
# The Fiduciary Standard

In the world of finance, the fiduciary standard is the highest ethical standard for investment professionals. It legally requires investment professionals to keep the interests of their clients first, above their own interests as well as above those of their employers. Investment advisors attempting to achieve this standard limit their potential conflicts of interest and disclose possible conflicts that cannot be eliminated. Possible conflicts include compensation from sources other than the client, such as incentives from broker/dealers, mutual funds or insurance companies.

**The majority of investment professionals actually are held to a lesser standard by regulators called a suitability standard.** Under the suitability standard, advisors are free to sell any investment or insurance product that can be considered appropriate for the client's situation, not necessarily the best product or strategy, just an appropriate one.

Investment advisors bearing the fiduciary standard are expected to minimize their clients overall investment expenses while maximizing risk-adjusted returns and disclosing strategic processes used to manage their clients' accounts. Disclosures can include asset-allocation guidelines, diversification requirements, security-selection criteria, performance benchmarks and performance-monitoring procedures. Disclosures can be found in a client agreement, an investment policy statement and/or a Registered Investment Advisors mandatory ADV form, also called a disclosure brochure.

Obviously, there are many advantages to working with advisors who accept fiduciary responsibility; however, guaranteed success is not one of them. Advisors who accept the higher standard can select investments that perform poorly despite their best efforts on their clients behalf. By the same token, advisors who do not accept the higher standard still can offer successful products and strategies. The major difference is an investment advisor accepting fiduciary responsibility is less likely to be making decisions for the wrong reasons.

Finding investment professionals who adhere to the fiduciary standard is not always a simple task. Attorneys, Certified Public Accountants and Registered Investment Advisors are professionals who are always held to the fiduciary standard. Other investment professionals may or may not be held to the fiduciary standard though some may attempt to accept responsibility some of the time. Therefore, investors should ask their advisors for clarification about fiduciary responsibilities and investors should get that clarification in writing.