Finding Right-Fitting Advice

The first hurdle to overcome when selecting an advisor is to ensure his or her advice is of the highest, fiduciary standard. The difference between fiduciary vs. suitable advice is central to finding superior advice:

Merely suitable advice does not have to be the best advice for you; it is assumed to contain conflicts of interest.

One way to determine whether your advisor will be acting as your fiduciary is to ask these two essential questions:

1. **Will your relationship with me be only and always as my fiduciary advisor?** Take no less than an unqualified "Yes," with no ifs, ands or buts. 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? For example, a simple but powerful fiduciary oath, an advocate for excellence among financial service providers. In our estimation, any advisor worth heeding should be happy to sign such an oath (Stowe Financial Planning LLC's signed fiduciary oath is displayed in the office lobby).

Complementary Qualities for Your Advisor Relationship
Beyond accepting a fiduciary duty, there are other ways that advisors can best position themselves to sit on the same side of the table as you and your financial interests.

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.

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 of operations. 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 interests?

Compensation Arrangements: To Whom Is Your Advisor Beholden?

Speaking of potentially dueling interests, 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, suffice it to say he or she is 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 (which silently drag on your returns) often remain undisclosed to you.

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.

A **fee-based** arrangement warrants further inspection. Fee-based advisors are receiving your fees, plus commissions from others. If the advisor is entirely fee-only, *except* he or she can write insurance policies for you as needed to protect your primary investments (with full disclosure of all commissions being received for this singular activity) then a fee-based relationship may still complement your best interests. If the commissions are coming from investment activities, the same conflicts arise as those described above for a fully commissioned advisor.

Investment Planning and Execution: How Stable Is the Strategy?

Bottom line, how is your advisor managing your money?

- 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 is core to your advisor's fiduciary care of your interests, through the years and across various market conditions.

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 ensure that your money is held in your name at a fully independent custodian that reports directly to you. Stowe Financial Planning, LLC uses Fidelity Institutional as a custodian for all client investments.

Ensuring your money is held at a separate custodian affords you the opportunity to review separate financial statements for any discrepancies. (Madoff maintained custody of his clients' accounts at his New York brokerage house, enabling him to falsify their reports). It also lets you log into your account anytime to keep an ongoing, "trust, but verify" eye on your assets.

Finding Your Right-Fitting Advisor: Coming Full Circle
We circle back to the question we posed at the outset of this series: ***In selecting or retaining a financial advisor, how do you know if you're making a wise choice?***

We hope you're convinced by now 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. Take advantage of resources such as the advisor's Form ADV and other legally required disclosure statements that enable more apples-to-apples comparisons. Look for the additional characteristics described above, that best position an advisor to sit on your side of the table.

After that, 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:

> "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 SEC legal disclosure Form ADV and learn more about Stowe Financial Planning, LLC. 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. Together, let's explore your own financial possibilities.