What Are the Benefits of a Fiduciary Advisor?

By: Exchange Capital Management

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When researching financial advisors, you should keep an eye out for the term “fiduciary.” This is defined by a person or organization bound by law to act in the best interest of their client. There are many professions where this term is used, but for a Registered Investment Advisor (RIA) firm, like Exchange, it means we must provide advice in your best interest, even above our own.

Some firms are required to be fiduciaries, some aren’t. It all depends on how they are registered and who regulates them. If you work with an RIA, rest assured they must follow a fiduciary standard. Many consider it an extra level of security when choosing to entrust their assets to a professional. As an RIA firm, we believe there is immense value in all the benefits it provides our clients.

Acting in Your Best Interest

As mentioned above, fiduciaries are required to give advice in your best interest. This is the main advantage of having a fiduciary advisor. The Securities and Exchange Commission (SEC) legally obligates them to maintain their fiduciary standard, even if it isn’t necessarily good for the advisor or firm.

For example, our management fee is billed as a percentage of the assets we manage. Often when we guide our clients to their goals, we give advice that reduces the money we bill on. Many clients wish to pay off their mortgage, donate to charity, purchase a second property, etc. All of these inevitably reduce the assets entrusted to our care, reducing our revenue.

Disclosing Any Conflicts of Interest

Conflicts of interest happen in any professional relationship. When they arise, your advisor operating under a fiduciary standard must disclose the conflict to you. The goal is to always be transparent; reassuring you that your assets are in safe hands.

For example, if your advisor is recommending a real estate partnership, but will also get to go on a cruise if they sell enough units, that is a conflict you should know about ahead of time. It can impede their judgment when offering advice.

Even if your fiduciary advisor doesn't give you a verbal heads up, there is a section in the firm's Uniform Application for Investment Adviser Registration (Form ADV) where it legally discloses its conflicts of interest.

To find this form, you should go to the Investment Advisor Public Disclosure (IAPD) website, click on "firm" at the top of the page, and type in the firm you are searching for. Once you found the correct firm, you can click on "Part 2 Brochures." This will pull up the firm's ADV Part 2A Brochure. Then go to Items 10, 11, and 14 to discover any conflicts of interest. You may also find conflicts of interest in "Part 3 Relationship Summary."

As for individual advisors within an RIA and their personal conflicts, you should seek out their individual IAPD. This document will show you any other business activities you should be aware of. To find this document, you will go to the IAPD website, click on "individual" at the top of the page, and search for your advisor. Once you found them, you will click on "detailed report" on the right side of the page. You will find "other business activities" on the 6th page under "employment history."

The Bottom Line

When conducting due diligence on Exchange or any financial advisor, you should consider the benefits of partnering with a fiduciary RIA. Financial planning and investing are stressful enough, being confident that your advisor is acting in your best interest is paramount. To learn about how a fiduciary can help you, consider scheduling a discovery meeting. We pride ourselves on being a trusted partner for our clients, focused on helping them reach their goals.