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EXTENSION

Who is a fiduciary?

# Choosing a Financial Professional

Plan Well, Retire Well: Your how-to guide  
www.RetireWell.uiuc.edu

## Who is a fiduciary?

A fiduciary is someone who must legally put your interest first, even before his or her own interests. A fiduciary financial professional who is advising you about investments, must recommend investments that are best for you. Fiduciary professionals must also tell you about their qualifications and services as well as how they are paid. They must reveal any potential conflicts of interest and any disciplinary actions taken against them.

Legally investment advisors have a fiduciary responsibility to you; brokers do not.

A broker does not have fiduciary responsibility even if they give you financial advice. The law does require they recommend investments that are suitable for you. However, they can also consider the commission they might make from selling an investment or a company bonus for selling particular investments. In other words, while an investment may be suitable for you, it may not be the best choice for you.

How do you know whether your financial professional is a fiduciary or not? First, ask questions - you have the right to know this information. Second, the Securities and Exchange Commission (SEC) requires brokers and other professionals who are not fiduciaries to include the following statement on all marketing materials:

*Your account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us*

*based on what you buy. Therefore, our profits, and our salespersons' compensation, may vary by product and over time.*

The National Association of Personal Financial Advisors provides this table to summarize which professionals are fiduciaries.

Type of Professional	Are They A Fiduciary?
Physician	Yes
Lawyer	Yes
CPA	Yes
Stock Broker	No
Insurance Agent	No
Registered Representative	No
CFP Practitioner	Maybe*
Financial Planner	Maybe*
NAFPA-Registered Financial Advisor	Yes

*\*Advisors who are affiliated with a broker dealer firm are most likely not fiduciaries. If the client signs an NASD binding arbitration agreement - required by almost every broker dealer firm - then their advisor would not be held to a Fiduciary Standard by the NASD. CFP Practitioners and Financial Planners will be held to a Fiduciary Standard if they are also registered investment advisors or associated with a registered investment advisor.*

Source: National Association of Personal Financial Advisors, <http://www.napfa.org/consumer/FocusOnFiduciary.asp>, retrieved 1/9/2007.

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