (or RIA) the applicable standard is the "fiduciary" standard – meaning that because the client pays ongoing fees, the investment must be suitable not only at the time of sale, but at all times.

This still sounds like it might be good to have all financial products sold under the "fiduciary standard" because it forces your advisor to keep an eye on your investments. However, a good advisor will monitor your investments and suggest changes when necessary regardless of how he/she is paid. The monitoring of your investments was not the issue either.

So exactly what's changed? Among other things the DOL rule all but forces individual retirement accounts (or IRAs) to be managed for a fee through an RIA.

The DOL rule does not take into consideration that there are some very good investment options that are currently ONLY offered on a commissionable basis through a B/D. The DOL rule also ignores that there are situations where it is less expensive for the client to pay a commission (rather than an ongoing fee). The DOL rule limits investor access to certain products and will force some investors to pay higher ongoing fees.

The fact is most of our retirement accounts at BFF are fee-based, but every family is different and your advisor needs flexibility to work in your best interests. Is anyone worse off from having more options? To ensure the broadest array of investment options, your financial advisor should be "dually registered" and working through both a B/D and an RIA.

The DOL rule also imposes new reporting and compliance requirements which will increase the costs of delivering financial services. If what happened in England and Australia when they enacted similar "investor protections" is repeated here in the United States, financial advisors could stop servicing smaller investors. Interestingly, it is the smaller investor that the new rule was meant to protect.

Bottom line… the DOL has attempted to regulate integrity. If you can't trust your current financial advisor to act in your best interests regardless of how they are compensated or what standard-of-care they are held to – then you need to either DIY or find a new advisor.

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