How To Know If Your Financial Advisor Is Working In Your Best Interest

On June 9, 2017, a new rule went into effect for the financial services industry. Commonly known as the “DOL Fiduciary Rule,” it requires all financial advisors to act in the best interests of their clients when giving advice on retirement accounts. (A “fiduciary” is someone legally bound to act in another person’s best interest.)

That’s the key word—*requires*. Before this rule, most advisors did not have to work under this requirement.

“Now, wait a minute!” you’re probably thinking. “Are you saying advisors *didn’t* already have to act in their clients’ best interests?”

Actually, yes. That’s exactly what I’m saying. Traditionally, most advisors were *not* required to put their clients’ interests first. Instead, advisors were required to follow a simple suitability standard. This means they are only expected to make recommendations considered “suitable” for their clients. To put it bluntly, this allowed advisors to give advice that was primarily in *their* best interest, and *not* the client’s best interest, so long as that advice could still *technically* be considered “suitable.”

But there’s another, higher standard that some advisors hold to. It’s called the fiduciary standard. Advisors who are fiduciaries must put their clients’ interests before their own. Even if the advice an advisor gives is *less good* for the advisor, they must give it if that’s what is best for the clients they serve.

Under the Fiduciary Rule, any financial advisor providing advice pertaining to retirement savings, qualified plans, or IRAs is now classified as a fiduciary.[1] That meant many advisors who previously followed the “suitability standard” will have to make a major change in how they do business.

Here at Steve Robbins, Inc., we’ve long held ourselves to that type of standard. But that’s not what this letter is about.

As you can see, there have long been two types of financial advisors: those who put their clients’ best interests first, and those who didn’t. The question *you* and every other investor should ask is,

“Which type is my financial advisor?”

Does your financial advisor put your best interests first, or does he or she not? That's what you must find out. Fortunately, there are some simple steps you can take to learn the truth. Just take this short little test:

1. Does your current advisor *routinely* review your current investments with you?
2. Can your current advisor demonstrate how every investment is designed to help you reach your goals and needs?
3. Because of the new Fiduciary Rule, many advisors will have to recommend *new* investments for their clients, because the old investments only fit the **suitability standard** instead of the **fiduciary standard.** Has your advisor recommended new investments to comply with the new law? Can they explain why they were investing in something else before the new law went into place?
4. Do you understand exactly how your current advisor is being compensated? Have they taken the time to explain it to you? Could you repeat it to someone else?
5. Does your current advisor provide the same type of recommendations for *non-retirement accounts*as he does for retirement accounts? (Remember, the new "best interests" rule only applies to advice given on retirement accounts.)
6. Do you know if your advisor has any incentives to recommend certain products over others?
7. Does your current advisor have a plan for how to protect your assets before the next bear market?

If you don't know the answer to some of these questions, or if you don't like the answers you have, then you may have some work to do.

Compare it to having a car mechanic. Everyone wants the mechanic who is willing to say, "We'll keep an eye on this, but I *don't* recommend you replace this part on your car right now. Why spend money when you don't absolutely have to?"

No one wants a mechanic who is always trying to urge you into buying that high-priced part or upgrade when it's not absolutely necessary. That's because the first mechanic *has your best interests in mind*. They're not trying to wring as much money from their customers as they can; they're trying to ensure the customers are always on the road, happy and taken care of.

It's critical that your financial advisor be like the first mechanic. It's critical that your financial advisor *always have your best interests in mind*. Not just because the law requires them to, but because they'd never work any other way.

As I mentioned, here at Steve Robbins, Inc., we've long held ourselves to the fiduciary standard. Putting our clients' best interests first is the foundation of our business. Of course, it's one thing to say that. For it to mean anything, we need to *prove* it.

Here are some of the ways we prove it to our own clients every day:

1. We are compensated through fees instead of commissions. Instead of being compensated every time we make a trade (which can incentivize advisors to make unnecessary trades to get paid more), we are compensated based on a percentage of the assets we manage. Thus, we only succeed by helping you succeed, not by trying to wring as much "paying activity" from you as we can.
2. We offer a financial plan to every one of our clients. We believe strongly that all investment recommendations should be made as part of an overall financial plan. Furthermore, a good plan should encompass a person's entire financial life, not just retirement. For us, your plan is the basis for all the recommendations we make, because it ensures that piece of advice leads directly to your financial goals.
3. We are upfront about the services we provide. We don't seek compensation for many of those services, but we do them because *they need to be done*. From the start, you and every client we serve knows exactly what we do and what we don't do, so that *you* always have clear expectations of *us*.
4. We contact you regularly. Our goal has always been to send you written messages every month or so, combined with regular phone calls and meetings throughout the year. You don't just hear from us when the markets are up and the sun is shining. We also strive to be there when times are tough. We're happy when you're happy—and we sweat when you do.

If you would like more information about the new DOL Fiduciary Rule, or a second opinion on whether your current portfolio is working in your best interests, call me at (314) 839-4600 or email Info@SteveRobbinsOnline.com.

Take the time to ensure your financial advisor is truly working in your best interest. Your financial goals are too important to risk.

After all, you'd expect nothing less from your mechanic, or your doctor, or your plumber. Shouldn't your financial advisor have the same standard?

-Steve Robbins, CFP®

Sources:

[1] Mark Cussen, "Proposed DoL Rules: How They'll Impact Financial Advisors," *Investopedia*, http://www.investopedia.com/articles/financial-advisors/111615/proposed-dol-rules-how-theyll-impact-financial-advisors.asp