

FIDUCIARY IMPACT SURVEY – EXECUTIVE SUMMARY



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FIS Advisory Panel

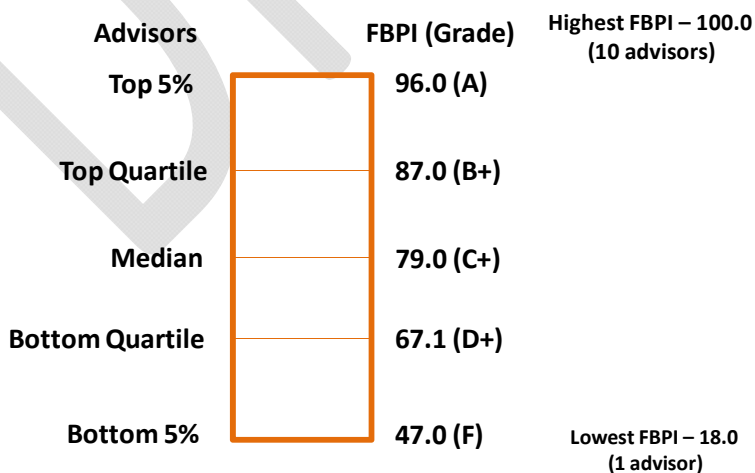
A panel of industry experts was formed to help in the drafting and editing of the questions that were used in this survey:

David Bellaire	FSI, General Counsel and Director of Government Affairs
Bradford Campbell	U.S. DOL, Former Assistant Secretary of Labor for Employee Benefits Security
Bill Chetney	LPL, EVP Retirement Partners
Ron Hagan	Founder, CEO, Investment Fiduciary Leadership Council
Martin Kurtz	FPA, Past President
Elizabeth Piper/Bach	NADA Retirement Administrators, Vice President and Chief Operating Officer
George Revoir	John Hancock, Senior Vice President, Retirement Plan Services
Skip Schweiss	TD Ameritrade Trust Company, President
Mark Tibergien	Pershing Advisor Solutions, CEO
Sean Walters	IMCA, Executive Director and CEO
Gib Watson	Envestnet Prima, Group President

**The Fiduciary Impact Survey (FIS) had four objectives –
Two of the four objectives were accomplished, and two remain ongoing:**

Objective	Status
1. <u>Benchmark</u> best practices associated with a fiduciary standard	Accomplished: Sixteen best practices were identified; and, each best practice was analyzed for the number of respondents who had indicated that they implement with the practice.
2. <u>Measure</u> the rate of adoption of best practices associated with a fiduciary standard	Ongoing: Since this is the first annual survey, the rate of adoption cannot be determined until there are subsequent surveys.
3. <u>Measure</u> the impact best practices associated with a fiduciary standard have on the success of an investment advisory practice	Ongoing: Additional surveys will need to be conducted to prove conclusively that fiduciary best practices have an impact on the success of an advisor.
4. <u>Publish</u> survey results in the form of a "Fiduciary Best Practices Index (FBPI)"	Accomplished: The 2012 FBPI has been calculated – see below

2012 FBPI (Fiduciary Best Practices Index)



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500 advisors completed the survey, representing an excellent cross-section of the industry:

By Registered Status

25.0%	RIA, Federal SEC oversight
32.0%	RIA, State SEC oversight
27.0%	IAR (dually registered)
16.0%	Registered Rep

By Practice Area

47%	Financial Planners
41%	Wealth Managers
12%	Retirement Advisors

By Size (Assets under management)

26%	\$20 mil or less
22%	\$20.1 mil - \$50 mil
28%	\$50.1 mil - \$150 mil
24%	More than \$150 mil

Distribution of FBPI and Grades

Grade	Percentage	Number of Advisors	Net Whole Grade Percent/ # of Advisors
A+	4.8	24	
A	9.2	46	19.4/ 97
A-	5.4	27	
B+	8.0	40	
B	11.0	55	28.8/ 144
B-	9.8	49	
C+	8.8	44	
C	10.0	50	22.6/ 113
C-	3.8	19	
D+	6.4	32	
D	9.0	45	15.4/ 77
F	13.8	69	13.8/ 69

