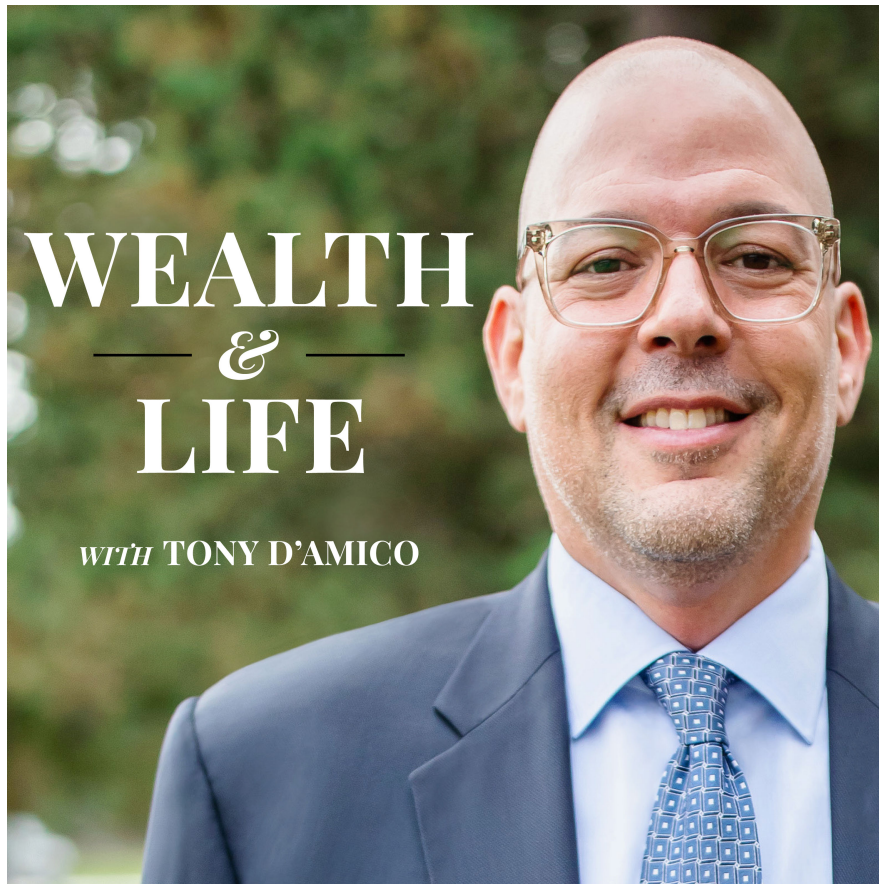


Ep #21: 3 Levels of Care



Full Episode Transcript

With Your Host

Tony D'Amico

Wealth and Life with Tony D'Amico

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Welcome to *Wealth and Life*, where you'll learn with financial planner, consultant, speaker, and business owner, Tony D'Amico. You'll hear stories from successful business owners and individuals about how they navigated the inevitable challenges that arose as they achieved each new level of success, and you'll get insights and strategies from leading wealth planning professionals on how to achieve your next level of success. Now here's your host, Tony D'Amico.

Tony D'Amico: Hi everyone, Tony D'Amico with Fidato Wealth. Thanks for joining me for this episode of *Wealth and Life*. And today, as the episode might be on the shorter side, but I think about a really important topic.

So, today, we're going to talk about the three levels of care that a financial advisor or insurance agent or broker dealer can provide. So, there's three levels of care. Let's start off with the lowest level of care, which would be called the suitability standard. After that, there's the best interest standard. And then lastly, there's the fiduciary duty, so the fiduciary standard of care. So, let's talk about suitability. So, the suitability standard entails the use of defined principles, although they're kind of vague and business practices use to determine whether a recommended product is appropriate for a consumer at the time of the transaction to purchase the product or insurance or security that's being purchased.

