



**THEOREM**  
WEALTH MANAGEMENT

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# The Importance of a Fiduciary

The right advisor for you and your family



# THE IMPORTANCE OF A FIDUCIARY RELATIONSHIP

The goal of this paper is to clarify and highlight the importance of engaging a financial advisor who embraces the legal and ethical responsibilities of a prudent and trusted fiduciary. This document will help you understand what it means to be a fiduciary, explain the components of fiduciary advice, highlight the causes of investment industry conflict and confusion, and will provide specific ways to recognize a fiduciary advisor. It will also outline the benefits for investors of employing professionals who subscribe to strict fiduciary standards and process.

The term "fiduciary" is derived from the Latin term for "faith" or "trust" and refers to a relationship in which one person has a responsibility of care for the assets or rights of another person. A fiduciary advisor owes a duty of loyalty to the client and is expected to put the investor's interest first and be above reproach in carrying out their duties. This relationship requires trust, good faith and honesty.

The Cornell Law Dictionary defines fiduciary duty as "the highest standard of care." If your financial advisor is also a fiduciary, he or she is obligated to act in your best interest at all times - even if it's in contradiction to his or her interests. The Security and Exchange Commission directs that fiduciary duty also includes,

- Acting with undivided loyalty and utmost faith.
- Providing full and fair disclosure of all facts.
- Disclosing and avoiding (when possible) all potential conflicts of interest.
- Not misleading clients.
- Not using a client's assets for his or her own benefit, or the benefit of other clients.

Fiduciaries can't simply put your money into good investments. They must first understand as much as they can about you and your goals. One way of explaining the difference between a fiduciary and an agent or broker is that you do not have a legal right to trust that an agent or broker is acting in your best interests. They have no such legal responsibility.

In contrast to brokers, whose first loyalty is to their employer, fiduciaries are legally required to have an undivided loyalty to help their client meet those goals. Taking the time to understand your goals is simply part of their process. Next, they must strategize how to best meet those goals. The fiduciary advisor must be analytical and purposeful. They need to clearly articulate an investment strategy, this usually includes the practice of integrated financial planning and leads to proactive analysis in areas such as tax planning, estate planning and charitable planning where there will never be product sales or commissions.

## INVESTMENT PROFESSIONALS COMPENSATION METHODS

FINANCIAL PROFESSIONAL	METHOD OF COMPENSATION	ACTS AS FIDUCIARY?
Broker	Commission	Not Typically
Registered Investment Advisor (RIA)	Fee-only for Investing: Asset-based or Project Fee as Agreed on by the Client <sup>5</sup>	Yes
Financial Planner	Fees, Commissions, or Both	Sometimes

## INVESTMENT PROFESSIONALS COMPENSATION METHODS

FINANCIAL PROFESSIONAL	METHOD OF COMPENSATION	ACTS AS FIDUCIARY?
Financial Advisor	Fees or Commission	Sometimes
Private Banker	Fees or Commission	Sometimes
Investment Consultant	Fees or Commissions	Not Typically
Wealth Manager	Typically Asset-based Fee for Investing	Yes
Trustee	Fees and/or Proprietary Products	Yes

Fiduciary advisors stand apart in an industry crowded with conflicts of interest.

Fiduciaries are bound by a code of ethics. They take oaths and their conduct is based on applying ethical principles. The Certified Financial Planner (CFP) Board of Standards has a published code of ethics that includes seven principles including integrity and fairness. It states, "Integrity demands honesty and candor which must not be subordinated to personal gain or advantage." And "Fairness is treating others in the same fashion that you would want to be treated."

The National Association of Personal Financial Advisors (NAPFA) offers a similar guideline in their fiduciary oath. Advisors promise to "exercise his/her best efforts to act in good faith and in the best interests of the client." These ethical guidelines imply standards of conduct far above what may be legal. They demand what is right. They require the highest obligation of care, good faith, trust and candor.

At Theorem Wealth Management, we are an independent firm committed to helping you reach your goals through conflict free advice. Unlike Wall Street brokerage firms, we have no proprietary products to sell and you never have to worry about us cross-selling other products and services that not needed.

## INVESTMENT SERVICE DELIVERY MODELS

INVESTMENT SERVICE MODEL	TYPE OF COMPENSATION	IMPLICATIONS FOR INVESTORS
Traditional Brokerage.	Commissions for transactions and product sales.	Financially motivated to sell products leading to potentially biased recommendations. No Fiduciary Relationship.
Bank	Sometimes fees. Often times commissions.	Increasing conflicts of interest as banks increasingly pursue product sales and proprietary products. Others may provide Fiduciary Advice.
Insurance Agents	Typically commissions for insurance and investment product sales.	Products often sold based on commission rates. This often leads to conflicts of interest. <sup>5</sup> Typically no Fiduciary Relationship.
Fee-based (Hybrid Brokerage)	Combination of commissions and fees.	As the tendency of this group is to focus on asset gathering, there is no Fiduciary Relationship.
Fee-only Advisor	Fee-only for investment advice. Absolutely no commissions on investment products sales. Transparent costs.	Completely objective. Delivers impartial Fiduciary Advice.

## Get what you Deserve

Don't accept anything less than a fiduciary standard of care. Your family's financial future depends on the real differences between these two business models. You deserve better than satisfactory compliance to the rules. Here are three questions you should ask any prospective financial advisor to be sure that your interests are aligned:

- Do you have a legal obligation to act in my best interests?
- Do you receive any compensation other than the fee I pay you?
- Do you offer comprehensive financial planning?

Become familiar with the key components of fiduciary advice. This will help you monitor whether or not your advisor truly serves you in a fiduciary capacity. You should fully understand your investment relationship with your advisor. This includes their investment philosophy, the basis of their philosophy, and what steps they take to monitor their investment process. Your advisor should give you a clear idea of how often you will meet to review your financial plan as well as the activities of the individual's assigned to your account. You should also have other evidence supporting the advisor's objectivity including:

- No compensation tied to product sales.
- No proprietary products.
- Your advisor considers your personal needs as well as all relevant financial issues.
- A broad and integrate approach that provides advice on a variety of financial issues to ensure clarity and objectivity throughout the relationship.

## A Systematic and Integrated Approach

While standards provide a yardstick for measuring fiduciary responsibility, the main goal of a fiduciary process is to systemically help clients achieve their goals while serving their best interests. Our process is designed to ensure that prior to any investments, we have a deep understanding of your goals and the purpose of your wealth. This allows us to design an investment strategy that is tailored specifically to you and your goals.