Grading Scale for Converting FBPI

A.....	93% – 100%
A-	90% – 92%
B+	87% – 89%
B.....	83% – 86%
B-	80% – 82%
C+	77% – 79%
C.....	73% – 76%
C-	70% – 72%
D+	67% – 69%
D.....	60% – 66%
F	0% – 59%

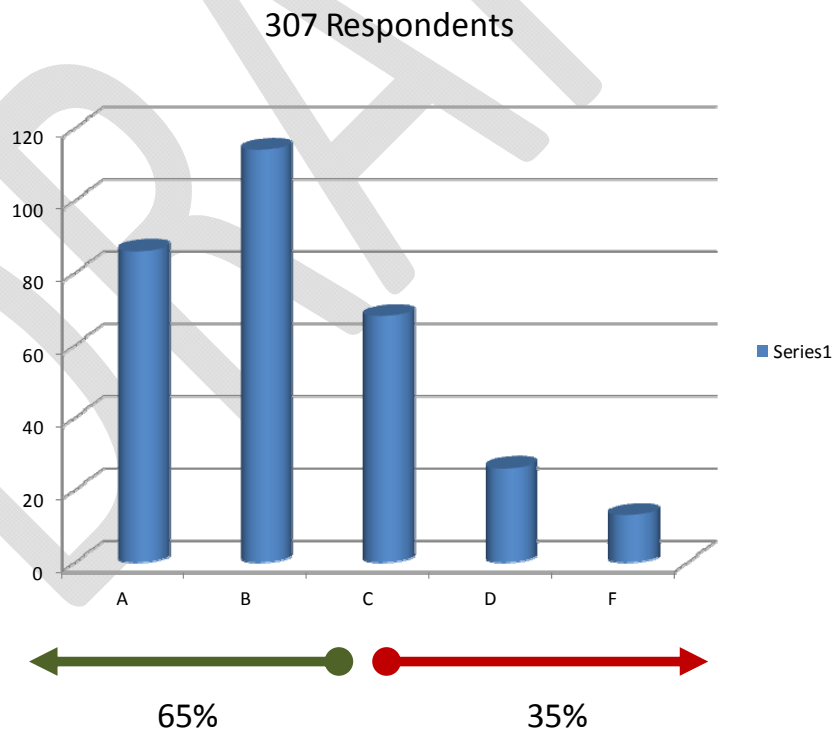
Summary of Findings

1. There is a strong correlation between the acknowledgement of fiduciary status, and the respondent's FBPI (Fiduciary Best Practices Index):

Percent	Fiduciary Acknowledgement	FBPI Grade
61.0%	Acknowledge fiduciary status for all clients	B
19.0 %	Acknowledge fiduciary status for some clients	C-
20.0%	Do not acknowledge fiduciary status	D

