



C-level executives need more than an investment advisor they can trust - they need a fiduciary

Thought Leadership on Wealth Manager Strategies for the CEO presented by Kendall Capital Management.

When it comes to meeting the investment advisory needs of C-level executives, trustworthiness is a primary consideration. Trustworthiness in the context of investment advice is usually a function of three factors:

- Structure of the investment firm;
- Experience and credentials of the people running the firm, as well as key staff; and
- Investment process used by the firm.

But in today's complicated financial markets, investors need more than an advisor they can trust. They need a fee-only advisor who serves in a "fiduciary" capacity. Here's why.

According to the website of the National Association of Personal Financial Advisors (NAPFA), "Today many consumers are faced with a tough choice when it comes to who will manage their money. This choice is made harder with the plethora of financial advisors out there. Some of these people, posing as financial advisors, give you an overload of information as well as a sales pitch for a product that may not be for your benefit."

I am a member of NAPFA, the professional association for fee-only financial advisors. Founded in 1983, NAPFA and its members seek to **help consumers avoid these "self-serving" so-called advisors and obtain conflict-free financial advice.**

A fee-only fiduciary advisor is not only someone who can be trusted. He or she is compensated *only* by his or her clients – not the companies who sell investment products. This means the fee-only advisor never receives commissions from mutual fund, insurance or annuity companies. This is an important distinction because an "independent" advisor can get paid by sales commissions as well as client fees.

What is a fiduciary?

According to the NAPFA website, a fiduciary is a person legally appointed and authorized to hold assets in trust for another person. The fiduciary manages the assets for the "benefit" of the other person rather than for his or her own profit (investopedia.com). This differs from the majority of financial advisors in the fact that some advisers do not always invest for the benefit of the client. Most financial advisors are paid fully or partially by commissions; this means they have an incentive to promote products that maximize their income.

NAPFA members pride ourselves on the fact that we look out for the best interests of our clients. But to be a NAPFA member, the advisor must also meet the following set of high standards:

- They must meet stiff ethical, credentialing and educational requirements.
- They must be primarily engaged as holistic financial advisors (rather than merely investment or tax advisors).
- They must meet the most rigorous continuing education requirements in the industry.
- They must submit to outside professional review, to ensure that they do not have the conflicts of interest that commissions bring.
- They must submit a financial plan for review by peers, before they can be admitted.

Why fee-only matters

Fee-only advisors have one common goal: to look out for their clients' best financial interest.

Sadly, that is not always the case and this situation has prompted action by the federal government.

A *Washington Post* article published on April 14, 2015 reported on new rules proposed by the U.S. Department of Labor “that would raise the standards for investment advice given to retirement savers.” According to the *Post*, “The proposal, which was backed by President Obama in February, would require brokers who recommend investments for retirement accounts to put their client’s interests ahead of their own, holding them to so-called ‘fiduciary standards.’”

The move is intended to cut back on hidden fees and conflicted advice that could be eating into retirement savings, reported the *Post*. Earlier this year, according to the *Post*, the White House estimated that conflicts of interest and weak consumer protections cost IRA investors up to \$17 billion a year in excessive fees.

The *Post* article quoted Jeff Zients, director of the White House National Economic Council, as saying, “Most people aren’t even aware of these hidden fees and back-door payments to advisers.”

No doubt, trust is essential in the investor-advisor relationship. But as the Obama Administration’s new regulatory proposal makes clear, it takes a fee-only fiduciary advisor to guide investors through sound financial strategies.

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Clark Kendall, founder of Kendall Capital Management in Rockville, Maryland, has more than 30 years of experience in investment management and wealth management strategies. He is one of a select few professionals in the world who has earned the triple designations of Chartered Financial Analyst(CFA), Certified Financial Planner (CFP) and Accredited Estate Planner(AEP). Kendall focuses on providing independent financial direction to Middle-Class Millionaires in and around the greater Washington, D.C. area.