

DENDRITE
— C A P I T A L —

INVESTOR GUIDE

Fiduciary Duty

What it means to act in a client's best interest
100% of the time, without exception.

INVEST WITH A FIDUCIARY

An Up Close Look at Financial Advisors

- Most financial advisors do not operate as fiduciaries.
- Conflicts of interest largely go undisclosed.
- The brokerage system of commissions is highly addictive.

Most financial advisors are not fiduciaries. This is likely because there is no law compelling them to act as one. Financial services firms employ “advisors” who are not always required to place their clients’ interests ahead of their own. In the typical financial advisor’s world, it is perfectly acceptable to sell an inferior product that is either more expensive for the client, pays the advisor a greater commission, and often both.

Imagine hiring a financial advisor, and during your initial meeting with them, they were brutally honest with you: *“I really want to help you achieve your financial goals. However, I don’t want to be legally required to put your interests ahead of my own, as I would earn less money by doing so, and it would be too cumbersome for me to implement. There are many conflicts of interest with the products I recommend, but I will not disclose those to you. Lastly, I don’t want the added liability that comes by acting as your fiduciary. Other than that, I will do my best to help you.”*

Not exactly confidence inspiring, is it? Anyone that has passed a basic exam requiring minimal competency can hold themselves out as a financial advisor. Often they work for a big firm with a prestigious name. But that doesn’t necessarily mean they have your best interests at heart.

Every financial advisor has a choice of where they work and how they are compensated. Almost always they start with the noble intention of helping people grow their wealth through prudent investing. However, often they get drawn into an addictive brokerage system offering large commissions and lavish perks for selling the most insurance or investment products.

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Defining a Fiduciary Duty of Care

- Do financial advisors deliver unbiased advice?
- A fiduciary acts in the best interest of their clients 100% of the time.
- Real advisors put clients first while brokers put their firms first.

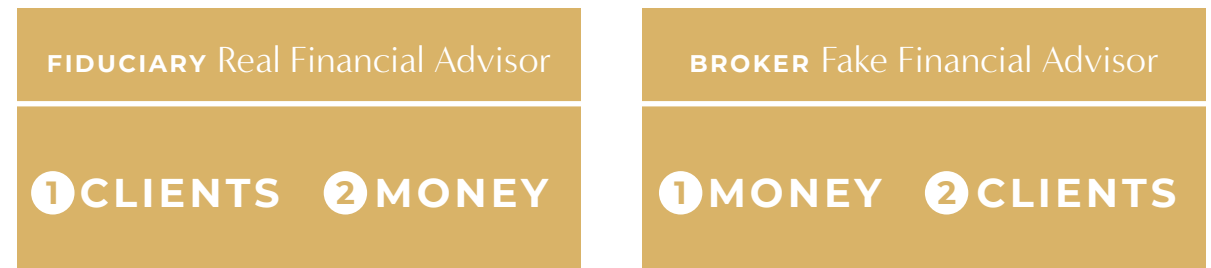
Can you trust a financial advisor to deliver unbiased advice?

The public largely assumes that all financial advisors are held to the highest standard of care when delivering advice. Not true! The reality is that most financial advisors don't always operate with a client's best interest in mind.

Acting as a fiduciary means that the interests of the client are always placed above the interests of the financial advisor. Unfortunately, there are two sets of rules governing financial advisor standards of care.

Under federal law, specifically the Investment Advisors Act of 1940, investment advisors regulated by the Securities & Exchange Commission (SEC) and states are legally required to act as fiduciaries.

Alternatively, brokers known as registered representatives are only held to a "suitability" standard of care. This creates a potential conflict of interest whereas a broker's duty is to their employing brokerage firm first and their client second. Often, it's difficult to tell who an advisor actually works for.



Dendrite Capital believes financial advisors should be held to the same fiduciary standards as doctors and attorneys. These professionals must always do what is in the best interest of their clients and patients. Furthermore, they must disclose and manage any conflicts of interests that arise. Without a uniform fiduciary standard of client care, the financial advisory industry will not advance beyond the rightful skepticism of the public at large.

