

# Cranbrook Wealth Management, LLC

## *Fiduciary vs. Suitability: Which Suits You?*

At Cranbrook Wealth Management, whether we are constructing a comprehensive wealth management plan, managing your investments, or both, we are doing so as an independent registered investment adviser. As such, we are acting as a fiduciary and working directly for you. We do not have any type of employment, independent contractor, or sales relationship with any Wall Street firm, fund company, wire house, or other entity. Furthermore, we do not push proprietary products of any kind. We are legally required to always act in your best interest. As obvious as this seems, it is not always the case in a financial professional relationship. Following is a brief summary of the different standards of care that exist in the current marketplace. You may be quite surprised to see the results.

### The Suitability Standard

Generally, stockbrokers are only held to “suitability” obligations on behalf of their broker-dealer. Quite simply, this means that the broker must only have reasonable grounds for believing that their recommendation is suitable for that particular investor. The suitability standard simply requires brokers to assure that a product is appropriate for a client’s investment needs and timeline, and allows brokers to sell products from their own inventory. Furthermore, most brokers are not required to provide specific disclosures regarding issues like conflicts of interest, comparable to those provided by investment advisers. To further complicate matters, brokers often times refer to themselves as “financial planners,” “financial advisors,” or “wealth managers,” which are the very same terms used by independent advisors held to a fiduciary standard.

Consider the following example. If a broker determines that it is appropriate to put a portion of your investment portfolio in large cap value equities, it would be perfectly legal for a broker to place your assets directly in his company’s Large Cap Value Fund, even if other similar products on the market had lower expenses and better performance. As long as the broker can demonstrate that their company’s proprietary fund is suitable for you, they satisfy their legal responsibility to you.

### The Fiduciary Standard

Alternatively, registered investment advisers (such as Cranbrook Wealth Management) are subject to a *fiduciary duty*. Generally, a fiduciary duty is considered to be the highest standard of care that one party can have to another. As a fiduciary, an investment adviser has an affirmative duty of care, loyalty, honesty, and good faith to act in the best interests of its clients. Furthermore, a fiduciary is legally required to disclose any and all conflicts of interest.

Revisiting the example above, if an investment advisor, as a fiduciary, determines that large cap equities are appropriate for your portfolio, the adviser must act in your best interest, survey the product landscape, and select the best alternative. Generally, this results in recommending investments with much lower costs, and, in many cases, superior performance.

## Wall Street's Dirty Little Secret

These opposing standards present a key problem for the average consumer. In one word: conflict. If a broker finds a dozen or so stocks or funds that are merely “suitable” for you, that broker may feel pressured to push one of those products because they get paid a higher commission or because their employer compels them to move so-called “house” products or products of a favored third party. That is the dirty little secret of the Wall Street broker-dealer community. The worst part is that it does not even have to be disclosed.

In some respects, brokers are in a similar position to an individual selling software. They do their best to ascertain the prospective customer's IT problems, goals, and objectives; and then try to address those needs with the few software products on the shelves of their employer. When that sale is made, they move on to the next potential customer.

It is vital that when working with a financial professional you know exactly the standard to which that individual is held. Unfortunately, a lack of consumer awareness permeates this industry. In fact, 43% of investors are unaware that stockbrokers and investment advisers offer different levels of investor protection.<sup>1</sup> Furthermore, 47% of investors are unaware that stockbrokers are not required to disclose conflicts of interest.<sup>2</sup>

We encourage you to find out exactly what standard your current “advisor” falls under. If they fall in the suitability camp, we further encourage you to ask them the following question: Are you legally required to act in my best interest? The answer may no longer be quite so surprising.

## Conclusion

A cursory review of this fiduciary vs. suitability distinction lends itself to, what we think is, a fairly obvious conclusion. However, if you are still not convinced, perhaps the comments of former Chairman of the SEC, Arthur Levitt, can point you in the right direction:

*“If you have more than \$50,000 to invest, you should fire your broker and find an investment advisor. Brokerage firms would like you to think that they perform the same functions as investment advisors. Many brokers call themselves ‘financial consultants’ or ‘financial advisors’. But they are not the same as independent investment advisors . . . [a]n investment advisor’s fiduciary duty is on a higher plane, like that of a lawyer, a trustee, or the executor of an estate.”*

In conclusion, if you are interested in an independent, fee-only, *fiduciary* relationship and the construction of a comprehensive wealth management plan, please contact us at your earliest convenience.

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<sup>1</sup> T.D. Ameritrade Investor Perception Study 2006.

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