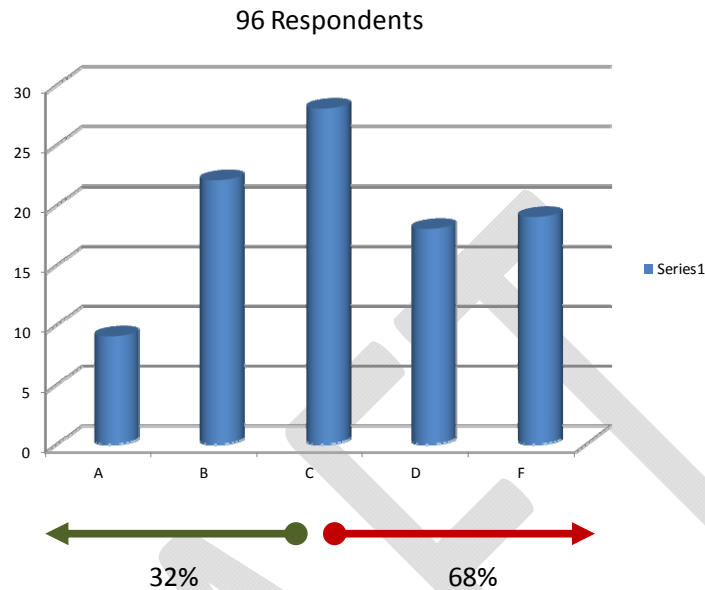
Distribution of FBPI Grades

"Yes" – The respondent acknowledges fiduciary status for all clients



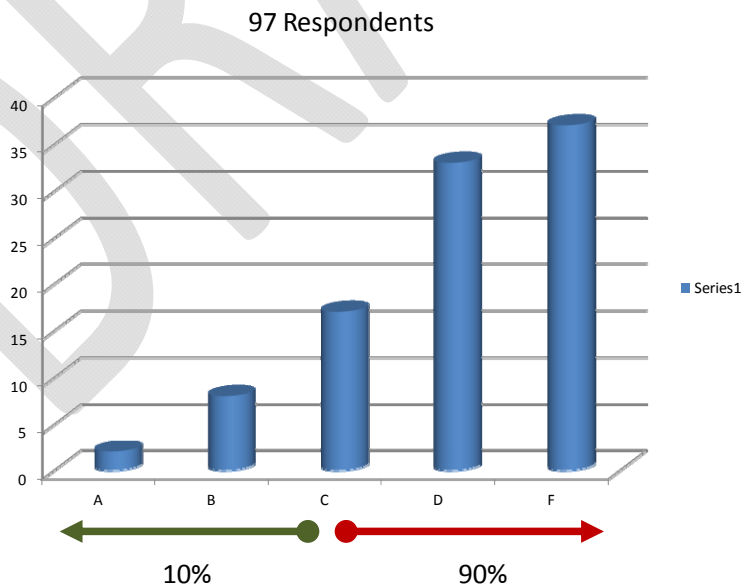
Distribution of FBPI Grades

“Some” – The respondent acknowledges fiduciary status for some clients



Distribution of FBPI Grades

“No” – The respondent does not acknowledge fiduciary status in writing



Four questions on the survey dealt with the principles associated with a fiduciary standard of care (in contrast, the remaining questions dealt with the practices):

Question	Percent of respondents who answered "Yes"
a. Do you place the best interests of your clients above your own interests?	99.8%
b. Do you avoid conflicts of interest?	97.8%
c. Do you claim that you are an objective advisor?	95.3%
d. Is it important to you that you work with people who are ethical, and who have integrity?	99.4%

It is important to note that respondents clearly identify with the principles associated with a fiduciary standard of care. However, the Survey results demonstrate that respondents are not as familiar with the practices associated with a fiduciary standard of care.

2. There is a strong correlation between a respondent's knowledge of fiduciary Acts and case law, and their FBPI:

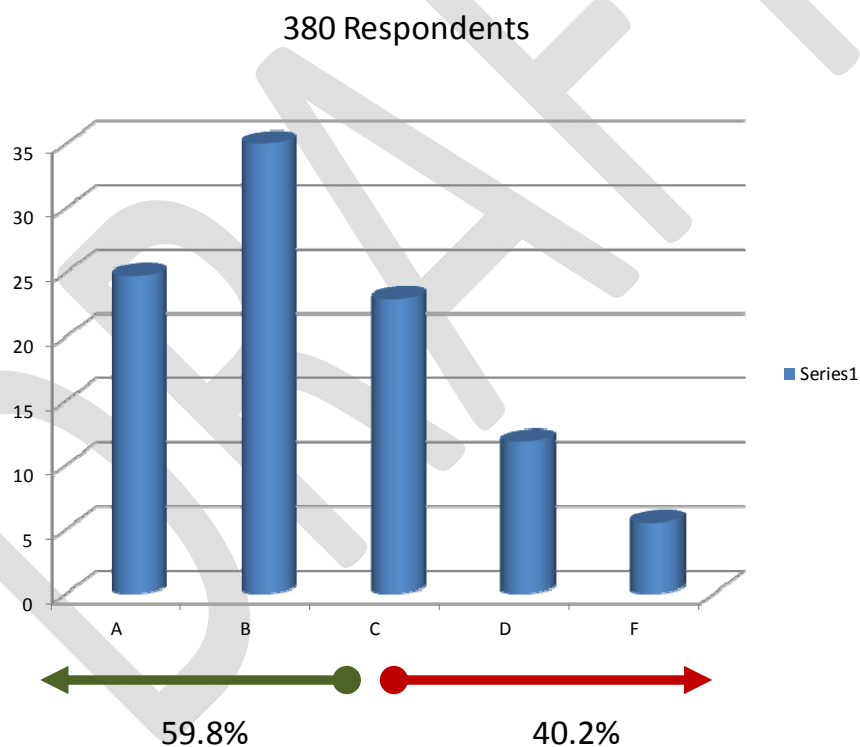
Percent	Legal Knowledge	FBPI Grade
23.5%	Familiar with fiduciary Acts and case law	B
69.0 %	Somewhat familiar with fiduciary Acts and case law	C
20.0%	Not familiar with fiduciary Acts and case law	F

