The Basics

Can you trust your financial adviser?

Knowing your planner's exact job title may help you tell whether he or she is a 'fiduciary' -- a professional who's 100% committed to putting your financial interests first.

By Liz Pulliam Weston

It's a $10 word, but not knowing it could cost you a fortune.

The word is "fiduciary," and in the world of money it means someone who's committed to putting your financial interests ahead of his or her own.

The word is important because true fiduciaries are harder to find than you might think. Most of the people who want to give you advice about your money aren't held to that high standard. At best, they're held to a "suitability" standard, which means they're supposed to reasonably believe that the investment and insurance products they want you to buy are appropriate for your situation.

Just "appropriate" -- not "the best choice" or "in your best interests."

The high cost of being too trusting

Let's say you have $10,000 a year to save for retirement. Your financial adviser could recommend you invest the money in a low-cost index fund that might net you a return of 8% a year. After 30 years, you'd have over $1.1 million.

But let's say the adviser could earn a fat commission for recommending a higher-cost investment being promoted by his financial-services firm. So instead of netting 8% a year, you might net 6%. After 30 years, your nest egg would grow to just under $800,000, a difference of more than $300,000.

The high-cost investment might be perfectly "suitable," since it meets your financial objective of saving for retirement, even if it could leave you significantly poorer than had you invested in the index fund.

Most people don't understand the difference between fiduciary and suitability standards, said consumer advocate Barbara Roper, director of investor protection for the Consumer Federation of America. The federation's surveys show that the majority of people who work with a financial adviser trust that they're getting good advice.

"Two-thirds of investors aren't second-guessing the recommendations they're getting from their (financial) advisers," Roper said. To be that trusting "outside of a situation where a person is committed to putting your interests first is pretty risky business."

Scrutinize the job titles

Figuring out who's a fiduciary isn't always easy. In the financial-services world, there are three job titles that automatically connote a fiduciary standard:

Attorney
Certified public accountant (CPA)
Registered investment advisor (RIA)

There are several other job titles that indicate the opposite. People who are stock brokers (also known as "registered representatives") or insurance agents are allowed to put their own interests, or those of their firm, ahead of yours.

Fiduciary or not?

Professional title	Is he a fiduciary?
Attorney	Yes
Certified financial planner (CFP)	Maybe
Certified public accountant (CPA)	Yes
Financial planner	Maybe

Insurance agent	No
Registered investment adviser (RIA)	Yes
Registered representative	No
Stock broker	No

But other titles, including "financial adviser" or "financial planner," can be used to imply you're getting good advice without any requirement that said advice be in your best interests.

Salespeople masquerading as professionals

It's a situation that's being exploited by many of today's brokerage and insurance companies, said Bob Veres, editor of Inside Information, a newsletter for financial planners. These financial-service companies have figured out their customers want objective advice, but the companies aren't ready to abandon their commission-based sales model or commit wholeheartedly to the fiduciary standard.

So instead of calling their employees "brokers" or "agents," they call them "advisers," "asset gatherers" or "fee-based consultants," Veres said, to give them that whiff of "we're in your corner" respectability without necessarily having to adhere to a fiduciary standard.

"This follows an age-old pattern that goes back to forever: the professionals want to create bright, clear distinctions between themselves and the people who are masquerading as professionals for their own agenda," Veres said. "And the salespeople are constantly trying to blur the distinctions so that consumers will relax their guard thinking that they're sitting across from a professional."

The Securities and Exchange Commission, which regulates brokerages and financial planners, has muddled the situation still further. In 2005, the regulatory agency made permanent a rule that allowed brokers to avoid registering as investment advisers -- which would require them to uphold fiduciary standards -- as long as the advice they gave was "incidental" to their primary business of selling investments.

Then, in a staff letter, the SEC said an adviser could play more than one role with a client. An adviser could agree to a fiduciary duty in order to create a financial plan, then switch back to the non-fiduciary role of broker when actually buying investments to execute the plan.

The SEC decision allows advisers "to walk away from their fiduciary duty right at the point when the greatest risk to the client exists," Roper said. "How are people supposed to understand that the person who was their trusted adviser has now turned into a salesperson who no longer has to have their best interests at heart? There's no way you can disclose away that confusion."

Ask the tough questions

If you want to know where you stand, you'll need to be proactive and ask the following questions of anyone giving you financial advice:

Are you legally obligated to act in my best interests at all times? If so, are you willing to put that in writing? Anyone who purports to uphold a fiduciary standard should be willing to stand behind that claim.

Will you disclose all potential conflicts of interest? A fiduciary should be willing to disclose any relationship, compensation, incentive or other factor that *potentially* could interfere with his or her ability to act in your best interests. Even if you're not interested in a fiduciary relationship, though, you should press your adviser to tell you about any potential conflicts so you can better evaluate his or her advice.

In what ways are you compensated? Ask if the adviser receives commissions, referral fees or other financial incentives. Some advisers tout themselves as "fee-based," but also accept other payments that could influence their recommendations.

"The best advisers, the ones who offer service rather than sales pitches, want to make a distinction between them and the product pushers," Veres said. "So they tend to embrace a standard which says that the consumer's interests come first, knowing that a salesperson pretending to be an impartial adviser won't follow them into territory where he's likely to get sued for his normal behavior."

You may well find that your adviser isn't a fiduciary but decide to work with him or her anyway. If your stockbroker has done well by you so far, for example, you may be perfectly comfortable continuing to follow his or her tips. But you need to keep in mind that your adviser, like a car salesperson, isn't working for you."It's all right to work with somebody who hasn't agreed to live up to the fiduciary standard," Veres said, "but make sure you're on your guard at all times, so you don't get sold the financial equivalent of a lemon."

Of course, even if you have an adviser who agrees to a full-time fiduciary standard, you're not home free. An unethical or incompetent adviser can still violate your trust -- in fact, "breach of fiduciary duty" is constantly the most commonly cited beef in arbitrations conducted by the National Association of Securities Dealers.

Common adviser problems

Type of controversy*	2005 complaints	Percentage of total
Breach of fiduciary duty	3,514	23.10%
Negligence	2,225	14.60%
Breach of Contract	1,987	13.10%
Unsuitability	1,926	12.70%
Failure to supervise	1,828	12.00%
Misrepresentation	1,826	12.00%
Omission of facts	1,123	7.40%
Unauthorized trading	395	2.60%
Churning	315	2.10%
Margin calls	78	0.50%
Online trading	7	0.00%

**Each case can contain up to four controversy types, so percentage figures reflect the proportion of reported controversy types represented rather than total cases.*

Source: National Association of Securities Dealers

Inform yourself to protect yourself

That's why it's important to do your due diligence before following any adviser's financial advice. Among other things, you should:

Understand what titles and credentials mean. The AARP has a brief list of common designations; NASD has an exhaustive drop-down list. Consider contacting the organization that issued the adviser's credential to make sure he or she did, in fact, earn the mark and still holds it in good standing.

Check his or her background. NASD's BrokerCheck allows you to review a broker's work and disciplinary history. You should check with state regulators as well; the North American Securities Administrators Association has links. The National Association of Insurance Commissioners has links to insurance regulators.

Read Form ADV. Registered investment advisers are required to file this disclosure form with the SEC. You'll find the first part, which includes any public disciplinary actions or legal proceedings, at the SEC's Web site. Ask for the second part, which discloses compensation and conflicts of interest, from the adviser.

Liz Pulliam Weston's column appears every Monday and Thursday, exclusively on MSN Money. She also answers reader questions in the Your Money message board.