

Hippocratic Oath

Is there a Hippocratic Oath equivalent for financial advisors?

For centuries, doctors and other healthcare professionals have taken the Hippocratic Oath, vowing to practice medicine ethically and keep their patients' best interests at the center of all they do. It is a noble mission, and a good reminder of where their priorities should be. Is there a Hippocratic Oath equivalent for financial advisors? Is there a formal pledge advisors take to act in the best interest of clients at all times? We believe the answer is both yes and no, depending on the legal status of your financial advisor.

If your advisor is a representative of a registered investment advisor (a firm subject to the Investment Company Act of 1940), the answer is "yes." As a representative of a registered investment advisor, a financial advisor is legally required to act in a fiduciary capacity when advising clients. There is a high legal standard governing these firms, similar to the standards of lawyers, trustees or executors of an estate. These advisors must:

- Always put their clients' interests before their own
- Disclose any potential conflicts of interest
- Not mislead clients

On the other hand, financial advisors who are registered representatives of a broker-dealer (stockbrokers, etc.) are not held to the same fiduciary standards as registered investment advisors. A financial advisor acting in a broker-dealer capacity is only legally required to provide advice that is "suitable." According to the Financial Industry Regulatory Authority's online manual 2310, Recommendations to Customers (Suitability), suitable means that the advisor has made reasonable efforts to obtain a client's financial and tax status, investment objectives and other information considered to be reasonable. There is no requirement that the advisor put the client's interests before his or her own.

At FirstPoint Wealth Advisors, we find it disturbing that, while putting the advisor's interests first is "unethical" according to FINRA's guidelines, it is not illegal. Because financial advisors operating in a broker-dealer capacity are not required to put their clients' interests first, they are not acting as fiduciaries, as investment advisor representatives are. While the

government is taking steps to educate consumers on the difference between the two types of financial advisors, the process has been slow at best.

We believe that the best way to ensure your advisor is looking out for your best interests is by finding someone who is held to a high fiduciary standard. We view this fiduciary standard as our industry's Hippocratic Oath. But be cautious. Many commercials and advertising campaigns that are created on behalf of the broker-dealer community do a terrific job of implying that there is a fiduciary relationship present. The reality is that unless the advisor is subject to the fiduciary standards of the Investment Company Act of 1940, he or she is not required to put clients' needs first.

What now?

If you are currently working with a financial advisor, find out if he or she is legally bound to a fiduciary standard. Consider your current relationship and past experiences and decide whether your advisor is focused on your best interests. Arthur Levitt, the former chairman of the Securities and Exchange Commission, has said, "If you have more than \$50,000 to invest, you should fire your broker and find an investment advisor," (Take on the Street, 2002). We expect to see more legislation designed to protect consumers in the future, but for now, protect yourself first by working with a fiduciary who is ready to work for you... not for him or herself.

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