THE DOL'S FIDUCIARY RULE:

BAD FOR THE SMALL GUY?

BY JESSICA SEARCY-MALDONADO

Backdoor payments, hidden fees, loopholes in the rules…these were the conflicts of interest buried in fine print that advisors who were not acting as fiduciaries used to chisel away about a quarter of their clients' retirement savings. When the Department of Labor issued their fiduciary rule, the theme was clear: when advising clients on retirement, advisors would legally be considered fiduciaries required to put their clients' best interests before their own interests and excessive profits and loopholes would no longer stand. This sounds great for the investor, but what about the hidden consequences?

During the DOL commenting period, a period where comments could be voiced to help shape the final rule, one concern heard was that the rule would hurt the small investor. It was suggested advisors' fees would need to increase to cover new requirements from the rule such as new disclosures and to help overcome loss of commissions. Some feared this would steer firms toward exclusively working with higher net worth individuals moving forward and potentially feel the need to fire their small clients to keep up revenue. There was also a concern that smaller clients might decide that paying higher fees for advice wasn't worth it based on the amount of assets they have. In these cases, the small guy truly could lose, and a recent survey shows that advisors agree with this concern.

According to a recent InvestmentNews article, "The top concern of advisers is that the rule will make it more expensive to serve clients. About 79% of advisers worry this will be the case." Another consequence? Some financial planners will increase the minimum investible assets a client must have to do business with them. The article also says that "nearly a quarter of advisers said they are likely to increase the amount of assets prospects must have," leaving smaller clients (those with less than $500,000 in investible assets) with fewer places to turn because, "they'll need to focus on higher-net-worth clients and the most valuable relationships."

Australia and the United Kingdom implemented a similar rule and provide a nice case study of potential effects where reports have been both positive and negative. While conflicts of interest are being eliminated and transparency has increased in these countries, some advisors were forced out of business or left the industry on their own accord. Consumers feel the quality of advice has risen, but 69% of advisors said they have "turned away potential clients over the last 12 months," and 43% said the advice would "not have been economic given the circumstances of those potential clients."

Where will the small guy turn? If you think the answer is Robo-Advisors, especially for younger investors just getting started, robos may not meet their needs. Many robos offer investment management, but don't actually offer advice with planning issues, which is one of the biggest reasons someone would seek an advisor in the first place. Many of these young investors may be on track to have higher assets in the future, but they still need quality advice before reaching those levels so they have a path to get them there. Although it is still unclear exactly how the DOL rule will affect robos, investors need to know they are not the only answer and there are places they can find advice to fit their needs.

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Some firms who traditionally serve a high net worth market have developed divisions or subsidiary companies that provide investment management on a fee-only basis, giving investors access to both reasonable price-point investment services and an advisor who knows them and can help discuss their goals and needs. Unlike robo-advisors, several of these firms are tenured and have been advising clients through various market conditions. They can help young investors navigate their financial journey.

Now that the DOL rule may make some financial advisors out of reach for many investors, there are still quality advisors available, and finding an advisory team that can meet your needs could be more important than ever.

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