# The Responsible Advisor

## Are you being advised or just sold?

By Stephen SCHRAMM, CFP®, CPA/PFS
Principal, Senior Financial Advisor

In 2016, as the federal government was pushing to install consumer protections as part of the legacy of an eight-year administration, the Department of Labor (DOL) adopted new standards designed to expand ERISA fiduciary obligations to all financial advisors who work with clients in connection with any retirement-related account. They would be required to always and only act in the best interests of their clients.

As a registered investment advisor, HBKS® Wealth Advisors was already bound to that guiding principle. It was, in fact, that promise the firm was founded on many years ago, when most other firms were brokerages selling stocks and bonds and charging transaction commissions. It was those brokers who inspired the DOL; the worst of them holding themselves out as "advisors" but pushing high-commission products on their clients whether or not they were the client's best option. Such practices continue to this day. While the DOL initiative was eventually struck down by the courts, it alerted many consumers to the problem of conflicts of interest resulting from commission sales, and sent many financial firms and their advisors scrambling to demonstrate their adherence to at least the spirit of the standard. It also generated a tremendous amount of press, including exposing the practice of some of the nation's largest financial services firms to sell clients on their proprietary products, especially the products that generate the highest commissions.

We appreciate the DOL's objective. After all, doesn't it just make sense that when it comes to such an important issue as saving for retirement, people who call themselves advisors should be offering unbiased counsel, the best possible advice for that client to achieve the most important financial goal of his or her life?

While our industry in general is moving toward the fiduciary standard, the practice of promoting proprietary products, of selling as opposed to advising, persists. It survives because consumers are hard-pressed to distinguish what is best for them. Isn't that why you engage an advisor, because they're more knowledgeable about investments than you?

Much of the press around the issue has been dedicated to calling out advisors for selling products that cost more than others. Consider the MIT Sloan Management School 2017 study, where "mystery shoppers" were sent into advisory firms in the Boston area armed with blatant misconceptions and biases about their retirement savings and looking to see how they would be addressed. Among its findings, the study determined that, generally, "the advisors seemed to exaggerate the existing misconceptions of clients if it made it easier to sell more expensive and higher fee products." (Read the MIT Sloan study report at http://mitsloanexperts.mit.edu/we-put-financial-advisers-to-the-test-and-they-failed/)

However, there is a lot more to fiduciary duty advising than offering the cheapest product. The cheapest product is often not the best option for a client. For example, if a client already has a considerable amount of exposure to U.S. large cap index funds, the principles of asset allocation and diversification would tell you that you need to direct additional money coming into the account to something other than U.S. large caps, even though this recommendation may be more expensive.

There are two levels of mismanagement. There's the old school broker's approach where they're just selling, not looking out for the client at all. That's blatantly shameful. But more commonplace are advisors whose understanding of their clients' finances is limited to their investment accounts. You cannot act in the client's best interests if you're only looking at the account. You need to understand their entire financial picture: What's your mortgage balance? What's your cash flow? What happens if your spouse gets laid off? Are there others financially dependent on you? Are you trying to put away money to finance a child's college education or a second home? Without understanding a client's finances holistically, it's impossible to be a good fiduciary. Your investment portfolio is just one part of a financial plan that understands your goals and challenges, and that is updated as your life and finances change over time.

While the MIT Sloan study sheds light on the problem, it offers little to guide an investor. There are things you as a consumer can do to improve your chances of getting the right advice and the right advisor. Here's one: Ask yourself when your investment advisor last asked to review your tax return. An advisor can't make good decisions for you if he or she doesn't know how your investments are impacting your taxes, where your earnings are coming from, what tax bracket you're in. Return figures are meaningless if you have to forward most of the gains to the government at the end of the year. Tax-efficient investing should be an integral part of any plan to grow and protect your wealth.

While the DOL's directive, and the subsequent publicity, shed light on non-fiduciary practices, the free market is doing more to bring about positive change in the financial services industry. Good firms like HBKS® are putting pressure on the bad ones, and consumers are getting better advice — though there is a long way to go. Being a responsible advisor takes knowledge, but also a lot of work. Yes, we recommend the purchase and sale of products as part of our services to our clients. However, what we recommend, or how often you buy and sell, does not determine how much we make. Our interests are aligned with yours, and at the end of the day, we do well if you do well. We have to deliver the right solutions. Our culture drives us to want to solve any financial problem a client of ours might have. That is the most productive approach for us and our clients.


## Stephen Schramm

Principal and Senior Financial Advisor, HBKS® Wealth Advisors


At HBKS® Stephen directs a team of financial advisors, tax professionals and administrators who develop financial plans and investment strategies that are customized to address client-specific needs and goals. He is also a Principal in the Stuart, Florida, office of HBK CPAs & Consultants. In his daily practice, Stephen focuses primarily on each client's comprehensive financial picture in order to integrate each financial component into a coordinated plan.

Stephen earned his bachelor's degree in Business Administration and Accounting from West Virginia University and his master's in Accounting from the University of Florida. He holds the designations of CERTIFIED FINANCIAL PLANNER™, Certified Public Accountant and Personal Financial Specialist.