INVEST WITH A FIDUCIARY

Fee- Based Versus Fee- Only

- Most advisors are classified as fee-based.
- Fee-based advisors earn commissions on top of fees.
- This can create a conflict of interest that fee-only planners aren't subject to.

If you hire a financial advisor, chances are quite high you're working with a "fee-based" advisor. Sounds good on the surface, but there's a lot to unpack with the fee-based label. A fee-based financial advisor is one that charges a fee as well as earns commissions on the side. For example, this advisor may charge you a fee for services like investment management or financial planning and then earn commissions on top of the fee(s) when you trade stocks, purchase annuities, or take out insurance policies.

On top of stock, mutual fund, annuity, and insurance commissions, the SEC also classifies 12b-1 fees hidden inside many mutual funds as commissions. A typical 12b-1 fee equates to an extra 0.25% that the advisor earns just for marketing the fund to investors. For every \$1M in assets under management, that's an extra \$2,500 the advisor takes out the client's return. Fee-based advisors almost universally collect these fees.

FEE-ONLY ADVISOR

I'll take care of you.
Honestly, I'm on your side.

FEE-BASED ADVISOR

I'll help you, but first let me
ensure I help myself.

The biggest problem with a fee-based advisor is unless they stop the meeting to tell you so, it's extremely difficult to discern when that advisor is giving you advice versus when they're selling you products as a broker. How are you supposed to know when you're getting real advice versus being sold something?

A fee-only advisor eschews commissions altogether. This type of advisor places the interest of the client above their own. For example, they may refer the client to an independent insurance agency to implement the recommended life insurance instead of selling it themselves.

Fee-only compensation mitigates almost all the inherent conflict of interest found with fee-based advisors. Fee-only advisors are as unbiased as possible, which helps ensure clients are receiving advice purely in their best interest.

INVEST WITH A FIDUCIARY

Hire a Fee-Only Financial Advisor

- Fee-only advisors are objective.
- Fee-only advisors provide holistic advice beyond the portfolio.
- Fee-only advisors must legally put client interests above their own.

Fee-only financial advisors are objective, and generally deliver more comprehensive advice than their fee-based counterparts. This makes sense. What incentive does a fee-only financial advisor have to sell you an annuity you don't need or an expensive life insurance policy when you really just need a simple term insurance policy? The difference is significant in that the fee-only advisor's compensation isn't contingent on whether or not you buy the recommended product. The fee-only advisor is free to focus exclusively on advice, not how they're going to sell you something.

When the incentive is removed to sell unnecessary or expensive products, clients have a better chance of ending up with what they actually need.

The work of a fee-only advisor usually entails advice beyond just investment management. Often there is a financial planning component to their work, as well as additional certifications. One of those certifications is the Accredited Investment Fiduciary® (AIF). Advisors that have earned the AIF designation have dedicated themselves to the highest standards of client care, strict ethics guidelines, and continuing education.

In addition to the extensive training, education, and certification, fee-only advisors work for Registered Investment Advisor (RIA) firms. Legally, these types of advisory firms must act as fiduciaries at all times with their clients.

Working with a fee-only financial advisor not only means that their compensation is transparent, but it's simple to understand. There's no guessing about how much the advisor will be paid. Your interests are aligned. This ethos is one that all financial professionals should adhere to if they truly wanted to put their money where their mouth is.



Dendrite Capital is a fee-only Registered Investment Advisor in Highlands Ranch, CO.

WWW.DENDRITECAP.COM

For more information regarding the topics discussed in this guide, please visit any of these sites.

[Accredited Investment Fiduciary® – Fi360](#)

[Fiduciary Standard of Care - Financial Planning Coalition](#)

[Conflict of Interest Final Rule - Department of Labor](#)

[Investment Advisors - Financial Industry Regulatory Authority](#)

[Why Should I Hire A Fee-Only Financial Advisor? - Fee-Only Network](#)

[Investment Advisors Act of 1940 - Wikipedia](#)

[What Is Fee-Only Financial Planning? - National Association of Personal Financial Advisors](#)