5 Reasons to Choose a Fee-Only Fiduciary Advisor

November 13, 2018

[Editor's Note: The following guest post was submitted by Steven Podnos MD CFP® a fee-only advisor and principal at Wealth Care LLC. I found it ironic to see this post in the queue as I just received some criticism on the forum recently for not writing enough about the difference between fee-based (i.e. paid on commission) and fee-only (no commissions) advisors. It made me think that it's been a long time since I wrote much about advisors on the blog. Dr. Podnos has done me a favor and now I don't have to write yet another blog post explaining the difference and warning readers about the common error most of us have made of mistaking a commissioned salesman for a legitimate financial advisor. Dr. Podnos and I have no financial relationship.]

I have some fond memories of my medical residency. I enjoyed the camaraderie and joint efforts to both improve our own knowledge and skills while at the same time making patient care the best we could. My drill weekends as a Reserve military physician are similar—we are all working together on a "mission" to provide the best care to our deserving patient population.

There is a similar world in the field of financial advice—it is the world of the fee-only fiduciary advisor. These advisors differ remarkably from the vast majority who hold themselves out as "advisors" for several reasons.

1) Incentive

The fee-only advisor isn't incentivized to sell products. They make their living by providing advice in the best interest of the client.

2) Client First

The fee-only advisor works for the client, not for the brokerage or bank whose sign they live under. The average individual or family does not understand that the nice "advisor" sitting in front of them at a bank or brokerage is not working for the client, but instead for the "advisors" employer. They do well by selling the highest cost products regardless of quality or any other ethical guideline. Insurance agents are paid to sell high cost commissioned whole life insurance and usually find a reason to do so to fit almost any client problem.

Banking and Brokerage Malfeasance

The press has reported a constant stream of malfeasance by banks and brokerages in ways that maximize their profits and hurt clients. We hear about "fake" accounts being opened, fees tacked on without permission, high fees and commissions in general. We hear about "sales contests" being used to induce brokers and bank employees to push high-cost products to the uninformed public.

The US Government has unsuccessfully tried to combat this problem by imposing fiduciary standards on the investment industry. In 2016, a Department of Labor instruction applying fiduciary standards to retirement plans was killed in the courts back in June 2018. Additional efforts to reimpose such a standard are still being discussed, however, banks and brokerages continue to lobby to prevent implementation of these types of fiduciary rules and standards.

Being in the financial world has taught me that this behavior is the norm and not the exception. The salespeople who survive the initial training process in these industries are highly skilled at convincing the naïve customer that they are being well served. Usually, they are just being fleeced. In over fifteen years of dealing with clients that come from the dark side of commissioned sales, I can count the number of families well served on two fingers.

3) Fewer Conflicts of Interest

Fee-only advisors have very few conflicts of interest in achieving their goals with the families they serve. The only conflict of interest I can think of would be situations in which a client has a choice between using funds for an action that does not increase their managed portfolio size (such as, pay off debt vs. investing).

4) Knowledge

If you could hover over a peer group of fee-only planners, or attend one of their meetings, you would hear a variety of topics: academic discussions of the best investing techniques, how to deliver better client communications, how to find the lowest cost vehicles that achieve the client's investing goals, the latest information on tax law, estate planning, asset protection, educational and retirement planning and how best to use this information on behalf of the families that hire us.

In contrast, you would not hear about how best to "motivate" the client to buy your expensive product or "how to overcome objections to your sales efforts." Those are the topics you'd hear instead at a meeting of stockbrokers, bank employees and insurance agents.

5) Full-Time Fiduciary

Understanding exactly how your "advisor" is paid, and whether or not they will sign a statement that they are a full time fiduciary to you, is what most people need to stay out of trouble. You can find these advisors at Napfa.org *[or on the WCI recommended advisor page-ed]*. Napfa screens planners carefully for both educational standards and adherence to a fee-only practice. Beware of terms like "fee-based," for it means anything goes. Consider asking your advisor to sign a Fiduciary Oath.

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As mentioned earlier in the article, if most people could hover over a meeting of fee-only planners, there would be long lines outside their offices of people clamoring to become clients. Think about it, and then maybe we'll see you in that line!

What do you think? Have you used a fee-only fiduciary advisor? What is the best way to find a knowledgeable advisor that has your best interest in mind? Comment below!