



## Defining fiduciary duty

Philip Porado / May 17, 2010



A recent meeting of industry minds at York University explored the idea of imposing a fiduciary duty upon financial advisors. Noting many other professions, including doctors and lawyers, require that standard, the gathering was meant to get the attention of regulators and lead to creation of commensurate rules.

According to one advisor in attendance, the higher standard is necessary to ensure those dispensing financial advice have a better understanding of the obligation they take on when they agree to run a clientâ€™s money.

But what makes a fiduciary relationship? And what qualities must advisors bring to the table to ensure they truly act in the clientâ€™s best interests? We asked some advisors for ideas about what it takes to achieve enhanced relationships, and share their thoughts about what it means to be a good fiduciary:

â€œA good investment fiduciary will implement the following steps: 1. Analyze the clientâ€™s current position; 2. Identify the appropriate risk tolerance to determine asset allocation (diversification); 3. Formalize the process through an Investment Policy Statement; and 4. Implement the investment policy. He or she will then follow up with ongoing monitoring and periodic reporting of the investments, and update the clientâ€™s risk tolerance as needs and lifestyle change. The updates should be annual, unless a trigger event such as job loss, divorce, birth of child, etc. occurs.â€□

â€” **Don Macfarlane**, CFP Assante Financial Management Ltd. Thornhill, Ont.

â€œWe show weâ€™ll be a good fiduciary by communicating to the client in a clear and concise manner (in writing and orally) that I (the planner) can be trusted to act in the clientâ€™s best interest at all times. That as we begin to work together, they will discover that they can rely on me to tell the truth and deliver as promised. That they have equal rights and will get equal treatment. That my aim is to keep costs down, without compromising the quality of my service or advice. And, most importantly, to know enough about their situations to make appropriate recommendations.â€□

â€” **D. Tony Mahabir**, MBA, CIM, CMC, CFP, CEO, Canfin Financial Group of Companies Mississauga, Ont.

â€œFiduciary duty is about trust and confidence, and with that I believe there are two important elements in showing a client that an advisor is a good fiduciary: 1. Transparencyâ€”indicating all fees charged for services rendered; and 2. Information gatheringâ€”by learning as much as possible about the clientâ€™s financial situation, an advisor can show that he or she can execute and govern the clientâ€™s investment and fiscal goals.

In the financial advisory business, along with a thorough financial plan, a fee-based approach and a clear Investment Policy Statement help to articulate the advisorâ€™s fiduciary responsibilities.â€□

â€” **David Sung**, CFP, CLU, RHU President, Nicola Wealth Management, Vancouver, B.C.

â€œThe financial advisor will show they are a good fiduciary by being focused on the best interest of the clientâ€™s fiscal well-being.â€□

â€” **James R. Taylor**, CLU Financial Health Management, Toronto, Ont.

â€œEvery advisor needs to review industry compliance issues relevant to the client on a regular basis. Clients should be encouraged to ask about fiduciary issues. As well, advisors should make the discussion of fiduciary and compliance issues part of their regular updates. Why? In part because it helps to clarify these issues for the client, but also, done properly, raises the esteem and legitimacy of professionalism in our industry.â€□

â€” **GÃ¡bor Vaski**, Ch.P. Strategic Wealth, CFP, BMus, Investors Group, Burlington, Ont.

â€œBy working for the client under a transparent compensation model. That doesnâ€™t necessarily mean the fee-only model, but could also describe a front-end commission. The fiduciary advisor works directly for the client and only accepts payment from that client, whether paid directly or deducted from the clientâ€™s investment account, and would not take any third-party compensation such as DSC commissions and trailer fees, and certainly would not participate in any sales contests.â€□

â€” **Marc Lamontagne**, CFP, R.F.P., FMA, Ryan Lamontagne Inc., Ottawa, Ont.

Filed by Philip Porado, editor@advisor.ca

Originally published in Advisor's Edge Report

Copyright 2010. Advisor.ca. All Rights Reserved