Forbes http://onforb.es/1ERqJU7

Brian Luster Contributor

I cover multi-generational wealth management strategies.

PERSONAL FINANCE 3/10/2015 @ 12:20PM | 9 views

Does Obama's Endorsement Of A Fiduciary Standard Change The Wall St. Status Quo?

Comment Now

by Brian Luster and Steven Abernathy

"There are a lot of very fine financial advisors out there, but there are also financial advisors who receive backdoor payments or hidden fees for steering people into bad retirement investments that have high fees and low returns. So what happens is these payments, these inducements incentivize the broker to make recommendations that generate the best returns for them, but not necessarily the best returns for you. . . the truth is most people don't even realize that's happening." —President Barack Obama

The President's recent address to the Save Our Retirement Coalition at the AARP headquarters in Washington, D.C., underscored points we have shared with our clients and readers for years: financial advisors who don't put their clients' needs first may not act in their best interests 100% of the time. For years brokers have been held to a suitability standard rather than the fiduciary standard the President spoke of. Professional advisers held to the latter are legally obligated to offer clients the recommendations in the clients' best interests only—even if they don't match the financial interests of the advisor. At present, if two products are both "suitable" it's likely anyone not bound to the fiduciary standard will promote the product offerings paying the highest commissions with the highest fees.

In this case, the brokers' first obligation is to themselves. There is no such thing as a part-time fiduciary.

The President asserts, "It's a very simple principle: You want to give financial advice you've got to put your client's interests first. You can't have a conflict of interest." When investors do not have the benefit of transparency they potentially will lose a percentage of their wealth every year. A fractional percentage may not sound like much, that loss becomes greater over time as it substantially reduces the power of compounding. And this erodes a nest egg. Full disclosure—we advise affluent clients and a lot of what we publish is geared toward high net worth families. But every person seeking out a competent advisor deserves to find one, know what s/he costs, and know how s/he is paid. This can be a daunting task for the uninitiated as well as those familiar with Wall Street.

A financial advisor can go by many names: wealth manager, vice president, financial planning specialist, or a broker—to name just a few. When one such title appeared in the signature line of a long time friend and colleague, we sent a congratulatory note on his promotion. He replied, "I've been doing the same job I've always done—I'm just called something else now." So how does the intelligent investor know if a financial professional is working for his or her best interests? How is it possible to determine s/he isn't simply going to direct investors to the financial products generating the highest fees and commissions? We recommend investors ask the following questions to all financial advisors they work with as well as those under consideration for hire:

1. What qualifies you to be a money manager? As we stated earlier, titles may not mean very much. This is where further skullduggery is needed to assess the overall experience of the manager.

2. Are you legally obligated to disclose all of the fees I will pay—including fees built into products I won't see on my balance sheet? Disclosures on purchasing forms are usually in small type buried several pages into an agreement. Know what you're purchasing and how much you are paying. For example, if, you purchase a wrap account, and, own a variety of mutual funds and other investments are "wrapped" together, the account may be subject to an annual percentage fee. Knowing precisely how fees are built into products can inform your purchasing decision.

3. Will you always provide the best investment at the lowest fees for my family? It's a yes or no question every investor could ask; most do not!

Commissions and fees are a key motivator for a commission sales rep, and, selling what's best for the client's bottom line may not be best for the broker's—this is why clear, pointed questions are a must.

4. How long have you been with your current employer? Invariably people change jobs more and more. However, if there are too many employers, it could be a red flag as job jumping could mean a broker is hiding something. FINRA and the SEC have included sections on their websites to assist investors who are completing due diligence on financial professionals they may engage.

5. Who do you work for? If a financial advisor works for a firm in a sales capacity, there are likely to be financial commitments (quotas, perhaps) that determine employee performance. If the advisor works independently of a company and for himself or herself, what is the fee structure? If the money manager is working in the interest of the client, 100% of the time, s/he should not hesitate to sign a fiduciary oath. If there is resistance in signing it, that person is not likely to be working in the best interests of the clients. Dissolving the relationship should be considered. While President Obama has strongly recommended a more comprehensive fiduciary standard, suitability remains within the scope of the law.

Affluent families have not bypassed salespeople and brokers not working for their best interests by accident. Even if the Department of Labor successfully revises the rules, our advice is to remain vigilant and be wise. For, as Horace said, “He who is greedy is always in want.” And no amount of government rulings has legislated against that.

The information contained in this article is provided solely for convenience purposes only and all users thereof should be guided accordingly. For additional disclaimers and information, please visit us here.

This article is available online at: http://onforb.es/1ERqJU7