# Integral Financial Solutions
# Finding Your Fiduciary Financial Advisor

In selecting or retaining a financial advisor, how do you know if you're making a wise choice?

It's a question that we take very seriously, and one that is also taken seriously by investors, as the quality of the selection can literally make or break your family's fortune.

The choices can seem bewildering; it can be difficult to determine what to look for and who to trust.

Before you interview a current or prospective advisor to determine his or her capabilities, it is crucial to know the qualities anyone seeking to advise you should possess. It is also imperative to understand the warning signs that warrant either closer inspection or immediate rejection.

Three essential steps will help guide the decision in identifying your ideal advisor:

### STEP 1: UNDERSTANDING FIDUCIARY VS. SUITABILITY ADVICE STANDARDS

In the medical profession, physicians practice according to a familiar standard: "*First do no harm*." It seems that there should be a similar standard of practice for anyone who advises you about your financial well-being. Unfortunately, this is NOT the case; financial advice is subject to a double legal standard: **"Fiduciary" advice versus "Suitable" advice.** And worse yet, it is up to **YOU (the client)** to spot the differences between the two, and judge the quality of the advice accordingly.

## Fiduciary vs. Suitabilty: different standards result in different advice

Why the different legal standards? Government regulators assume that a broker's primary role is to place trades, so any advice he or she offers is considered secondary to this main, transactional business. As such:

- A broker's advice must be suitable for you, but it does NOT have to be best for you.

- A broker does NOT have to tell you about underlying incentives that may be influencing his or her recommendations.

Here is an example of how suitable and fiduciary advice can differ from one another. Imagine you are comparing two mutual funds that are equally appropriate for your portfolio, except one entails higher fees that just happen to offer a bigger commission to the trader. Brokers offering suitable advice can freely recommend the fund that compensates them more handsomely at your expense … *without disclosing the underlying incentive to you*.

On the other hand, if all else is equal between two investment selections, a fiduciary advisor must disclose the lower-cost investment (as that choice represents your best interest). As a fee-only firm, we do not accept third-party commissions or any other sales incentives. Our role is to serve your interests, and such enticements would only introduce conflicts of interest.

*Washington Post* writer Barry Ritholtz describes suitable advice in blunt terms: [i]"The suitability standard is far more complicated – and offers much less protection to investors. The simplest way to describe this standard is 'Don't sell AliBaba IPO to Grandma.'"

### A Suitable Illustration

You may wonder whether suitable conflicts of interest really matter. If you're working with a financial pro and your investments seem to be doing okay, is there any harm done if he or she receives a few extra dollars along the way?

We believe that the investment damage done can be considerably more significant than most people realize. Take this illustration (from a New York Times column) of a couple in their 70s:

The Toffels were not sold an AliBaba IPO for their $650,000 life savings, but their broker did saddle them with a variable annuity that cost more than 4 percent annually. [ii]"That's more than $26,000, annually – enough to buy a new Honda sedan every year". The annuity also included a 7 percent surrender charge, effectively trapping the Toffels into the overpriced holding. Consider this in the context of a typical, no-frills index fund costing less than 0.25 percent, with no surrender charge.

The article points out: [iii]"Like many consumers, [the Toffels] say they didn't realize that their broker wasn't required to follow the most stringent requirement for financial professionals, known as the fiduciary standard."

**The Cost of Conflicts of Interest**

The White House weighed in on the subject with a report, drawing on evidence from more than 50 independent resources, including dozens of peer-reviewed academic studies. The report estimated that retirement investors may be losing an aggregate of $8–$17 ***billion*** each year from conflicted advice. [iv]"Conflicted payments are payments to the adviser that depend on actions taken by the advisee,"- for example, revenue-sharing, 12b-1 sales fees, front-end and back-end sales loads, commissions on products sold, and additional incentives for pushing one product over another. And such common cost leaks are by no means limited to retirement savings.

**In short, "suitable advice" costs plenty of families plenty of wealth that would otherwise be theirs to keep.**

That is why it behooves you to turn to a fiduciary investment advisor whose legal duty is to always advise you strictly according to your highest financial interests. When it comes to your life's savings, we believe you deserve better than advice that is merely "suitable".

