

SMART INSIGHTS FROM PROFESSIONAL ADVISERS

Is Your Financial Professional a Fiduciary? (Why You Should Know – And Care)

The answer to that question is important: It determines whether the person you're working with is legally required to put your interests first.

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Despite all the inside-the-industry fuss about the fate of the Department of Labor's revised definition of "fiduciary," commonly referred to as the fiduciary rule, many individuals still aren't aware there's a difference in the way various financial professionals are paid, or that they are held to different levels of accountability.

The rule, which was officially implemented on June 9, 2017, requires all financial professionals who work with retirement plans or provide retirement-planning advice to be legally and ethically required

to rise to a fiduciary standard of care.

What does that mean to you?

WHAT 'FIDUCIARY' MEANS FOR INVESTORS

You might be somewhat familiar with the term "fiduciary," although not necessarily in this context. First and foremost, it means your financial professional is obligated to put your needs before his own when making recommendations on financial products and strategies.

In addition to acting in the client's best interests, a professional held to the fiduciary standard must fully disclose his compensation and any conflicts of interest to the client.

Beyond that, a fiduciary has a "duty of care" and must continually monitor not only

his clients' assets, but also any change in their financial situations.

Let's say a client had a change of heart after going through a tough stock market period and wanted to adjust his risk tolerance. Or perhaps a personal tragedy resulted in extreme medical expenses, and a client needed a new strategy to mitigate that burden. A fiduciary is obligated to help the client re-evaluate his financial strategy and work with him to help align his strategy with his financial goals and objectives.

If you've already been working with a fiduciary, you know: The first client meeting is just the beginning. Beyond his legal duty to you, your financial professional has a stake in your success because he's paid based on a percentage of your portfolio. If you do well, so does he.

WHICH FINANCIAL PROFESSIONALS AREN'T HELD TO THE FIDUCIARY STANDARD? EXTENSIVE TRAINING

If your financial professional is a stockbroker, he likely is paid through commissions and fees, and he is not held to this same standard.

A stockbroker is defined as any person engaged in the business of buying and selling securities for the accounts of others.

Brokers are generally not considered to have a fiduciary duty to their clients.

Instead of being obligated to put his clients' interests ahead of his own, a broker is expected to deal fairly with them and to adhere to a standard of care known as the "suitability standard." A recommendation must be suitable for the client's individual financial goals and objectives, but it doesn't have to be the best or the least expensive choice.

WHAT INVESTORS SHOULD DO

If you aren't sure if your financial professional is held to the fiduciary standard, ask. Look at how the individual is compensated, if his first obligation is to you or to the firm he works for, and how often he actually checks in with you to see if your personal or financial situation has changed in any way.

For a younger individual who is still in the accumulation phase – and can afford to risk the ups and downs of the market and what it might do to his portfolio – going with a broker might be an OK option. And for some, it might be the only option, as financial professionals held to the fiduciary standard often set minimum amounts on the portfolios they're willing to work with.

But for those who are going to retire in 10 years or less, or who already are retired, having a financial professional who is held to the fiduciary standard may be a wise choice. This is the time to get your financial plan in order, and using the professional skills of an experienced financial professional could increase your probability for a successful lifetime of retirement bliss.

Kim Franke-Folstad contributed to this article.

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