3. There is a strong correlation between the respondent having a defined investment process, and their FBPI:

Percent	Defined Investment Process	FBPI Grade
77.0%	Have a defined investment process for all clients	B-
18.5%	Have a defined investment process for some clients	D
4.5%	Do not have a defined investment process	F

Distribution of FBPI Grades

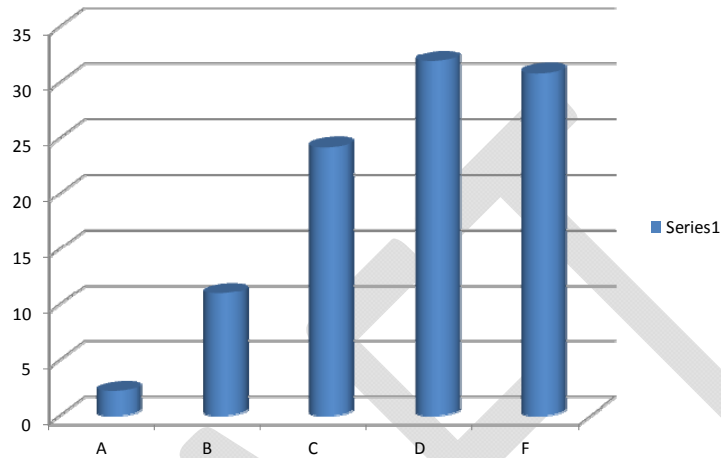
“Yes” – I have a defined investment process which is consistently applied



