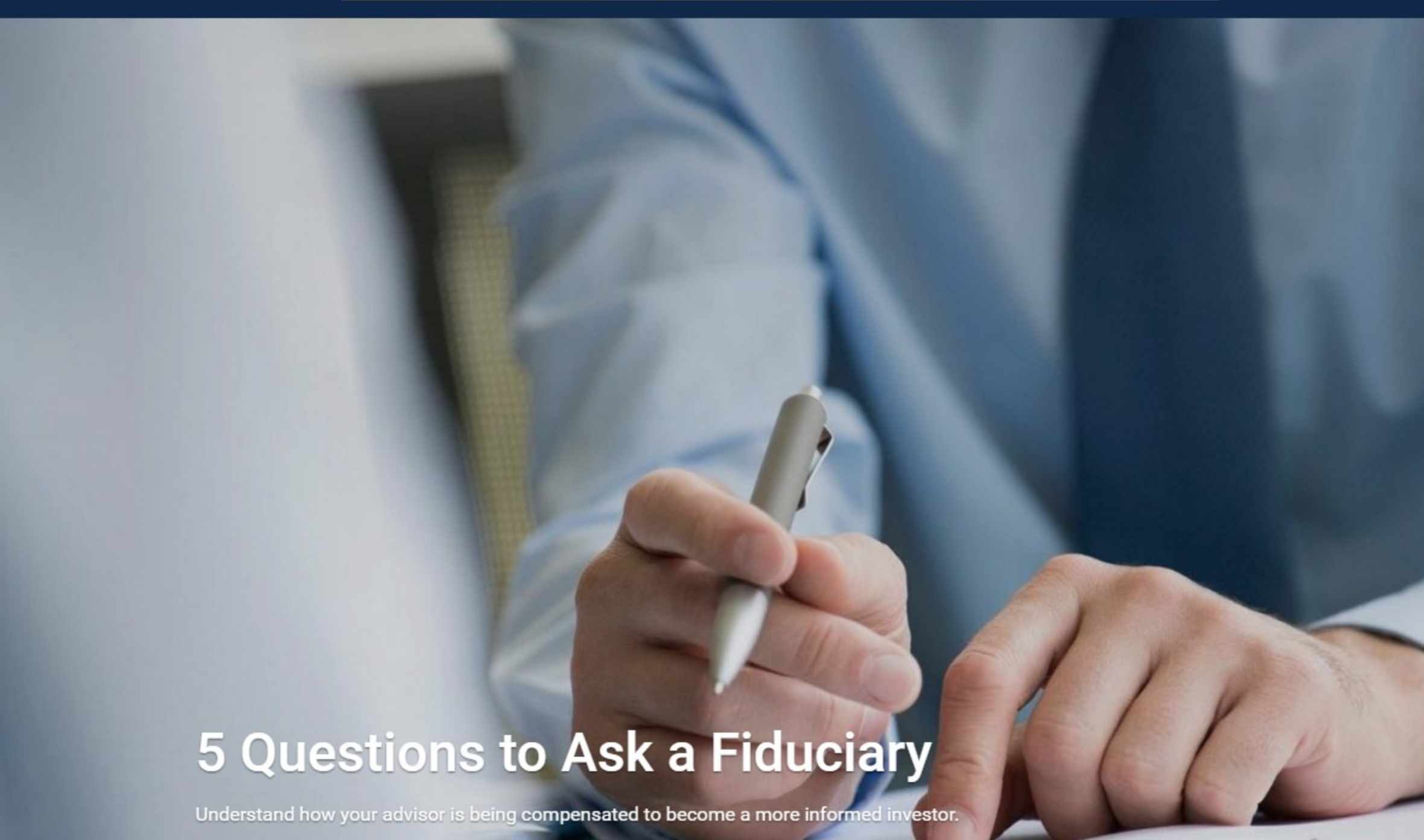


The U.S. election: What does it mean for your investments? [Learn more](#)

© 2016 The Vanguard Group, Inc. All rights reserved. Vanguard Marketing Corporation, Distributor. [Click here for prospectus](#)

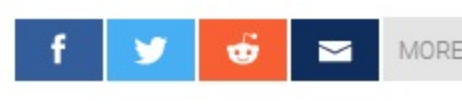



# 5 Questions to Ask a Fiduciary

Understand how your advisor is being compensated to become a more informed investor.

