If you've been paying attention to the latest financial headlines, you've probably noticed a lot of debate regarding the Fiduciary vs. Suitability standards and how they apply in the financial industry. What's the big deal? Should you even care about this if you're not in the financial industry? The answer is yes - it's important to know the differences in these standards and which law applies to those whom you trust with your personal finances and investing.

Currently, only Registered Investment Advisors are required to act in accordance with the Fiduciary standard. The Fiduciary standard is the higher standard and requires that the advisor act solely in the best interest of the client, even if that interest is in conflict with the advisor's financial interest. Registered Investment Advisors held to this standard must also disclose any conflict of interest, or potential conflict, to the client prior to and throughout the engagement. In addition, Registered Investment Advisors must adopt a Code of Ethics and fully disclose how they are compensated.

Unfortunately, most financial advisors are actually brokers or insurance agents that are held to the lower Suitability standard. This standard requires that financial advisors recommend investment products that are "suitable," based on the information provided by the client. There is no requirement that the recommendation be in the client's best interest. In addition, conflicts of interest do not have to be disclosed.

Here's an example of how these two standards drastically differ - let's say it has already been determined that an S&P 500 Index fund is appropriate for you. A financial advisor that is a broker or agent using the Suitability standard can recommend to the client a higher cost product and receive commission from the sale, even if there are lower cost or non-commissioned funds available. However, a Registered Investment Advisor that is held to the Fiduciary standard would by law be required to recommend the lower cost, non-commissioned fund because it is in the client's best interest.

This difference has set the stage for debate over the last few years. As you would guess, the brokers and other securities salespeople who work for Wall Street firms, banks and insurance companies are lobbying hard to leave the Suitability standard in place so they can continue to make large commissions on the products they sell.

How can you ensure that you are using an advisor held to the Fiduciary standard at all times?

Look for a Fee-Only financial advisor, such as those affiliated with the Garrett Planning Network. Don't confuse this type of advisor with those that are Fee-Based, which is actually a term developed by the brokerage industry in response to the success of the Fee-Only structure. Fee-Based advisors can wear two hats – one as a Registered Investment Advisor and one as a broker or insurance agent who can receive commissions based on the sale of the financial products sold under the lower Suitability standard.

Bluegrass Financial Planning is proud to be a Fee-Only , Registered Investment Advisory firm that is held to a Fiduciary standard meaning that we are committed to placing clients' interests ahead of our own. Contact us today for a complimentary "Get Acquainted" meeting to hear about our services and have the peace of mind in knowing that your advisor is putting your interests first and not selling you products for commission.