ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Financial Advisers and Your Best Interests

Earlier this month, the U.S. Department of Labor issued regulations that, as of April 2017, will legally require financial advisers and stock brokers to act in the best interests of their clients investing for retirement—what's known in the industry as "fiduciary duty." Adviser Investments has followed this standard for all of our clients' investments, not just those earmarked for retirement, since our founding in 1994.

Expecting an adviser to act in your best interests seems like it would be a given—not just because it's the right thing to do, but because they also want to keep you as a client—but it hasn't been legally required until now. As Labor Secretary Thomas Perez explained, the rule "ensures putting the clients first is no longer a marketing slogan. It's now the law."

The Labor Department's ruling has garnered a lot of attention in the media, and we thought a quick overview into what it means for retirement-savers hunting for a financial adviser for the first time or thinking about a change would be informative.

The Supreme Court ruled in 1963 that registered investment advisers, under the Investment Advisers Act of 1940, had to follow a fiduciary standard—acting in clients' best interests—across all types of accounts. However, there had always been some degree of wiggle room, allowing many advisers and brokers to avoid taking fiduciary responsibility. The new rules extend that obligation to cover how advisers are compensated (specifically aimed at curbing fees and conflicts of interest) for working with clients who are investing for retirement.

According to the Labor Department's regulatory impact analysis, IRA investors in mutual funds receiving advice from financial advisers with conflicted interests could expect to see their investments underperform by an estimated average of 0.5%–1.0% per year over the next 20 years, costing mutual fund investors between $202 billion and $404 billion during that time.

The fiduciary rule applies to all financial products that could be used in a tax-advantaged account, and is intended to protect Americans saving for retirement from unscrupulous investment professionals more concerned with their own financial gains than those of their clients. It's a way to prevent (or, at least, disclose) conflicts of interest where an adviser might have a financial incentive unrelated to their clients' investment objectives to direct clients into one fund or annuity rather than another, something that previously might've been hidden in the fine print of a contract, if disclosed at all. The laws are likely to accelerate the transition from commission-based financial advice to fee-based accounts.

(Adviser Investments is way ahead of the curve on this rule. Since inception, we've been a fee-only investment adviser. We don't take money from fund or insurance providers or anyone else to sell their products. We only get paid by our clients.)

The fiduciary rule states that brokers and advisers can no longer earn commissions (or engage in other practices on behalf of a client where conflicted advice might occur) without a Best Interests Contract agreement. This is a document signed by both the retirement-focused investor and the financial adviser upon opening an account allowing that the adviser may earn "reasonable compensation" so long as they act in the "best interests" of the client, providing disclosure and transparency about all recommended products and compensation involved. (One might argue that these agreements are in fact a way of skirting the new fiduciary rules by getting investors to agree to practices that may not actually be in their best interests up front.)

What is *not* covered by the new legislation? Investment advisers can still market their services so long as they don't include investment recommendations. And employers can offer asset allocation models to employees without following the fiduciary standard. Finally, individual investors can opt out of holding their adviser to a fiduciary standard, although we're not sure why they'd want to.

Finally, it's important to note that the required fiduciary duty *only* applies to retirement accounts, which receive special protection under federal retirement and employee benefits law. As for investors in non-retirement accounts, without the Securities and Exchange Commission taking action, they remain on their own in determining whether a financial adviser is working in their best interests. If you fall into this category, we've created a checklist of sample questions to ask an adviser to get a feel for whether or not they are a good fit for you.

At Adviser Investments, fiduciary duty is at the heart of everything we do in our partnerships with clients. We firmly believe that investors are best served working with a trusted professional financial adviser with the experience to help them grow and protect their wealth over time.

As mentioned above, we are completely independent of Fidelity, Vanguard and all of the other fund companies we invest with. Our first and only loyalty is to our clients. We're glad that the new regulation will hold the rest of the industry to a similar standard, but if we were faced with a choice between an adviser who is being compelled to work in our best interests and one who has done so on principle for decades, we know which we would pick.

If you'd like to learn how Adviser Investments could work in your best interests, please call us at 1-800-492-6868 or email us at info@adviserinvestments.com.

About Adviser Investments
Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. We advise more than 2,500 clients and have over $3 billion under management. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is $350,000. In 2015, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide for the third consecutive year and its list of the top advisory firms in Massachusetts for the second time. We have also been recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014 and 2015.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.