(Getty Images)

By [Dawn Reiss](#) | Contributor  
Oct. 26, 2016, at 9:36 a.m.



There's a lot of confusion about who is and who isn't a fiduciary, and what the term really means for [investors](#).

"I come across many advisors that use this term quite loosely," Stephen Rischall, a fiduciary financial adviser and co-founder at 1080 Financial Group in Sherman Oaks, California. "The only way you are going to know is by directly asking how an advisor is being compensated."

Almost half – 46 percent – of all Americans mistakenly believe that all [financial advisors](#) are already required to put their clients' interests first when it comes to retirement, according to a recent report by Financial Engines.

Next April, when the [Department of Labor's fiduciary rule](#) is implemented, many investors are likely to be more confused than ever thanks to loopholes and verbiage that is proliferating the industry.

[See: [High-Tech Investing: 7 Sectors to Watch.](#)]

"Big brokerage firms are training their brokers on how to use the term without crossing the line," Rischall says. "Technically anyone that works in the capacity of a fiduciary (has a series 65 or 66 license and provides financial advice for a fee) can call themselves this. Unfortunately many brokers are hybrids, in the sense that they can provide some level of fiduciary service but also collect commissions and predominantly function off the suitability standard."

This double-dipping has blurred the lines for investors.

"Very few clients ask the right questions," says Ashley Bleckner, a financial advisor for RS Crum, a fee-only independent registered investment advisor firm. "You've got to ask the tough questions, but you've got to know what those questions are."

To become a more informed investor, here are five questions to ask your financial advisor.

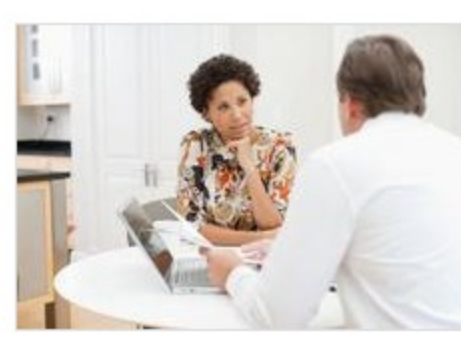
**Are you a fiduciary 100 percent of the time?** [Fiduciary standards](#) were established as a part of the Investment Advisors Act of 1940. That meant advisors had a fiduciary obligation to do what was in the best interest of their clients and had to disclose any potential conflicts of interest to put investors' interest ahead of theirs.

But that's not the case with brokers – an individual or firm that charges a fee or commission for buying or selling investments. They only have to do what is "suitable" for the investor. That means they can suggest buying a [mutual fund](#) or other investments that have higher fees and more commission for themselves, over lower-cost options that might be more advantageous to the investor.

Although well intended, the new fiduciary rule allows advisors to be hybrids, to be fiduciaries part of the time and collect fees and commissions depending on the situation. "It's not enough to ask if an advisor is a fiduciary," Rischall says. "Investors need to ask if the advisor is a fiduciary all of the time."

## RELATED CONTENT

[How to Find a Financial Advisor](#)



Consider wisely, because this relationship may last for the rest of your life.

**How are you compensated?** The ultimate litmus test comes down to how an advisor is compensated, fee-only or fee-based or some type of combination. Be aware, there's a drastic difference between fee-only and fee-based.

Fee-only advisors are fiduciaries and ensure that conflicts of interest are disclose to investors. "Everything is transparent and it's clear the financial advisor isn't receiving any type of kickback for suggesting any type of investment," Bleckner says.

These types of financial planners charge a flat fee, hourly fee, or a percentage of the assets under management.

As for fee-based or commission-based, William Lee, a portfolio manager at Ironwood Investment Counsel in Scottsdale, Arizona, says "generically speaking commission-based sales, are just that, a sale."

Adds Rischall, "commissions inherently present a conflict of interest because the product company pays the financial advisor as a sales person."

[See: [9 Blue-Chip Powerhouse ETFs to Buy.](#)]

Fee-based means advisors can typically charge per transaction, receive commissions based on the products they sell and direct fees from investors.

"There is an incentive for those advisors to recommend more expensive products with bigger commissions," Bleckner says.

