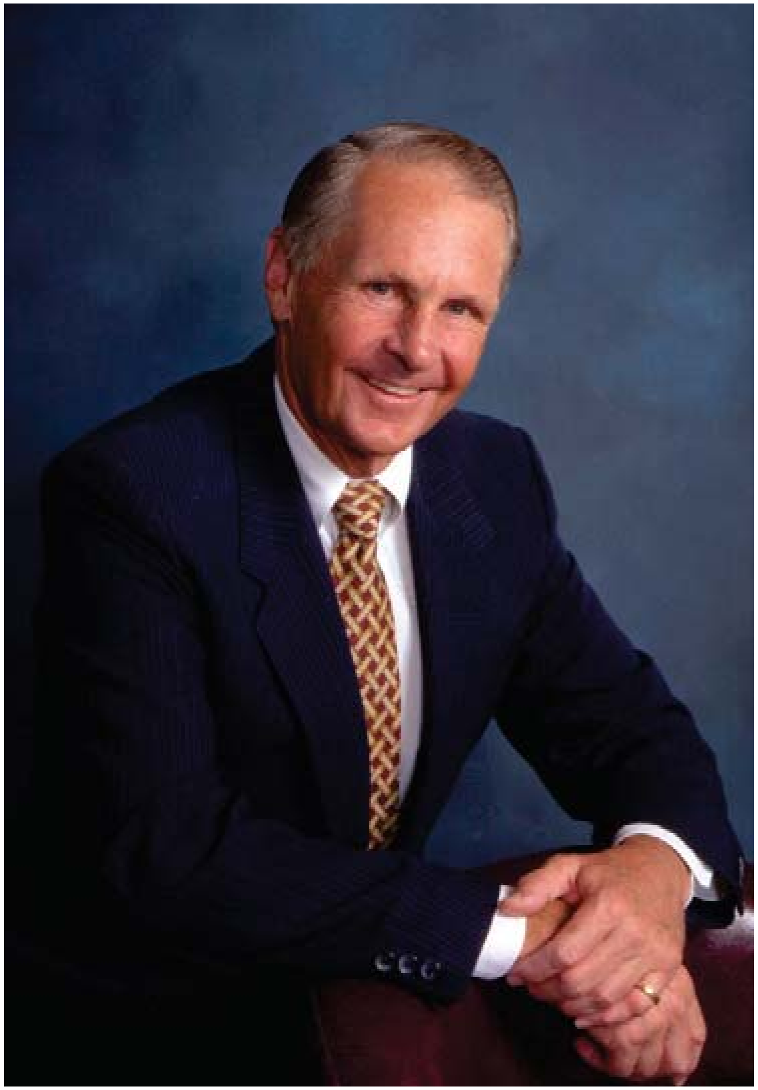

Joel R. Baker
RIA pioneer and co-founder of Financial Planning Services

Serious Business

How a veteran advisor fulfills fiduciary duties

by **Nancy R. Mandell**

As a Registered Investment Advisor, you know that the Investment Advisers Act of 1940 already holds you to a fiduciary standard. What you don't know in this post-Madoff/ pre-Dodd-Frank [Wall Street Reform and Consumer Protection Act] era is who will be responsible for monitoring your fiduciary responsibilities. Will it be FINRA—the reincarnation of the NASD—the SEC, your current overseer, or an SRO yet to be created specifically by RIAs and for RIA, and probably self-funded.

The answer may still be way off, but in the meantime—thanks to financial pages and websites that carry the debate to the public—it becomes more important than ever to establish yourself as an advisor who upholds your fiduciary duties. Yes, there's a designation for that (see sidebar), but it's not required, nor will any acronym turn an irresponsible practitioner into a fiduciary. ►

"Any advisor who wishes to hold themselves out as a fiduciary should keep in mind that they must always have their client's best interest in mind," said Joel R. Baker, an RIA pioneer who co-founded Financial Planning Services, one of the first fee-based financial and estate planning firms in 1971. "This means recommendations cannot be made based on how much money the advisor may receive, but solely on what is best for the client," added Baker, who currently heads the J.R. Baker Group in Buellton, Calif. While there are many resources available that can help an advisor to understand what it means to be a fiduciary, "The most important thing," Baker emphasized, "is to establish an internal perspective that focuses on doing the right thing for the client. It is really an attitude—a recognition that the client has placed their trust in you and you must honor and respond to that in every way."

