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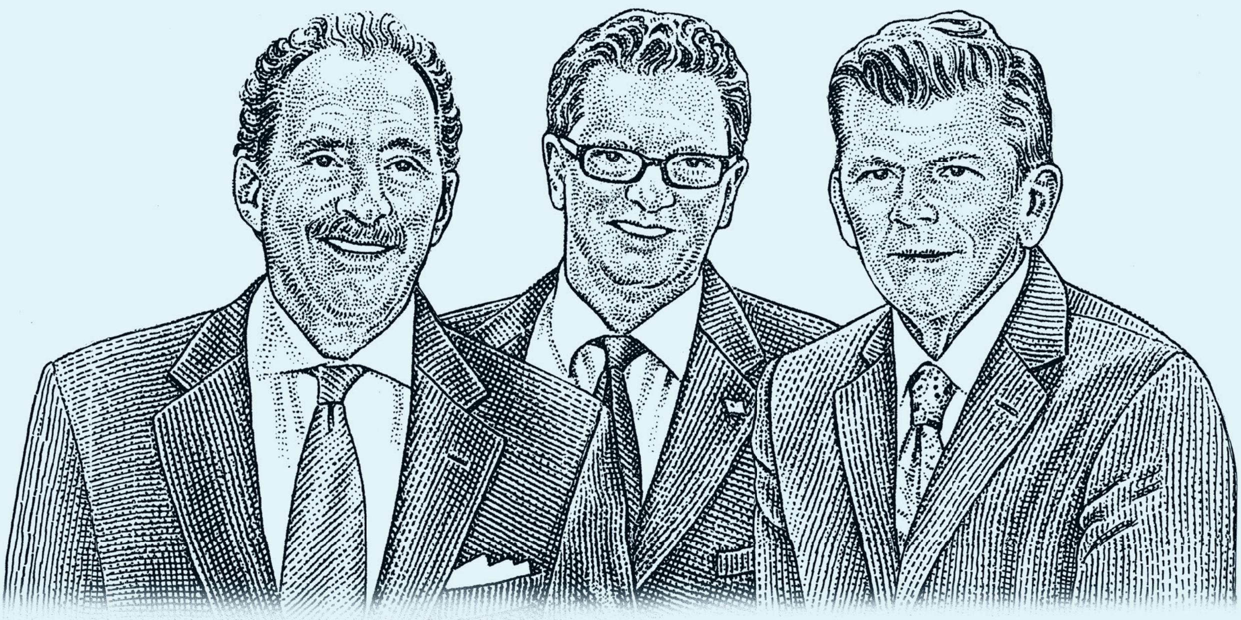
What is the standard of care I should expect of my advisor?

BY JEFF FUHRMAN



Left to right:
Jim Pratt-Heaney, Kevin Burns, Bill Loftus

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ASSETS UNDER CARE
$2 billion (approximately, as of 12/31/2016)

MINIMUM FEE FOR INITIAL MEETING
None required

MINIMUM NET WORTH REQUIREMENT
$10 million

FINANCIAL SERVICES EXPERIENCE
200 years (combined)

COMPENSATION METHOD
Asset-based fee

PRIMARY CUSTODIAN FOR INVESTOR ASSETS
Pershing, A BNY Mellon Company

PROFESSIONAL SERVICES PROVIDED
Financial planning, asset management, concentrated stock hedging, lending, cash management, alternative investment, due diligence and family office services

ASSOCIATION MEMBERSHIPS
Financial Planning Association, Investment Management Consultants Association

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ILLUSTRATION BY NANCY JANUZZI

The complexities of the financial services industry are well documented. That's why many investors navigate a path to financial well-being by seeking the services of a financial advisor.

However, even the most sophisticated among us can have a difficult time choosing an advisor we trust, one who has our best interests in mind.

Let's face it: When selecting a financial advisor, investors are confronted with a dizzying array of options: banks, brokerages, wire houses and registered investment advisors, to name just a few. So, where to begin?

Perhaps one of the most overlooked yet critical factors when making such an important decision is the standard of care by which the advisor operates. In fact, there are two different standards by which advisors are defined: fiduciary and suitability.

Registered investment advisors, who are regulated by the Securities and Exchange Commission (SEC) and/or state securities regulators, must adhere to the **Fiduciary Standard**. Under this standard, fiduciaries must generally comply with the following in providing investment advice:

- Act in the best interest of clients;
- Place the interest of clients ahead of their own;
- Provide full and fair disclosure of all facts;
- Fully disclose material conflicts of interest.

Registered representatives of broker-dealers, which are regulated by the Financial Industry Regulatory Authority (FINRA), must adhere to the **Suitability Standard.** Under this standard of care, the advice provided must suitably fit the client's investing objectives, time horizon and experience. The broker-dealer, insurance salesperson or certain advisors offering this standard of care must merely ensure that their recommendations are suitable based on a client's personal situation, but not necessarily in his or her best interest.

To illustrate the difference, a broker operating under the suitability standard of care could sell his or her firm's proprietary products or recommend mutual funds that cost the client more or underperform similar investments so long as he or she met the basic measures of suitability. In other words, the suitability requirements would be satisfied simply if the investment strategy met the objectives and means of the investor. By contrast, those advisors operating under a fiduciary standard of care would be required to take into account the reasonableness of the fees and conflicts of interest, versus a more basic question as to whether the investment is suitable.

Those operating under the suitability standard may receive ongoing "soft dollars" from the investment they have selected or may choose to sell their own products over competing versions, which may come at a lower cost. The fiduciary, however, would be obligated to disclose such fees.

> "Setting aside all else, the fiduciary standard is the way for clients to ensure their interests are being put first."

Under suitability, the financial planning "process" may consist of a single meeting to accomplish a client's goals. However, with a fiduciary advisor, in general, the planning process is much more in depth to the extent that the advisor has a duty of care to the client and typically maintains and ongoing relationship to monitor not only a client's investments, but also his or her changing financial situation.

Ultimately, then, when you choose a financial advisor, experience, responsiveness and integrity are of the utmost importance. At the same time, understanding whether your advisor is legally obliged to deliver the highest standard of care regarding the delivery of investment advice should play a big role. Setting aside all else, the fiduciary standard is the way for clients to ensure their interests are being put first. ●

ABOUT US

COASTAL BRIDGE ADVISORS IS AN INDEPENDENT REGISTERED INVESTMENT ADVISOR OFFERING A FULL RANGE OF WEALTH-MANAGEMENT SERVICES. Often referred to as a "virtual family office," Coastal Bridge strives to bring clarity and control to the financial lives of its clientele by delivering customized personal and business solutions. From its offices in Westport, Conn., and Los Angeles, CA, Coastal Bridge services high net worth individuals, families and foundations on both coasts and nationwide. ●

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