Distribution of FBPI Grades

“Some” a defined investment process for some clients

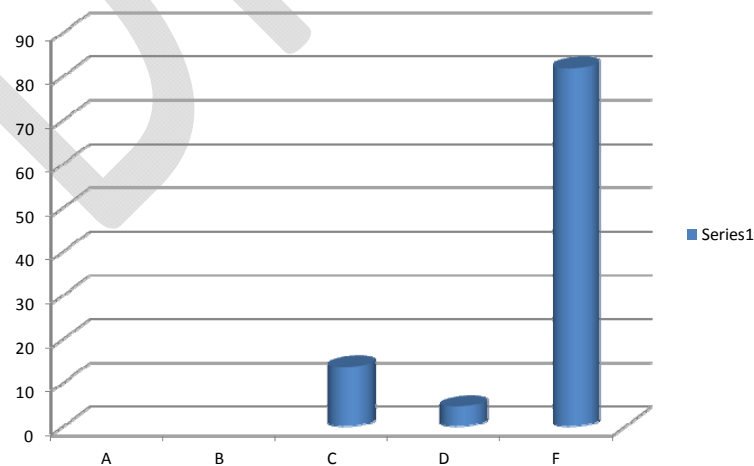
91 Respondents



Distribution of FBPI Grades

“No” defined investment process

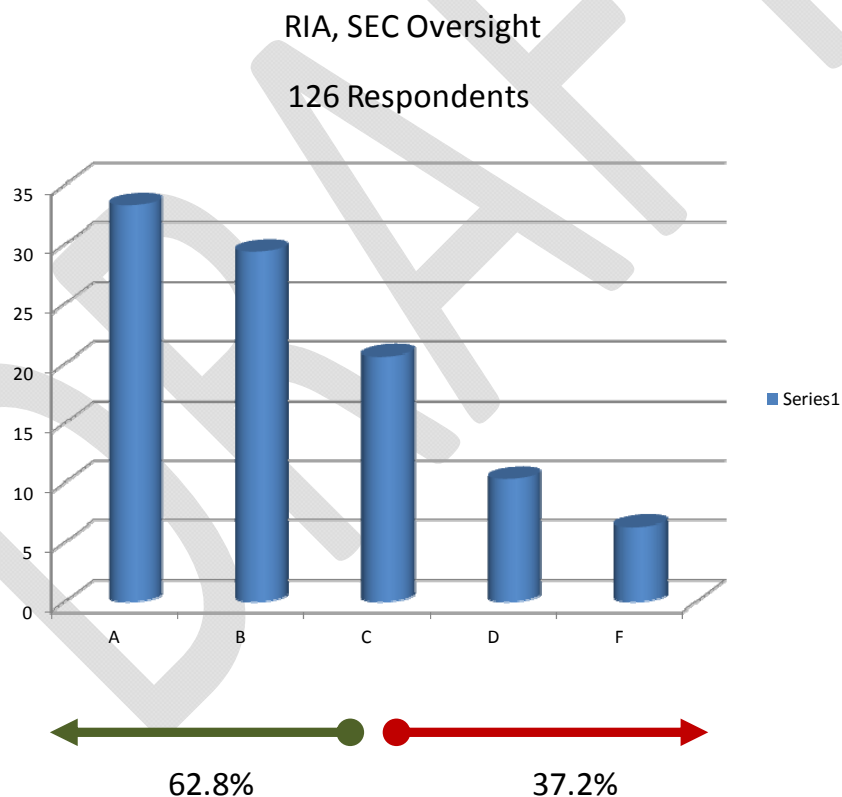
22 Respondents



4. There is a strong correlation between the respondent's registered status, and their FBPI:

Percent	Registration	FBPI Grade
25.0%	RIA, Federal SEC oversight	B
32.0%	RIA, State SEC oversight- a listing of the 36 states by FBPI has been compiled.	C+
27.0%.	IAR, dual registration	C
16.0%	Registered Representative	D

