# FIDUCIARY VS. SUITABILITY - WHY SHOULD YOU CARE?

If you care about you or your family's financial future, you should care. Doesn't sound like much of a big deal, but these two words, fiduciary and suitability, are critical to determining the type of care you receive from your "trusted" financial advisor. Unfortunately most of the public is not aware that a minority of advisors are held to a fiduciary standard while a majority are held to a much lower, suitability standard of care.

***Who is held to a Fiduciary standard of care and who to a Suitability standard of care?***
Currently, only independent Registered Investment Advisors are required to act in a fiduciary capacity. Brokers or "financial advisors" working for a broker dealer firm or an insurance company are only held to a suitability standard (not a fiduciary standard). Not sure who's a broker dealer firm, two well known firms include Merrill Lynch and Morgan Stanley.

***What is the difference between Fiduciary standard of care vs. Suitability standard of care?***
Part of the reason this difference is not well known is that the terms are not easy to describe and the large firms who can afford to spread the word have no interest in doing so.

Fiduciary standard of care means doing what is best for the client; namely, always putting the client's interest before the advisors. It also means disclosing any possible conflicts of interest including compensation related to products or referrals.

Suitability standard of care usually means an advisor need only suggest products that are suitable for your objectives, your income level and your age. Also, no disclosure is required for possible conflicts of interest.

***Fiduciary vs. Suitability Illustration***
Let's try an everyday example: buying a car. Assume you are looking for a car that costs less than $25,000 and gets over 25 mpg. Those two requirements alone would leave you with a rather long list of cars that would be "suitable" to you. However most of us would do further investigation and consider additional criteria.

For example: Which models have the best safety record? Which ones have the best maintenance/repair history? Which ones have the best resell value? And so on. You work to find a car that does not just meet your basic needs or is "suitable" but one that is "best" for you.

Going one step further, would you feel comfortable making your car buying decision by simply relying on the salesperson representing the car manufacturer? Or, would you feel more comfortable using an independent research organization such as Consumer Reports

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to help find the best car for you? I think you know the answer. Why not then demand an independent, fiduciary level of care for something of much greater importance- your financial future.

Help may be on the way. One provision of the massive new Financial Reform legislation attempts to deal with the Fiduciary issue. The law gives the SEC the authority to create rules requiring investment advisors, who provide personalized investment advice about securities, to act in the best interest of their customer. It also allows the SEC to require these advisors to disclose material conflicts of interest and obtain consent from the customer.

There is one catch. Due to heavy lobbying by large broker dealer and insurance firms, the SEC is not required to make these rules. Instead, the law requires the SEC to commission a six month study to look at the effectiveness of existing legal or regulatory standards of care for broker dealers and investment advisors providing investment advice. Let's hope the SEC does the right thing for consumers.

Until then, ask your current or prospective financial advisor if they will sign a written fiduciary oath with the provisions noted above. If they will not or cannot, ask yourself whose best interest are they working for?