Suitability or Fiduciary: What Standard Does Your Advisor Follow?

Did you know that different types of investment professionals are held to different regulatory standards? The difference can mean a lot to you as an investor. There are two rules of client responsibility that financial advisors can be held to: fiduciary or suitability. In order to know which type of advisor will better suit your needs, it's important to understand the distinctions between each.

Some advisors follow suitability rules that require the recommended financial product or strategy be "suitable" for the unique situation of the investor. Other advisors are subject to fiduciary rules, which legally requires them to provide advice that is in the best interest of the investor.

So who follows which standard? Typically, broker-dealers and the registered representatives who work for them are held to suitability standards. An advisor who has suitability responsibility can only sell products that they deem "suitable" for their clients' financial situation, but that's the end of their legal responsibilities. These products often pay a higher commission or benefit the advisor or institution more than the investor. However, these types of advisors are the ones who would sell individual stocks or mutual funds.

Fiduciary advisors are those who hold a Series 65 or 66 license and are called "Investment Advisor Representatives." These advisors are often compensated by a fee for their recommendations, typically based on the assets they manage on behalf of their clients.

Is there that big of a difference between the two? It may not seem like it on the surface, but there is a significant distinction in the eyes of the law. While advisors who follow suitability rules are still accountable and regulated, they aren't held to as high of a standard as fiduciary advisors. Though a recommendation cannot have "excessive" transaction costs, there is no obligation to use low-cost investment practices.

Fiduciary advisors are actually required to put their clients' interests above their own. These advisors must make sure that their advice is both thorough and tailored to each client's unique situation and goals. They also have an obligation to use low-cost investment practices.

Ultimately, the two suitability and fiduciary standards are a result of the different services that each type of investment professional offers. A broker-dealer's primary role is to perform a transaction, while an Investment Advisor Representative provides financial advice.

There has recently been a push for broker-dealers and registered representatives to be held to the same fiduciary standard as investment advisors. The Dodd-Frank Act actually mandated that the Securities and Exchange Commission (SEC) study whether this "uniform fiduciary standard" should be implemented. Though this would greatly benefit investors, it's still just a suggestion, not the law.

When it comes to your retirement future, you have to make sure you are making smart choices for yourself and your finances. One of the many decisions you must make is who to go to for financial advice. Though all financial professionals have their role, by working with an advisor who has fiduciary responsibility rather than suitability, you can be assured they are advising and acting in the best interest of you and your retirement.

ABOUT CHRISTOPHER SCALESE, PRESIDENT OF FORTUNE FINANCIAL GROUP
Christopher Scalese, financial advisor, author of the book, "Retirement is a Marathon, Not a Sprint," and president of Fortune Financial Group, is referred to by many as Northeastern Pennsylvania's Retirement Specialist. Scalese has spent the last two decades of his career

assisting area residents with the financial transition from the working years to the retirement years. His primary goal is to help individuals structure their finances so that they have a steady income throughout their lifetime, while working to ensure their finances aren't overly exposed to risk or unnecessary taxation. Scalese is a financial representative and a life and health insurance licensed professional. He received his Bachelor of Science degree in finance and Master of Business Administration degree from Wilkes University. For more information about Christopher Scalese and Fortune Financial Group, please visit www.fortune-financial.org.

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