Some financial advisors do a combination of fee-based commissions while operating as investment advisors. This means they can say they are fiduciaries, but in some situations they are also acting like brokers and receiving a mix of commission fees, coupled with an advisory fee.

"If they receive a commission, then they are not a fiduciary in that transaction, because fiduciaries don't receive commissions," Rischall says.

Regardless of how you ask, financial experts say make sure to ask your financial advisor how they get paid. "Most investors don't realize how much they are paying commissions, fees and expenses," Rischall says. "It's buried in the prospectus and disclosures, which very few people actually read."

## RELATED CONTENT

[3 Favorite Tactics Explained by Financial Advisors](#)



Ever wonder what tricks of the trade financial advisors prefer? Wonder no more.

**Do you want to sign a best interest contract exemption?** Also called BICE, this exemption, which will apply to transactions made on or after April 10, 2017, allows advisors to sell commission-based products while receiving compensation and commissions from outside sources.

Investors should be aware that the rule allows "level fee fiduciaries," also known as fee-based advisors, to use the exemption without a delivering a best interest contract if the compensation they receive is a "level fee that is disclosed in advance to the retirement investor."

Although the Department of Labor hasn't provided exact details of what will qualify as a exemption, Rischall says if investors sign a BICE, the assumption is that they are waiving their rights of what is potentially in their best interest because the disclosure will likely inform them about the cost of doing business with a broker.

**Have you ever been cited by a professional or regularity governing body for disciplinary reasons?** Then look up a financial advisor's records on FINRA's BrokerCheck, to find out if they have any complaints, Lee says.

Fee-only financial advisors won't be listed there, but can be reviewed at the Securities and Exchange Commission's investment adviser public disclosure.

On both sites, review the disclosure information that can range from criminal charges and convictions to formal investigations and disciplinary actions. "It shows all kinds of things that are going to surprise a lot of investors," Bleckner says. "You've got to know a financial advisor's disciplinary background."

Bleckner also suggests using National Association of Personal Financial Advisors' website, which lists fee-only financial advisors.

**Do you sell insurance or annuities?** Insurance is commission-only, which presents a conflict of interest, therefore [an investment advisor](#) can't be a fiduciary in that transaction, Rischall says.

[Read: [How to Invest in Fine Wine.](#)]

"It's important to read the fine print," Bleckner says. "Annuities are sold with sales incentives, and they can get huge bonuses. The riders can have hidden fees and can change and returns can be capped."

## SLIDESHOW

1 of 12

### Know when you need professional help.

Many Americans attempt to navigate the complex world of [investing](#) and retirement planning on their own, when guidance from a qualified financial advisor could make a world of difference. If you need surgery, would you do it yourself? It's the same with your financial future. The value of a financial advisor goes beyond investing your portfolio, says Beth D. Lynch, certified financial planner with Schneider Downs Wealth Management Advisors in Pittsburgh. "It's about working with clients through major life changes, planning for retirement or saving for college – in other words, mapping out all aspects of one's finances," she says.



(Getty Images)

NEXT: [What is a financial advisor?](#)

Tags: [Investing Insights](#), [money](#), [investing](#), [mutual funds](#), [financial advisors](#), [financial regulation](#), [financial literacy](#), [insurance](#), [annuities](#), [SEC](#), [Department of Labor](#)



[Dawn Reiss](#) | CONTRIBUTOR

[Dawn Reiss](#) is an award-winning journalist in Chicago who has written for TIME, Reuters, Chicago Tribune, The Atlantic and Travel + Leisure and many other publications. Follow her on Twitter, Google+ and Instagram @dawnreiss.

**Capital One** 360 Money Market™  
Earn one of the nation's highest savings rates.  
UP TO 1.00% Annual Percentage Yield  
[Learn More](#)

MEMBER FDIC

★★★★☆  
Our customers give **360 Money Market™** 4.4 stars.  
*As of 10/4/16*

[Learn More](#)

**Capital One**  
360 Money Market™

## Investing Advice

- [Overtime Overhaul: New Rule Puts Pressure on Employers](#)
- [What 8 CEOs Are Saying About Donald Trump's Victory](#)
- [Sweetness May Be Wearing Off Hershey](#)
- [How to Invest in Health Care in a Trump Presidency](#)
- [How to Save More Effectively for Retirement in the Post-Recession Economy](#)

[See More Investing Articles](#)