

Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
College of Human Environmental Sciences
University of Missouri-Columbia
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[Choose your friends \(and advisors\) carefully](#)

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Fiduciary is defined in [Wikipedia](#) as the highest standard of care in law. A fiduciary is expected to be extremely loyal to the person to whom he owes the duty (that is, the beneficiary): he must not put his personal interests before the duty, and must not profit from his position as a fiduciary, unless the principal consents. This seems simple enough. When in the context of your finances, a financial professional should put you first and not profit from being a fiduciary without your consent.

When I read [investorwords.com](#), fiduciary was defined as an individual, corporation, or an association who holds assets for another party, often with the legal authority and duty to make decisions regarding financial matters on behalf of the other party.

The [CFP Board of Standards](#) is responsible for the behavior of CFP® professionals. CFP professionals are financial planners who provide services to the public to help them reach their financial goals. The CFP Board has recently raised the definition of the expected performance of a financial planner from the current duty of "act in the interest of the client" to the higher standard of the "duty of care of a fiduciary," defined as acting "in the best interest of the client."

When we talk about the financial marketplace, how do we know a fiduciary if we see one? Many argue that only those that are fee-only financial planners, with no vested interest in product sales, can be a fiduciary. Others disagree and believe that those who work on commission can work in the best interest of their clients. What matters to you is, "How can you be sure your financial professional, or other person you're doing business with, has your "best interest" at the heart of their relationship with you?"

According the CFP Board of Standards, following these steps is a good place to start:

- a) What is their experience? How long have they practiced? Who have they worked for?
- b) What are their qualifications? Remember, the word *financial planner* is overused. Ask them what makes them qualified. Are they a recognized as a certified financial planner™? What are their specialties?

- c) What are their services? They must be licensed to sell you products but they can provide investment advice, if they are a registered investment advisor. Some financial advisors only offer advice and no financial products, while others may limit their advice to certain areas.
- d) How are they compensated? Some are salaried, with payment coming from an established relationship with another institution. Some charge hourly fees, a flat rate for a service, or a fee that is based as a percentage of your assets that they manage for you.
- e) What is their approach to financial planning? Do they work with others that are similar to you? Do they prefer to put together a comprehensive, holistic financial plan for you or are they more comfortable working on a part of your financial picture? Be sure to make sure your advisor's approach to risk is not too far afield from yours.
- f) Who is on the team? Will the financial planner be the only person you work with or will it entail others, in specific areas of expertise? If the planner uses outside sources of expertise, it is a good idea to check out the background of these other team members. (As the client, think of yourself as the owner of an NFL team and the planner as your general manager who hires "players" to work for you. Since they are the ones that "play in the game", they are important.)
- g) How much does the advisor typically charge? Get an estimate of what are the common charges for a comprehensive financial plan or an estimate of the costs of what you need done, based on past work. If s/he charges commissions, make sure you understand how s/he is compensated as a percentage of the price of products you might buy.
- h) Are there others that might benefit from the advisors relationship with you? Will these relationships affect his ability to put your "best interests" first? You can remember stories about how some securities firms have been found guilty to have sold products to customers only because that product had the best monetary reward to them. That is not in your "best interest".
- i) Have they ever been prosecuted for ethical or legal violations? If the answer to this is anything other than "NO", then make like a tree and LEAVE.
- j) Will they put these answers in writing? Do they have a written client engagement agreement?

To help you with this choice in the management of your [financial success](#), the CFP Board of Standards has a [questionnaire](#) on their website to help you collect information from the financial professionals you interview. (Remember, you own the team. They work for you. So act like an owner and take control of your future, as well as your team. When you get to the Super Bowl, give me a call!)

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