

Is your adviser working in your interest, or not?



David Vomund
Market Pulse

Last week President Obama directed the Department of Labor to move ahead with a rule that would hold brokers and financial advisers that manage retirement accounts to a higher "fiduciary standard," meaning they must give advice that is in their client's best interest.

Currently, registered investment advisers (RIAs) are required to meet a fiduciary standard. Others fall under a lower "suitability" standard, meaning they need only recommend suitable products even if they are not the most cost-effective.

Many, including myself, believe the suitability standard leads to conflicted advice. When there is a conflict between what is best for the client versus what rewards the adviser the most, well, we know where that might go.

This doesn't mean that all advisers that are regulated under the suitability standard are bad. After all, they might hold themselves to a higher standard.

But some don't. Does your adviser/broker operate under the fiduciary standard, working in your best interest without any conflicts of interest?

Here's what to ask your adviser: How do you get compensated? If the answer is more than a sentence then that's a red flag. Fees should be clearly stated in quarterly statements, and they should include all the hidden items that act as a reward.

"Fee only" advisers, like myself, receive no incentives to recommend securities or products.

What other fees are you paying? Many advisers place accounts in mutual funds whose expenses are more than one percent per year. Between the adviser's fee and the mutual fund's expenses, you might be paying well over two percent.

Are there any conflicts of interest? Conflicts occur when the adviser receives compensation for selling you particular products.

One example occurs when a broker sells a client a "load fund." These outrageous funds often charge investors five or six percent just to buy them, and they reward brokers for selling them.

Charles Schwab is running a "why" advertisement campaign, where a child keeps asking "why" when his father talks about his adviser's fees.

The point is that everyone should easily know all of the fees they are paying. I'm not a fan of all regulation, but holding all advisers and brokers to a standard that puts their client's interest ahead of their own seems like a no-brainer.

David Vomund is an Incline Village-based fee-only money manager. Information is found at www.ETFportfolios.net or by calling 775-832-8555. Clients hold the positions mentioned in this article. Past performance does not guarantee future results. Consult your financial adviser before purchasing any security.