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August 1 , 2016

Beat the heat: Don't get burned by bad advice (Part 2)

The heat is on this summer with much of the country being hit with high temperatures. The heat is also on within the financial services industry as implementation of the Department of Labor's "fiduciary" rule begins. As we wrote in part 1 of this series, the fiduciary ruling will require all retirement advisors, including brokers and insurance agents, to put their clients' best interests ahead of their own profits.

Our team at Cloud Investments, LLC, already works as fiduciaries in all financial capacities, but many advisors exist under a less stringent, "suitability" standard. According to the DOL ruling, pieces of the fiduciary rule will be phased in over the next two years. In maintaining our core values of transparency with and education of our clients, this week we share helpful tips on what you can do to qualify your financial professionals to ensure they are providing you with fiduciary-level advice as the regulations are being implemented. You can get control of your financial relationships by asking advisors, agents and brokers the following questions:

Do you follow the fiduciary or suitability standard?
Because the DOL will be phased in over the next two years, it's important that you clarify what standard your advisor works under, particularly until all of the regulations have been implemented. Also note that the new rule only impacts retirement assets. Taxable assets may fall under the "suitability" standard, so you will want to know how your entire portfolio will be managed.

How do you get paid?
Advisors don't work for free, but it's important to determine how they get paid. Does your advisor work on commission, is he fee-based or fee-only? How they get paid can provide you with insight on the type of advice you will receive. Additionally, what value are you receiving for the cost? Are you receiving a financial plan or a product? Are tax strategies and income planning considerations being factored into recommendations? It is in your best interest to know what type of affiliation your advisor has with the products he suggests for you and what service is actually being provided.

What products are you able to sell?
What licenses and registrations an advisor has can tell you a lot about the products they can offer, but not everything. Do the affiliations your advisor has limit him to only offering products from a particular company? If so, are you okay with that? Many companies offer an extensive array of products so you may be fine with their inventory. In other cases, you may want the flexibility and variety of shopping for products unlimited by company affiliation. When building your long-term plan, it's important you know what is and what isn't available to you.

Where is my money held?
When working with an advisor, it's in your best interest to know where your money will be held. Most advisors utilize a brokerage firm to hold custody of your accounts. These brokerage firms adhere to strict regulations when executing a transaction for you. However, in some cases, your advisor can also act as your custodian and can act without your permission to make transactions or even to liquidate your account. To protect yourself, verify who will serve as custodian of your account and never write a check directly to your advisor.

The DOL ruling has been established to help protect consumers, but it's important that you qualify any financial professionals you work with. Also, remember that our team is here to provide comprehensive fiduciary planning and advice for all of your financial needs. Give us a call at (256) 715-0094 today to request a consultation to learn more!