

# THE NAPFA FIDUCIARY OATH

NAPFA is proud to be the only professional association that requires every member to adhere to a “Fiduciary Oath”. This oath has been the guiding principle for all 1,300 NAPFA members as they go about advising their clients on an everyday basis.

## **The following is the NAPFA Fiduciary Oath that is signed by NAPFA-Registered Financial Advisors:**

The advisor shall exercise his/her best efforts to act in good faith and in the best interests of the client. The advisor shall provide written disclosure to the client prior to the engagement of the advisor, and thereafter throughout the term of the engagement, of any conflicts of interest, which will or reasonably may compromise the impartiality or independence of the advisor.

The advisor, or any party in which the advisor has a financial interest, does not receive any compensation or other remuneration that is contingent on any client's purchase or sale of a financial product. The advisor does not receive a fee or other compensation from another party based on the referral of a client or the client's business.

## **What the Fiduciary Oath means to the client:**

- The advisor shall always act in good faith and with candor.
- The advisor shall be proactive in disclosure of any conflicts of interest that may impact the client.
- The advisor shall not accept any referral fees or compensation that is contingent upon the purchase or sale of a financial product.

## **THE NAPFA TAKE**

It's hard to find the perfect financial professional who will meet your needs. You deserve an advisor who is competent, qualified, knowledgeable, and is compensated in a manner that minimizes conflicts of interest. But, more importantly, the advisor must be held to a Fiduciary Standard, meaning they will always put your interests first. You want to always be sure the advisor is working for you – not for themselves.

Registered Investment Advisors (RIAs) are held to a Fiduciary Standard. By law, a Fiduciary will act solely in the best interest of the client. They must fully disclose any conflict, or potential conflict, to the client prior to and throughout a business engagement. Fiduciaries will also adopt a Code of Ethics and will fully disclose how they are compensated. In addition, NAPFA- Registered Financial Advisors are also required to execute NAPFA's Fiduciary Oath annually as a condition of membership renewal. You can be sure that a NAPFA member will always put your interests' first.

You must be careful to read and understand the disclaimers on marketing and advertising materials offered by a professional. Recent regulations put forth by the Securities and Exchange Commission (SEC) now require brokers and other professionals who are not considered fiduciaries to add the following disclosure:

*“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.”*  
 If this disclaimer appears, you should ask questions, obtain complete disclosure, and determine if the relationship with the financial professional is in your best interests.

## WHO IS A FIDUCIARY?

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*

## WHY IS THE FORM OF COMPENSATION IMPORTANT?

How a financial professional is compensated also raises the question of whether they have your best interests in mind. You can judge for yourself by simply looking at the following three dominate models of compensation:

**Fee-Only Compensation** – This model minimizes conflicts of interest. It is the required form of compensation for members of NAPFA. A Fee-Only financial advisor only charges for his or her advice and/or ongoing management. No other financial reward is provided by any other institution, which means they do not receive commissions on the actions they take on the clients’ behalf. Compensation is based on an hourly rate, a percent of assets managed, a flat fee, or a retainer. In essence, Fee-Only financial advisors sell only one thing – their knowledge.

**Fee-Based Compensation** – This form is often confused with Fee-Only, but they are distinctly different. Fee-Based advisors earn part of their compensation from fees paid by the client. But, they may also receive compensation from commission products they are licensed to sell, thereby creating the potential for conflict of interest between the interests of the client and the financial professional dispensing the advice.

**Commissions** – NAPFA has always maintained that an advisor who is compensated solely through commissions faces a conflict of interest between the interests of the client and the financial professional dispensing the advice. A client looking for unbiased advice cannot be sure that the investment they purchased was truly in their best interest or was the most profitable product for the advisor. Clients must make an informed decision before engaging an advisor who is compensated solely by commissions. Many may be well intended, but by virtue of their employment and/or the manner in which they are compensated to dispense advice (i.e. commissions), the potential for conflict remains constant.