## PART II: ADDRESSING THE DETAILS

### Fiduciary vs. Suitable: How Do You Know?

Ask these two essential questions of your potential advisor:

1. **Will your relationship with me be only and always as my fiduciary advisor?** Take no less than an unqualified "Yes"! Some advisors are dually registered, which means some of their advice is dispensed with a broker/suitable hat on and other advice is delivered in a fiduciary role. If someone will not or cannot agree to always act in your best interest under all circumstances, of what worth is the advice?

2. **Will you agree to a fiduciary relationship in writing?** How reliable are verbal assurances if an advisor won't agree to the same in writing? In our estimation, any advisor worth heeding should be happy to sign a fiduciary oath.

### Complementary Qualities for Your Advisor Relationship

Beyond accepting a fiduciary duty, there are other important ways that advisors can position themselves to sit on the same side of the table as you and your personal financial interests. Following are some of the details worth delving into:

## 1. Business Structure: The Registered Investment Advisor Firm

By law, independent Registered Investment Advisor firms must provide strictly fiduciary advice to their clients. In contrast, brokerages, banks, insurance agencies and other transactional businesses more typically offer suitable advice.

## 2. Regulatory Agent: Seek State or SEC Oversight

When a firm and its team of advisors are providing only suitable advice, they may not go out of their way to tell you so. A short-hand approach to sorting out the players is to determine which financial regulator oversees the firm by checking their fine print.

- **Registered Investment Advisor firms** are regulated either by the U.S. Securities and Exchange Commission (SEC) or by their state, depending on firm size (as measured by assets under management). These firms have a fiduciary duty to their investor clients.
- **Brokerages and other transactional businesses** are regulated by the Financial Industry Regulatory Agency (FINRA) and are more likely providing only suitable advice.
- If you see references to both FINRA *and* the SEC in a firm's disclosures, that's the calling card of **dual registration**. When it's easy enough to find a fully fiduciary advisor, why complicate things with potentially dueling, dual interests?

## 3. Compensation Arrangements: To Whom Is Your Advisor Beholden?

Another way to determine how well your advisor's interests are aligned with yours is by determining his or her sources of compensation

- If your advisor is receiving **commissions** from third-party sources, they are exposed to conflicting incentives to recommend particular products or transactions that may not be in your best interests. In addition, these conflicts and their resulting costs.
- A **fee-based** arrangement warrants further inspection. Fee-based advisors are generally receiving your fees, plus commissions from others.
- A transparent, **fee-only** arrangement is preferred. First, you can clearly see what you're spending in exchange for what you're receiving. Second, if your advisor's only compensation comes from you, it enhances his or her ability to offer the impartial, product-neutral advice you deserve.

## 4. Investment Planning and Execution: How Stable Is the Strategy?

- Does he or she offer a written Investment Policy Statement that documents your personal financial goals and your strategies for achieving them?
- Is your portfolio structured according to decades of robust evidence indicating how to capture long-term market growth in accordance with your risk tolerances?
- Is the strategy implemented with efficient, low-cost solutions that make best use of this same evidence?

- Are your assets being considered as an integrated whole, whether directly under your advisor's management or held in outside accounts such as your company's retirement plan?

  A comprehensive investment approach that you can consistently apply to your total wealth should be the core of your advisor's fiduciary care of your interests, through the years and across various market conditions.

### 5. Custody Arrangements: Insist on Independence

Even if your advisor checks out so far, there's one more way to protect your interests. After all, Bernie Madoff looked fine on paper before he was exposed as a smooth-talking criminal. In protecting yourself against scoundrels in disguise, it's essential to keep your money in your name with a fully independent custodian that reports directly to you.

Ensuring your money is held at a separate custodian affords you the opportunity to review separate financial statements for any discrepancies. It also lets you log into your account anytime to keep an ongoing, "trust, but verify" eye on your assets.

## PART III: DOING YOUR DUE DILIGENCE

## Selecting the Right Advisor for You: How Do You Know?

Once you're equipped with an understanding of the broad and detailed decisions involved in selecting an appropriate advisor relationship for you and your wealth, your final step is to actually conduct your due diligence.

