

Fiduciary Pledge

I, the undersigned, _____ ("financial advisor", "I", "my", "me"), pledge to always act as a fiduciary for _____ ("Client") at all times, no matter what.

As such, I will disclose answers in writing to the following material facts and conflicts of interest (actual and/or perceived) that may arise in our business relationship:

The Duty of Good Faith (the obligation to treat all clients fairly)

➤ Fair Fees

- ⇒ I am receiving recruiting compensation/bonuses: YES / NO
- ⇒ The maximum fee discount available to my firm's clients: _____ %
- ⇒ The fee discount Client is receiving: _____ %

The Duty of Due Care (the obligation to exercise the skill of an expert)

➤ Expert Advice

- ⇒ External financial and/or investment credentials I have earned:

- ⇒ I have earned a college degree: YES / NO Degree: _____
Major: _____ College: _____

The Duty of Loyalty (the obligation to put the client's best interest first)

➤ Honest Service

- ⇒ I will always present the lowest-cost product/service/investment as one of the available options: YES / NO

- ⇒ I will always inform Client when a product/service/investment that I recommend pays me greater compensation, whether monetary and/or non-monetary from my firm and/or third-party providers, than the lowest-cost option: YES / NO

- ⇒ I will not charge asset-based fees for inactively traded accounts: YES / NO

Financial Advisor name: _____

Signature: _____

Date: _____

Definitions

Fiduciary: Someone who is forbidden by law from acting in any manner that is adverse or contrary to the interests of the person receiving their services, or from acting for their own benefit in relation to their services. Generally accepted duties include good faith, due care and loyalty.

Duty of Good Faith: The obligation of financial advisors to act honestly and fairly with all clients.

Why is this important? Clients have a right to pay reasonable fees for advice, recommendations, products and services. In fact, the DOL Fiduciary Rule even requires reasonable fees. Obviously, reasonable is a subjective term. That said, knowing if your financial advisor is receiving recruiting compensations and/or bonuses and if you are receiving the maximum fee discount goes along ways to ensuring you are paying reasonable fees.

Duty of Due Care: The obligation of financial advisors to exercise expert care, skill, prudence and diligence when giving financial and investment advice and making product or service recommendations.

Why is this important? The typical financial advisor is not a finance or investment expert since they are only required to pass the Series 6 or 7 test to become licensed. As such, you cannot expect nor require a financial advisor to perform at an expert standard of care. Expert advice can only come from financial advisors who have voluntarily furthered their education and training and who have submitted themselves to the authority of a professional organization (i.e., a Certified Financial Planner™ (CFP®) or a Chartered Financial Analyst (CFA) designation).

Duty of Loyalty: The obligation of financial advisors to act in the best interest of their clients and to put their clients' interests before their own profits.

Why is this important? It is impossible to know if financial advisors are acting in their clients' best interests unless they provide full and fair disclosure of all material facts to clients and prospective clients, especially as it relates to costs and compensation. In particular, you know your financial advisor is not acting in your best interest (and most likely acting in their best interest) if the lowest-cost option is not at least presented to you or if they are not upfront about referral compensation.

FAQ's

Are financial advisors fiduciaries? As of April 2017, the U.S. Department of Labor's (DOL) "Fiduciary Rule" will require Series 6 and 7 licensed financial advisors who work for banks, insurance companies and brokerage firms (i.e., Morgan Stanley, Bank of America Merrill Lynch, Wells Fargo Advisors, Edward Jones, LPL Financial, Raymond James, etc.) to act as fiduciaries when giving advice or recommending investments for retirement accounts, including IRA's.

So is the advice I receive from my financial advisor in my best interest?

Regarding taxable accounts—definitely not since only retirement accounts are covered under the DOL's Fiduciary Rule. As such, financial advisors are still held to the "suitability" standard in taxable accounts (i.e., they can recommend the investment or product that pays them the largest commission or fee their as long as it is suitable given your circumstances).

Regarding retirement accounts—probably not since the DOL's Fiduciary Rule only covers one aspect of fiduciary duty, the duty to act in their clients' best interests and to put their clients' interests before their own profits (i.e., the Duty of Loyalty). For some reason, the DOL forgot the Duty of Good Faith (act honestly and treat all clients equally) and the Duty of Due Care (exercise the skill of a financial expert).

Why is disclosing recruitment compensation so important? Top financial advisors who are recruited to new firms can receive as much as 400% of their trailing 12-month's revenue vested over a nine year period as recruitment compensation (see [What To Do When Your Financial Advisor Switches Firms](#) at forbes.com). For example, if a financial advisor produced \$2,000,000 in revenue from fees, commissions, etc. during the past 12 months (i.e., an average financial advisor at Morgan Stanley produced \$1.17 million in revenue per year as of 2014), then their upfront bonus could be as high as \$4 million. In addition, they can likely earn another \$4 million in added bonuses tied to client and asset retention. The result—an \$8 million bonus over nine years for just switching firms. By the way, this does not include the other \$9 million or so in regular compensation they will receive over those nine years. Yes, you are reading that correctly—as much as \$17 million in total compensation. While this is not unethical or illegal, you do have the right to know the real reason your financial advisor is asking you to move your accounts to their new firm. Hint—it is not because they can give you better advice or service at

the new firm. More importantly, recruitment bonuses can create financial conflicts of interest, whether you were a client at the prior firm or not. Given that the firm that recruited your financial advisor needs to recoup that huge investment in your financial advisor, it is highly unlikely they will allow your financial advisor to give you the maximum fee discount, if any discount at all.

If my financial advisor is not a top producer, do I still need to be concerned about recruiting? Yes, recruiting compensation still matters even if your financial advisor is just average. For example, an average \$1,000,000 producer receiving a 200% bonus will likely receive \$1,000,000 upfront and another \$1,000,000 over the course of their recruitment deal. Add in regular compensation of \$4 million and their total compensation is \$6 million or more over nine years. Nowhere else other than on Wall Street (and of course sports and Hollywood) would \$6 million be considered average compensation.

What is the issue with fee discounts? Financial advisors can typically discount investment fees as much as 33% from their firms' standard fee schedule. As a result, the larger the discount they give you, the less money they and their firm receive from you. More importantly, financial advisors have the discretion to give the maximum discount to some clients and no discount to other clients. Any financial advisor who is acting in good faith will always give you the maximum fee discount allowed.

What is the downside to requiring my financial advisor to sign a fiduciary pledge? Your financial advisor will probably not sign it (i.e., they will claim their firm will not let them). That said, financial advisors should want to be fiduciaries, shouldn't they? After all, they would never be for acting with undivided loyalty, in bad faith, and without due care, would they?

What if my financial advisor will not sign a fiduciary pledge? Then you will have to decide whether remaining loyal to an advisor who will not reciprocate that loyalty is worth risking your financial future. If it is not, then you should consider hiring a financial professional who is both legally and ethically obligated to put your best interests first (i.e., a registered investment adviser, CERTIFIED FINANCIAL PLANNER™ (CFP®) practitioner, and CHARTERED FINANCIAL ANALYST (CFA) charterholder) in all accounts and at all times.

FP FiduciaryPledge

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