So, the suitability standard, there is not a fiduciary requirement to act in your best interest. It's a transactional relationship. Often, there is commission earned and there isn't any continuing level of care that's required. So, almost two years ago, another standard came out. So, a very new standard called the best interest standards. I do

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think this was a step in the right direction. And the purpose of this standard was to require broker dealers and insurance agents to have a higher level of care required that they provide to their clients. So, a broker dealer, to make this even more confusing is some financial advisors are actually not qualified to give advice. They're qualified to facilitate the purchase and sale of investments. So, an investment advisor, which I am, and I'm also a certified financial planner, I'm actually qualified to give advice.

So, there are investment firms out there, wirehouses where they have what's applied to them called the best interest standard, which means that their advisors are not investment advisors and they may not be certified financial planners. So, the best interest standard as I higher level of care than the suitability standard, but it does not impose a full fiduciary duty on the advisor. It does raise the standard of care, but it does not impose, again, that full fiduciary duty. There is a general obligation to act in the best interest of a retail customer when making a recommendation of any security's transaction or investment strategy involving securities. So, that's very important. And how the best interest standard is it's applied differently to broker dealers and their associated advisors. It's applied differently to an insurance agent.

So, the NAIC, which sets the standards that most states follow for insurance agent has a best interest standard. And that definition is even not as stringent as the best interest standard is for advisors that deal with investments. So, to complicate that, again, how that's applied depends if you're an insurance agent or you're dealing with investments. The fiduciary standard, again, is the gold standard. That was what's required of a fiduciary

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was defined back in the Investment Advisors Act of 1940. And it quite simply says that an advisor must place the client's best interest first at all times. So, not just upon initial recommendation, but every day thereafter. The fiduciary duty, the advisor has to give you a duty of care, a duty of loyalty. They must act with prudence that is with skill, diligence, and good judgment.

And the advice that they're giving to you must be based upon accurate and complete information that entailed a thorough analysis. So, a fiduciary always must avoid any conflicts of interest and they also must fully disclose any conflicts that might exist and manage those conflicts in favor of their clients. So, there is no higher level of care the law defines, besides the fiduciary duty. So, the clients of Fidato, we pledge fiduciary duty to our clients across all advice, being a registered investment advisory firm, where we have to do that. None of our advisors at Fidato Wealth are dually registered, meaning that none of us are both licensed to charge a fee on investments and then also sell investments for a commission.

So, to complicate things even further, there's these three levels of care that I just described, but additionally, there can be financial advisors that are dually registered, both as an investment advisor, and also as a broker dealer for investments where perhaps in one aspect of the relationship they're providing fee based investment management, on another, they might be selling you investments for a commission. So, when it comes to investment management at Fidato Wealth, the only way that we're compensated is through the fee that we charge our clients. So, very important distinction there to know. So, I've had folks ask me before, "Well, how do I know

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these are folks that don't maybe work with us, that maybe have an existing advisor relationship?"

And they'd asked, "Well, how do I know if my advisor is a fiduciary to me?" And there's two things that you can do is one, you can ask them if they'll put that in writing. So, for example, our agreement with our clients tells them the duty of care and the services that they're going to get from us. So, will they put that in writing that they'll be a fiduciary to you 100% of time? And the other thing that you can ask them is, are they a certified financial planner or investment advisor? So, those two do require to be a fiduciary for when they're working with you in that aspect of the relationship. But I also tell folks that if you have to ask, there's your answer there. So, because people that are fiduciaries, they typically wear that distinction, I would say, with pride. It means a lot to them to be a fiduciary and to be looking out for their client's best interests and helping them navigate all the decisions and all those pros and cons to help them, obviously accomplish their goals and optimize their decisions in light of their goals.

So, yeah, those are those three standards of care for our clients at Fidato Wealth, that we're held to the fiduciary standard, that's what we embrace. You may know that's how we came up with the name Fidato. So, thanks for joining us for today's episode of Wealth and Life. Hope you found this helpful and have a great rest of your day. Thanks.

Do you want even more ideas, tools, and resources of how to achieve the next level of success in your wealth planning? Check out wealthandlife.com, where Tony will cover the latest trends and wealth planning best practices for successful business owners, families

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