

ASK THE ADVISERS

The views and opinions expressed in "Ask the Advisers" are solely those of Keith Singer.



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IS YOUR ADVISOR A FIDUCIARY OR A SALESPERSON?

That may be a weird question, especially if you have good relationship with your advisor, because people often assume their advisor is only recommending what is in their best interest. The reality is if your advisor works for a brokerage firm or bank and they earn commissions on some or all the transactions they recommend to you, then they are acting as salespeople.

At best they are presented with a significant conflict of interest that could influence them when they make recommendations to you. At worst they are making recommendations based on their own self-interest.

In contrast, registered investment advisors are legally required to act only in the client's best interest. They receive their compensation only from their clients and they do not make commissions on investments they recommend. Additionally, they must disclose to the client in writing if any potential conflicts of interest exist.

Many clients are unclear about the exact nature of the relationship they have with their advisor. What is even more confusing is that there are many fiduciary financial advisor representatives who are also registered with a brokerage firm or broker dealer. This means they sometimes act as fiduciaries but other times they can act as salespeople earning commissions on certain investments. Often the client does not perceive which transactions are which.

Conflicts of interest arise because there can be considerable financial incentives to sell certain products over others which could result in advice that is less than optimal for the client's well-being. When you hire a registered investment advisor, you will enter into a written agreement outlining the nature of your relationship, the services to be provided, and the fee structure. Additionally, the advisor will disclose in writing any potential conflicts of interests that exist. Most people prefer to know their advisor is legally required to act in their best interest and is not recommending investments because of the commissions they are receiving.