Baker has never marketed himself as a fiduciary. In fact, he doesn't market himself or his business at all, taking on new clients only by referral from clients, attorneys and accountants. Moreover, Baker won't take on a new client until they've been interviewed by three existing clients! "[Our clients] want to make sure the new client would be the right fit," Baker said. "We've had to turn some down because of that!"

Although he holds a Series 7 license — primarily for sales of variable life insurance — Baker has outsourced all AUM to Frontier Asset Management for the last 20 years. His clients understand that their money is being managed and that they will stay the course. He considers the firm a partner in his investment process and, in his opinion, Frontier "lowers the volatility of client portfolios."

PROCESS, EDUCATION AND TRANSPARENCY

"The important thing for an advisor is to have a process that they believe in and would put their 95-year-old mother in—as I have done," Baker said. Education, therefore, is a big part of the process. With the help of Frontier's individualized quarterly reports, he keeps clients abreast of what's happening in the global markets, explaining it to them in the context of their own investments. "For instance, we expected ►

> *"... recommendations cannot be made based on how much money the advisor may receive, but solely on what is best for the client..."*

THE AIF AND AIFA DESIGNATIONS

The Center for Fiduciary Studies offers classroom and web-based training programs for the designation of Accredited Investment Fiduciary. The program provides detailed instruction on how to comply with the fiduciary standards of care and introduces the participant to the *22 Prudent Investment Practices* developed by the Foundation for Fiduciary Studies. Graduates of the AIF program may go on to earn the designation of Accredited Investment Fiduciary Analyst, by taking a three-day course that expands upon each of the "prudent practices" and teaches attendees how to evaluate a fiduciary's compliance with the practices.

volatility," Baker pointed out, "but we didn't know why. Who could have anticipated the disaster in Japan?"

According to Baker, a good fiduciary "really understands the process of building. Our business model is to help clients set up an estate plan for now and many generations to come," he explained.

Another key element of the process is the Statement of Investment Policy which—at the Baker Group—differs for every client and is far more detailed than the average one or two page document. "After hours of interviews and questionnaires in order to develop a Family Philosophy Plan, which is usually about 10 pages of really detailed information about what the client is comfortable with and what not for their overall plan, a statement of investment policy is developed from that which is about five pages", Baker explained. Then, based on that information, Frontier summarizes the policy in two to three pages, and subsequently includes a paragraph about each client's goals on their quarterly statements. By the way, should the new client be husband and wife, Baker insists on seeing them separately, so "if there are differences of opinion, we can agree or agree to disagree."

"...Our business model is to help clients set up an estate plan for now and many generations to come."

The firm achieves transparency—another key element of fiduciary responsibility—by setting out each client's particular goals and objectives in the Statement of Investment Policy, reinforced through Frontier's quarterly performance reports, "They show how we're doing against the benchmark and also how we're doing against their goals," Baker said.

Being product neutral helps avoid conflicts of interest—an essential fiduciary caveat. "But the best way to avoid conflicts of interest is to be totally objective in all investment decisions," Baker noted, "and always do what you believe would be best for the client. It is truly a relationship of trust. If there are any facts that might represent the potential for a conflict of interest, you must disclose them fully and clearly and make sure the client understands. We want to be sure they know the good, the bad and the ugly."

TAKEAWAYS

The Committee for Fiduciary Responsibility, a recently formed industry lobbying group, offers the following five core principles of authentic fiduciary duty:

- Put the client's best interest first
- Act with prudence; that is, with the skill, care, diligence and good judgment of a professional
- Do not mislead clients; provide conspicuous, full and fair disclosure of all important facts
- Avoid conflicts of interest. Fully disclose and fairly manage, in the client's favor, any unavoidable conflicts.

Join the Discussion

Nancy Mandell is a veteran financial services industry writer and reporter, previously the managing editor of Wealth Manager and On Wall Street Magazines.