

When Fiduciary's Really A Four-Letter Word



Jeff Camarda Contributor
Wealth Management

I share advanced wealth wisdom: stocks, tax, estate and more.

By JEFF CAMARDA, Ph.D., CFA, E.A.

Finally, investors have gotten smarter and understand the difference between a fiduciary and a broker and know that fiduciaries are *required* to prioritize clients. While it seems simple, it can still be a challenge finding a “real” fiduciary who’s not trying to upsell you expensive, unnecessary commission products. When it comes to *your* wealth, *your* retirement, *your* and *your family’s* livelihood- this is a crucial decision that could cost you hundreds of thousands – or millions – of dollars in wasted family wealth.

The truth is that determining the difference between fiduciaries doesn’t have to be so difficult, but many consumers may not know how to conduct this important background check. Let’s fix that.

It’s not enough to just read reviews. You need to make an informed decision when choosing between the three types of advisors you will come across: 1) those that simply lie about it to get you to buy a high-commission, poorly disclosed product, 2) those who are actually dedicated, exclusive fiduciaries, legally required to put you first, and – here’s the squishy, dangerous part – 3) advisors who have both fiduciary investment advice licenses, and commission investment sales licenses, a condition known as “dual registration.”

Presumably, you only want number 2s. Good news, numbers 1 and 3 have flags that you can catch easily once you understand the landscape.

Commission sales agents – also known as stockbrokers – are regulated by FINRA and typically have sales licenses like Series 6s or 7s. Officially titled “registered representatives” (RRs) and are sales agents of “broker/dealers,” companies who deal in investment securities for a profit. These companies and agents make money by taking (legal, but often sneaky) commissions and markups on investments. Paralleling the notorious reputation of car salesmen, it is normal for them to sell products that make more money for the advisor at the expense of consumers’ wealth-health.

Fiduciary investment advisors – officially “investment advisor representatives “(IARs) work for Registered Investment Advisors (RIAs) and have a *legal* obligation to put you first. RIAs are regulated by the SEC and are an entirely different industry.

So those dually registered folks – the number 3s as previously described – are both licensed by FINRA as non-fiduciary commission sales agents, *and* by the SEC as fiduciary IARs. Dual registration – and I’m being charitable here – can make for confused advisors who may forget what hat they’re wearing, and maybe sell a high-commission product to a consumer who mistakenly believes – or even is allowed and/or led to believe – that the advisor is acting as an IAR fiduciary.

This confusion is engineered, not accidental, which is why it is so important to ask questions and be careful with “taking someone’s word” when it comes to qualifications,

titles, product pitches, and any provided disclosure documents.

Dual registration can expensively blur the line between what’s best for the advisor, and what’s best for the consumer. Not surprisingly, academic research* has found that in Florida, at least, dual registration is associated with significantly higher levels of advisor misconduct (fines, license suspensions, client complaints, settlements, and so on).

It’s not hard to imagine why, since such dual registration confusion can breed situations like the following, taken from an actual report from an investor using a large broker/dealer:

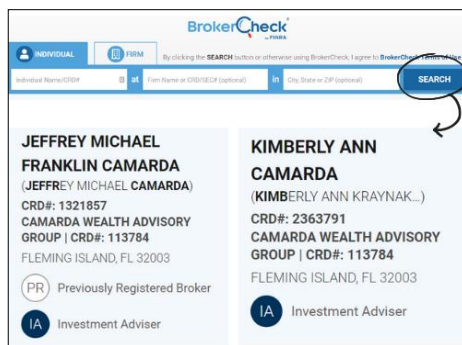
The investor believed the advisor was a fee-only fiduciary who did not sell on commission and who put the investor’s interests first. When asked, the advisor confirmed this was the case. “Yes, I’m a fiduciary.” “Yes, I always put the client first.” “Yes, I only charge fees, no commissions!” When questioned about if he was acting as a fiduciary on a million-dollar annuity found on his statement – an annuity that was showing no growth, had hard-to-find internal costs of some 6%/\$60K a year, and which had generated an estimated commission of some \$80,000 to him – his response was – *I kid you not* – “well, except for that.”

Now, of course, this is not to say that there are no good guys and gals in groups 1 and 3. But the conflicts of interest are undeniable, leading to many consumers wondering how to find the right fiduciary advice.

So now that you *know* the difference, here’s a quick way to *tell* the difference.

First, go to <https://brokercheck.finra.org/>. This portal serves up public record background check data on both RRs and IARs. As seen at the top of the following image, your search can begin by simply typing a name.

When using our Author’s last name, Camarda, you can find his and his wife/partner Kim’s profiles listed among the search results as seen in the image.



BrokerCheck Search Bar (Top of Image) and Jeff Camarda (Author) and Kim Camarda (Wife and Partner) are shown as search result examples.

Once you have found your advisor’s name, look at the bottom of your name tiles. Alongside other quick, free info you will see icons (see image below for key) to help you quickly determine their registrations. This should be your focus.



BrokerCheck Icons Meanings with suggested “x” on the “B” Icon.

For example, using both images provided, one can verify that Jeff used to be a broker, indicated by the “PR”, (forgive him, poor devil! He mended his ways long ago...) and is now only a fiduciary IAR. While Kim is showing registration only as an IAR.

As described earlier, our groups 1, 2, and 3 can now be spotted with ease. Group 1, our car salesman type, will display a “B” icon. Group 2, our friendly neighborhood *legally obligated* to always prioritize you and optimize your profits shown with an “IA” icon. And Group 3 is labeled with a “B” *and* an “IA” icon. The “PR” icon shows your contact’s history and BrokerCheck can also display additional background information about the agent, such as how many years of experience they may have.

Now that you can easily and quickly verify how your contact is registered, you are off to a much better start with your search in finding the right financial advisor. Obviously, this is a helpful tool whether it is your first time connecting with an advisor or not. Go ahead, look up your own advisor if you already have one, and see what you’ll find! If you are looking for a fiduciary without sales commission conflicts, don’t pick one showing a “B” icon (whether that may be independently or dually registered with the “IA” icon). In upcoming articles, we’ll look at how to mine BrokerCheck for valuable background checks and filed misconduct info. For now, I hope this insight helps you make a confident, smart decision with your family’s wealth-health when searching for a trustworthy and qualified fiduciary.

*Camarda, J.M., I. Chira, and P.J. De Jong. (2018). “Who is Less Likely to Be Involved in Financial Advisor Misconduct?” Journal of Wealth Management 21 (2): 85-96; Camarda, J.M. (2017). “Relation between financial advisory designations and FINRA misconduct.” Financial Services Review 26: 271-290.

