FIDUCIARY STANDARD?

An article by

BILL BACHRACH, CSP, CPAE

Fiduciary standard?

by Bill Bachrach, CSP, CPAE

The headline reads: "Wall Street wins big as Dodd drops fiduciary provision." And the first line of that article is "Chalk it up as a win for the securities and insurance industries." How do the securities and insurance industries *win* when the client loses? It's a fascinating way to view the world, but not surprising. Here's my translation, "the lower the standards the easier it is for us to manage our advisors, wealth managers, salespeople, and agents." It's the usual product-oriented, fear-based thinking from our industry at-large and it's proves, once again, that you have a competitive advantage as an individual Trusted Advisor who chooses to put the client first. Can you believe what you just read: *you have a competitive advantage by putting the client first*? Yes, you do. Doesn't everyone put the client first? Apparently not. Amazingly enough, our industry considers it a win when they don't have to adopt the highest standard of care for their clients. Wow. Here's what Wikipedia has to say about Fiduciary.

A fiduciary duty is a legal or ethical relationship of confidence or trust between two or more parties, most commonly a fiduciary and a principal. In a fiduciary relation one person, in a position of vulnerability, justifiably reposes confidence, good faith, reliance and trust in another whose aid, advice or protection is sought in some matter. In such a relation good conscience requires one to act at all times for the sole benefit and interests of another, with loyalty to those interests.

A fiduciary is someone who has undertaken to act for and on behalf of another in a particular matter in circumstances which give rise to a relationship of trust and confidence.

A fiduciary duty is the highest standard of care at either equity or law. A fiduciary is expected to be extremely loyal to the person to whom he owes the duty (the "principal"): he must not put his personal interests before the duty, and must not profit from his position as a fiduciary, unless the principal consents. The word itself comes originally from the Latin fides, meaning faith, and fiducia, trust.

Sounds like the perfect standard for the kind of advisor you would probably choose if you were a client, doesn't it? And you are probably already a highly

A group of top advisors and industry leaders formed a committee called "The Committee for the Fiduciary Standard" (www.thefiduciarystandard.org).

The message on their website reads: When the Committee formed, we spoke out on the important issue of ensuring that investors' best interests are number one in financial reforms, by adopting the five core principles of the authentic fiduciary standard. These five principles are:

1. Put the client's best interest first.
2. Act with prudence; that is, with the skill, care, diligence and good judgment of a professional.
3. Do not mislead clients; provide conspicuous, full and fair disclosure of all important facts;
4. Avoid conflicts of interest.
5. Fully disclose and fairly manage, in the client's favor, unavoidable conflicts.

What are the advantages of being an advisor who adopts the fiduciary standard, even informally, as a matter of choice?

1. Fewer, if any, conflicts of interest. Wouldn't it be great to have no conflicts of interest to disclose? If you were a client, would you rather have a Financial Advisor who fully discloses her conflicts of interests or a Financial Advisor who does not have any conflicts of interest to disclose? No matter how much your clients trust you now, the relationships shift up to the next level when you take the fiduciary approach. They were always confident you had their best interests at heart and now they know it for certain.
2. Confidence knowing that you have voluntarily chosen to operate at a higher standard than your peers and "competition." What impact would this higher level of confidence have on:
    a. your client interactions?
    b. your effectiveness in asking for referrals?
    c. your effectiveness in how you follow-up with your referrals?
    d. how you answer the question, "what do you do?"
    e. your value proposition?
    f. your entire way of being in every prospect and client interaction?
    g. your effectiveness in partnering with other professionals such as accountants, lawyers, and money managers to serve clients.
3. Employee morale and loyalty. Even in difficult economic times, the core motivators beyond the paycheck determine the true value you gain from your employees. Most human beings would rather be part of an organization that stakes out the higher ethical ground as part of their defined business practices.
4. Compliance simplification. It's very obvious to your internal compliance officers and / or the regulators who are looking for client situations where you have conflicts. When they don't exist there's no reason to spend more time in your office, to keep digging, or engage in endless follow-ups.

What other advantages would you have if you adopted the fiduciary standard?

Maybe it's a good thing for you that the industry fights the fiduciary standard. As long as they do, individual advisors who adopt the standard have a competitive advantage. Enjoy it while it lasts.

Bill Bachrach's thinking, writing, speaking, and training have made him one of the most popular resources in the world for Financial Advisors who seek to build high-trust client relationships, master client acquisition, and emulate the success habits of the Top Advisors. His books are industry best-sellers and his articles appear in the most prestigious financial services publications around the world. For more information or to book Bill now, call Anne Bachrach at 619-255-4888 or visit www.billbachrach.com