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Fee-Only and Fiduciary: Two Non-Negotiables When Hiring a Financial Advisor

Two Non-Negotiables When Hiring a Financial Advisor



Fee-Only



Fiduciary

When it comes to managing your personal finances and investments, the guidance of a qualified financial advisor can be invaluable. However, not all financial advisors are created equal. Two critical factors to consider when selecting an advisor are whether they operate on a fee-only basis and whether they are fiduciaries.

What Does It Mean to Be Fee-Only?

“Fee-only” refers to a compensation model for financial advisors where:

Direct Payment from Clients

Fee-only advisors are paid directly by their clients, and only by their client, without exception. They do not receive any other indirect means of compensation.

No Commissions

A Fee-Only financial advisor does not, and cannot, receive any commissions from financial products they recommend, referral fees, or kickbacks. This helps to avoid potential conflicts of interest. Simply put – a Fee-Only financial advisor will not (and cannot) sell annuities, life insurance or proprietary funds.

Payment Structures

They may be paid through various structures, including hourly rates, a flat fee, or a percentage of the assets under management, which provides flexibility in how clients can engage their services.

What Does It Mean to Be a Fiduciary?

Being a fiduciary means a financial advisor is held to the highest standards of responsibility and trust in managing a client's assets or providing advice. Here are four key points that define what it means to be a fiduciary:

Best Interest

A fiduciary must always act in the best interests of their clients, prioritizing the client's needs and goals over their own or their firm's interests.

Transparency

They must provide complete transparency about fees, how they are compensated, and any potential conflicts of interest that could affect their advice.

Duty of Care

Fiduciaries are required to provide advice based on accurate and complete information, ensuring that they apply a high level of care and thoroughness.

Loyalty and Good Faith

They must act with loyalty to their clients, which includes a commitment to confidentiality and avoiding conflicts of interest whenever possible.

How to Verify that a Financial Advisor is Both Fee-Only and Fiduciary?

1. **Ask this question: ! Are you Fee-Only and Fiduciary 100% of the time?** This is a yes or no question that will cover both. If an advisor hesitates or provides a vague response,

this might be a sign they are not a fiduciary or that they can be in a position for compensation from other sources beyond their clients.

2. **Request Documentation:** Ask for written confirmation or documentation that outlines their compensation model and their commitment to fiduciary duties. Financial advisors who are fiduciaries will be able to provide a fiduciary oath or a similar written declaration.
3. **Understand Their Fee Structure:** Discuss in detail how they are compensated. Fee-only advisors should only be paid by their clients and not receive any commissions from selling products. Make sure there are no hidden fees or commissions tied to their services.
4. **Research Their Registration:** Check if they are registered with the SEC (Securities and Exchange Commission) or state regulators, as Registered Investment Advisors (RIAs) are held to a fiduciary standard.
5. **Check for Memberships and Affiliations:** Look for memberships and affiliations that vet and verify financial advisors, such as:

Fee-Only Network (Right Here!)

Every advisor listed on FeeOnlyNetwork.com has been verified to be both Fee-Only and Fiduciary. However, It is important to understand that not all financial advisors that are fee-only and fiduciary are listed on FeeOnlyNetwork.com. If you are not able to find a financial advisor through the FeeOnlyNetwork.com directory, then consider exploring the websites of the associations below. [Find a Fee-Only and Fiduciary Financial Advisor](#).

National Association of Personal Financial Advisors (NAPFA)

NAPFA is one of the premier professional associations in the United States for fee-only financial advisors. Members are required to sign a fiduciary oath and to strictly adhere to a fee-only compensation model. They must also demonstrate a commitment to comprehensive advising and continuous professional development. [Go to NAPFA's website](#)

XY Planning Network

XY Planning Network is geared towards serving Generation X and Generation Y clients. All advisors in this network are required to be fee-only and are bound by fiduciary standards. They specialize in offering financial planning services without the requirement of asset minimums, which is ideal for younger clients who are building wealth. [Go to XY Planning Network's website](#)

Garrett Planning Network

Members of this network are dedicated to providing financial planning services on an hourly, as-needed basis. All members are fee-only and are required to act as fiduciaries. This network makes financial advice accessible to all, regardless of net worth or investment size. [Go to Garrett Planning Network's website](#)

Alliance of Comprehensive Planners (ACP)

ACP is a community of tax-focused financial planners who operate under the retainer model. Membership requires adherence to the fiduciary standard and a commitment to being fee-only. [Go to Alliance of Comprehensive Planner's website](#)

Conclusion

By working with a fee-only, fiduciary financial advisor, you can have confidence that their recommendations are driven solely by your needs, not by a desire to maximize their own compensation. This transparency and alignment of interests can lead to better financial planning advice and investment outcomes, and a more trusting, collaborative relationship with your advisor.