Consider the insights of author, commentator and *Wall Street Journal* finance columnist Jason Zweig, who states [v]"So how can you make sure you know everything you need to know about a financial adviser before you hire him? You can't. While most advisers are undoubtedly honest, the few who aren't can always find clever ways to hide another skeleton in an already bulging closet."

And there's the crux of the challenge. *We* know that we are fully committed in principle and practice to serving your highest financial interests, even ahead of our own … but how in the world do we prove it? And how do you, the investor, believe it? Following are some helpful tips on the due diligence that you can and should do when considering a new advisor relationship or reviewing an existing one.

- **Google**

Search online to periodically check up on what the virtual world has to say about your advisor or would-be advisor. Search on both the individual and firm names. Make sure you've got the right person or firm in your hits, especially if the name is a relatively common one, and remember that some resources will be more reputable than others.

- **Check the Regulatory Reports (Form ADV)**

Whether registered with their state or the Securities Exchange Commission (SEC), Registered Investment Advisor firms must file a Form ADV that is typically available on the SEC's Investment Adviser Public Disclosure website. A firm's ADV discloses a number of important details. ADV "Part 2 Brochures" are meant to serve as the closer-to-plain-English version of the adviser's full report, so you may want to start there. Most current and former brokers and advisors should also be listed in FINRA's BrokerCheck system, where additional details and disclosures may be found.

- **Just Ask**

Last but certainly not least, any reputable advisor should welcome your candid inquiries, no matter how detailed, direct or seemingly delicate they may be. If the response is underwhelming, confusing, defensive or otherwise lacking, this may indicate an ill-fitting relationship. If responses to your important questions feel stilted, defensive or incomplete – it's unlikely you will be happy with the relationship.

## FINDING YOUR ADVISOR: COMING FULL CIRCLE

### Finding Your Fiduciary Financial Advisor

We return to the question we posed at the outset: ***In selecting or retaining a financial advisor, how do you know if you're making a wise choice?***

We hope that you are convinced that the first order of business is to review an advisor's background and ensure that his or her advice will be of the highest, **FIDUCIARY** standard, with the commitment confirmed in writing. Take advantage of resources, such as the advisor's "Form ADV" as well as other legally required disclosure statements that enable more apples-to-apples comparisons. Look for the additional characteristics described above, to assure that an advisor will "sit on your side of the table".

Also, look for someone you get along with on a personal level. If you and your advisor don't "click," even good advice will be hard to take, as described by author Seth Godin: [vi]"Good advice … is priceless. Not what you want to hear, but what you need to hear. Not imaginary, but practical. Not based on fear, but on possibility. Not designed to make you feel better, designed to make you better. Seek it out and embrace the true friends that care enough to risk sharing it. I'm not sure what takes more guts – giving it or getting it."

To begin your due diligence, we invite you to access our Form ADV and learn more about IFS at www.ifsplanners.com. We are proud to be a **fiduciary, fee-only, Registered Investment Advisor** firm offering an evidence-based investment strategy guided by your highest financial interests.

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[i] Ritholtz, Barry (2014), Find a financial advisor who will put your interests first, *The Washington Post*, Retrieved from https://www.washingtonpost.com/business/get-there/find-a-financial-adviser-who-will-put-your-interests-first/2014/10/23/21f3a898-596f-11e4-bd61-346aee66ba29_story.html

[ii] Bernard, Tara Siegel (2014), Before the Advice, Check Out the Adviser, *The New York Times*, Retrieved from https://www.nytimes.com/2014/10/12/business/mutfund/before-the-advice-check-out-the-adviser.html

[iii] Bernard, Tara Siegel (2014), Before the Advice, Check Out the Adviser, *The New York Times*, Retrieved from https://www.nytimes.com/2014/10/12/business/mutfund/before-the-advice-check-out-the-adviser.html

[iv] Furman, Jason and Stevenson, Betsey (2015), The Effects of Conflicted Investment Advice on Retirement Savings, *White House Publications*, Retrieved from https://www.whitehouse.gov/blog/2015/02/23/effects-conflicted-investment-advice-retirement-savings

[v] Zweig, Jason (2014), Full Disclosure: Is Your Adviser Hiding Something?, *The Wall Street Journal*, Retrieved from http://www.wsj.com/articles/full-disclosure-is-your-adviser-hiding-something-1418431344

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