VANTAGE POINTE
Vantage Financial Partners Limited

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FIDUCIARY STANDARD OF CARE

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The Securities & Exchange Commission (SEC) filed suit last month against Goldman Sachs, a Wall Street giant, claiming the bank concocted and sold investments tied to toxic mortgages that were secretly intended to fail. According to the suit, Goldman made "materially misleading statements and omissions" when marketing these products - only to see investors lose more than $1 billion during the global market meltdown.

In the midst of the financial reform debate, the Goldman lawsuit has once again revitalized discussion to bring back the responsibility for institutions to work in a fiduciary capacity for their clients. Surprisingly, the requirement for all investment professionals to adhere to a fiduciary standard, originally proposed by Senator Christopher Dodd (D-CT), was dropped from the bill early in the debate due to major lobbying efforts by insurance companies and banks. This lawsuit has brought it back to life and may cause it to become part of the reform bill once again.

WHAT IS A FIDUCIARY?

According to Britannica Concise Encyclopedia, a fiduciary is a person in a position of authority whom the law obligates to act solely on behalf of the person he or she represents and in good faith.

THE DIFFERENCE

The primary differentiating factor between a fiduciary and a non-fiduciary is whose best interest comes first.

An Advisor abiding by the fiduciary standard must consider the best interest of their client including consideration of all external conflicts before recommending one strategy over another. All fees and secondary arrangements must be disclosed. This type of accountability offers greater transparency and can build confidence in the advisor/client relationship when he or she implements recommendations proposed by the advisor.

On the other hand, brokers or registered representatives are not required to act as a fiduciary, even though they must adhere to a suitability standard. This suitability standard takes into consideration the client's age, financial status and investment goals – i.e. is this investment purchase suitable for the client? While the suitability standard is applied to a particular purchase, it does not require the entire client's welfare be considered, nor does it mandate conflicts of interest be disclosed. Products or strategies offered by a broker may carry a greater benefit for the broker or the broker's firm than for the client, even when the purchase meets the suitability standard.

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To summarize, if Funds ABC & XYZ are identical in all aspects except fees, and they each meet the risk criteria and objective of the client, a fiduciary is obligated to select the lower cost fund or to explain why the higher cost fund was chosen. The broker, however, is not required to disclose a conflict such as a high commission, and therefore is free to offer either fund.

This shouldn't in any way translate into a good vs. evil comparison between a fiduciary and a broker or registered representative. There are too many qualified brokers who serve their clients extremely well and take it upon themselves to act as a fiduciary whether they are obligated to or not. Some clients do, in fact, prefer a commission structure to a fee structure. It should also be noted that working with a fiduciary doesn't necessarily yield a superior financial plan or investment returns. The objective is for you to know the difference and educate yourself regarding the varying structures available. NAPFA, the National Association of Personal Financial Advisors, offers additional information and a list of questions you can ask of your existing or potential advisor in order to clarify that advisor's compensation structure. These questions can be found by clicking here.

It should be noted that Vantage has always taken a fiduciary role in our relationship with clients. Our move to a fee-only structure affords more flexibility in the services we provide since we are no longer limited to products offered solely through a broker dealer. Our revenue is based solely on a fee structure so you know what you are paying and what we are receiving. We have chosen to join NAPFA as their standards and principles align with ours. Your Relationship Manager would appreciate an opportunity to discuss the published NAPFA questions mentioned above as well as any other questions about our fiduciary responsibility to you.

VANTAGE NEWS

Some members of the team enjoyed a night of bowling and pizza in celebration of their hard work wrapping up several projects. Although no one came close to a perfect game, the high scores for the evening belonged to Tom Vislisel and Sam Swisher, both of whom displayed skills unbeknownst to the team.

Last month, Michael joined other planners in the Chicagoland area who are catching the bus as it comes through town; Your Money Bus that is. Your Money Bus is a coast to coast collaborative effort involving four financial industry leaders, including NAPFA. The goal of the tour is to offer American consumers an educational opportunity through a one on one, no-cost consultation. Michael met with several families at the College of DuPage answering questions and providing guidance. Serving and educating people to help better their financial situation is at the heart of Mike and the entire team at Vantage. Thanks for your time, Mike!

Clockwise from far left:
Kim, Tom, Sam S, Dan Z, Jay, Jonathan, Sam B, Maria