What is a Fiduciary Standard?

A great deal of discussion has taken place around fiduciary duty and the various duties which investment professionals are required to uphold. While much has been made about fiduciary duties, many don't truly understand what fiduciary duty truly means. Wex Legal Dictionary defines fiduciary duty as:

A legal duty to act solely in another party's interests. Parties owing this duty are called fiduciaries. The individuals to whom they owe a duty are called principals. Fiduciaries may not profit from their relationship with their principals unless they have the principals' express informed consent. They also have a duty to avoid any conflicts of interest between themselves and their principals or between their principals and the fiduciaries' other clients. A fiduciary duty is the strictest duty of care recognized by the US legal system.

This means that a fiduciary must always act with the best interest of the client in mind. Should a fiduciary not act in the best interest of the client, the fiduciary will be held personally liable.

Are you aware that another standard exists among investment professionals?

Another standard of care exists among investment professionals is the suitability standard, a standard which is more lax than a fiduciary standard. Broker Dealers and Registered Representatives are held to this standard, which FINRA defines to be:

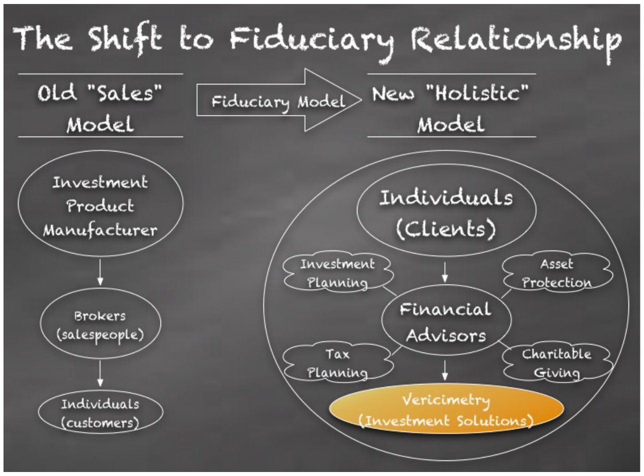
A member or an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile.

Brokers work for their employer Investment Advisors work for the client

This does not mean that the broker has to act in the best interest of the customer, instead a broker must only determine that the investment is suitable for the customer purchasing the security or other financial instrument or product. Brokers and their registered representatives generally earn commissions on the sale of securities to their customers, so the more frequently the customer is buying or selling securities, the more money the broker will earn. This creates a conflict of interest, because the broker earns fees not through a percentage of assets under management and growth in those investable assets, but rather through charges incurred in the purchase or sale of securities. Brokers are not required to disclose those commissions and fees, and in many cases do not. Brokers tend to be transactional, not relational, and therefore not liable for their recommendations, in many cases, they may be incentivized to recommend certain products based on the commissions that they will receive from the sale. Like Investment Advisors, Brokers Dealers may not defraud investors, but unlike Investment Advisors, they are by no means held to the highest level of care, which is a fiduciary standard.

Do you know how to differentiate a broker dealer from an investment advisor?

Investment advisors and broker dealers use the same terms to describe themselves. Wealth managers, financial advisors, and financial counselors are just three of the numerous terms use by investment professionals to describe themselves. It can be hard to distinguish in what capacity these advisors are working in and what standard they are held to. A couple of questions to determine their status are to ask to see the investment professional's Form ADV, ask them how they are compensated and who pays them, and ask them if they are a fiduciary and legally obligated to act in the best interest of the client.



Only an investment advisor will have a form ADV, which contains the services provided, the fee structure, and discloses conflicts of interest. Just because an advisor has an ADV, does not mean that they are not also a broker, however that fact would be disclosed in the ADV. An Investment Advisor is paid by the client and generally earns compensation as a percentage of assets under management, and is required to disclose how they are paid and all fees associated with their compensation. A broker will earn compensation through commissions on the sale of investment products and is not required to disclose the amount of compensation and the source of that compensation. Under FINRA, a broker is not legally required to act as a fiduciary for its client. A broker may be a fiduciary in the capacity as a corporate trustee, but would not be acting as a fiduciary in its capacity as a broker.

Fiduciary Standard

Does Abundance act as a fiduciary to its clients?

As an investment advisor, Abundance owes its clients a duty of fiduciary care. As such, we must always act in the best interests of our clients. Where a conflict of interest exists, we will work to minimize it, and will disclose when conflicts are present. We will also disclose exactly how we make money from our clients and receive client approval in writing as part of our service agreement prior to establishing an advisory relationship. Since 2002, we've held ourselves out as a fiduciary to our clients, and feel that it is the only way in which any investment professional can truly represent the interest of their clients when managing their investment account or providing investment advice. We charge our clients a percentage of assets under management, which means our goals are aligned. If we are able to grow client assets, we make more money alongside of the client.

Abundance Risk Management, a separate but related insurance agency, does receive commissions on the sale of insurance products to clients. A commission on the sale of insurance products does present a conflict of interest. Because Abundance advisors are acting in a fiduciary capacity, all conflicts and compensation arrangements are disclosed, and recommendations of insurance products are only made when they would be in the best interest of the client.

Abundance may offer private investment opportunities to clients in which one or more employees have a financial interest. Once again, the conflicts of interest will be disclosed, and the opportunity will only be offered to clients for whom such investment would be suitable and in their best interest.

Abundance is a fiduciary to its clients, placing their interests first

At Abundance, our primary role to clients is as an investment advisor. Given that, we uphold our fiduciary duty in all recommendations that we make. Client trust is our greatest asset, and we feel that the only way to develop and maintain that trust is by constantly acting in the client's best interest. We recognize that we can never operate truly free of conflict, but seek to minimize and disclose conflicts when they exist, while focusing on what is most important to us - The Client.

Fiduciary Standard

How does Abundance differ from a broker?

As an Investment Advisor registered with the SEC, Abundance acts as a fiduciary to its clients. We are contracted by the client to work for the client, unlike a broker who works for the larger broker dealer to sell securities on its behalf. We are personally liable for instances in which we don't act in the best interest of the client. This does not cover ordinary investment losses, but rather instances in which Abundance or its advisors placed its interests ahead of its clients. When we manage your investments, we provide continuous and ongoing investment management. We do not seek approval for trades in client accounts, but instead make the trades according to the investment guidelines that we've explained to you and outlined in our client service agreement. Abundance is a multi-family office specializing in holistic private wealth management, where we are focused on investment management, not the sale of securities to clients. We manage client accounts within Abundance and do not outsource the investment management piece, meaning all portfolios are managed by Abundance and all investment decisions are made by the advisors and investment team employed by Abundance. We get to know our clients and understand what their goals and objectives are to ensure that we are acting in their best interest, not simply making sure that the investment would be suitable for the client's circumstances. Another important difference between Abundance and brokers is that we may advise on any investment, not only those approved by the supervising broker dealer. This means that we can provide investment advice on opportunities that are presented to our clients by third parties.

John Schaffer joined Abundance in 2013 and oversees the firm's compliance program and advises clients on matters of personal wealth. His prior experience ranges from real estate and construction to criminal and civil law. John attended The Pennsylvania State University, where he majored in Marketing, and later returned to complete a joint degree in Law and a Masters of Business Administration. His graduate education focused on business, tax, and estate law. John is an active member of the Pennsylvania Bar.