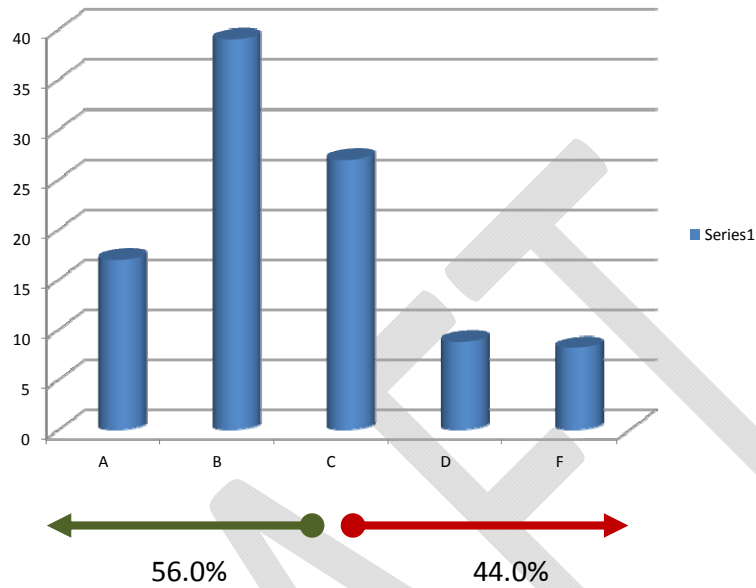
Distribution of FBPI Grades



Distribution of FBPI Grades

RIA, State Oversight

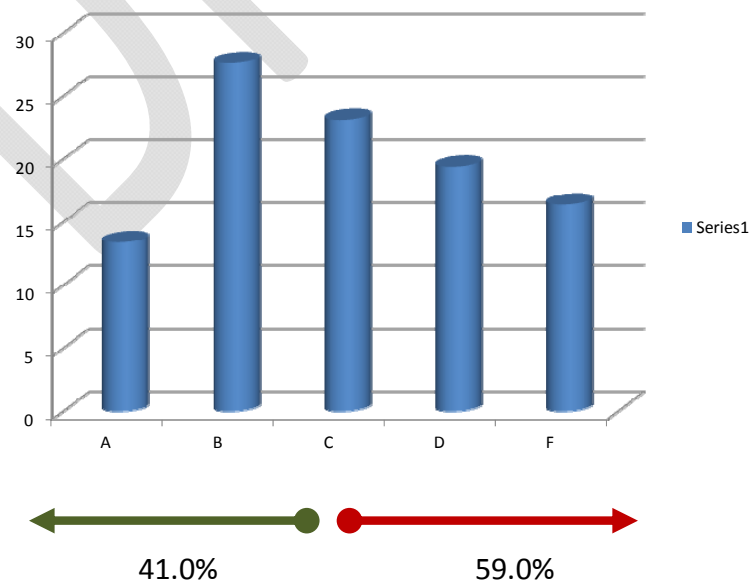
159 Respondents



Distribution of FBPI Grades

IAR, Dually Registered

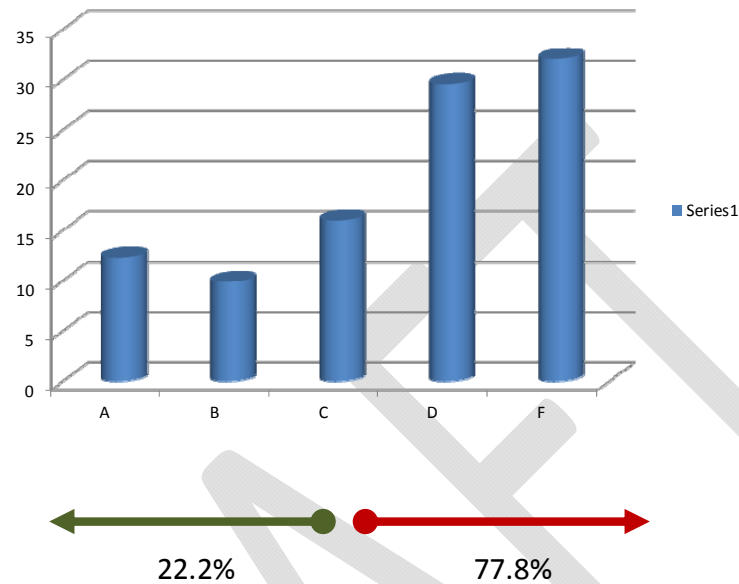
134 Respondents



Distribution of FBPI Grades

Registered Representative

81 Respondents



Note: The following Table was constructed by analyzing the FBPI of respondents who are subject to SEC State oversight: (a) The number of respondents per state is very low, and therefore the state rankings are not statistically significant; and (b) Only 36 states are represented by respondents.

State	Does State Impose Fiduciary Standard on Brokers?	Average FBPI	Grade
AR	No	89	B+
NV	No	88	B+
TN	No	87	B+
WI	Some sort of standard	87	B+
MI	Yes	85	B

VT	No	85	B
CT	No	84	B
IN	No	84	B
AK	No	84	B
KY	No	84	B
TX	No	84	B
OH	No	84	B
NC	Some sort of standard	83	B
GA	No	83	B
MI	No	82	B-
AL	No	81	B-
AZ	Some sort of standard	81	B-
OR	Some sort of standard	81	B-
ID	No	79	C+
FL	No	78	C+
SC	Yes	78	C+
CA	Yes	78	C+
OK	No	77	C+
CO	Some sort of standard	77	C+
NH	No	77	C+

PA	No	74	C
VA	No	73	C
MN	Some sort of standard	72	C-
WA	Some sort of standard	72	C-
NY	Some sort of standard	71	C-
IA	No	71	C-
NJ	No	71	C-
IL	No	70	C-
MA	Some sort of standard	68	D
DC	No	62	D
MD	No	62	D

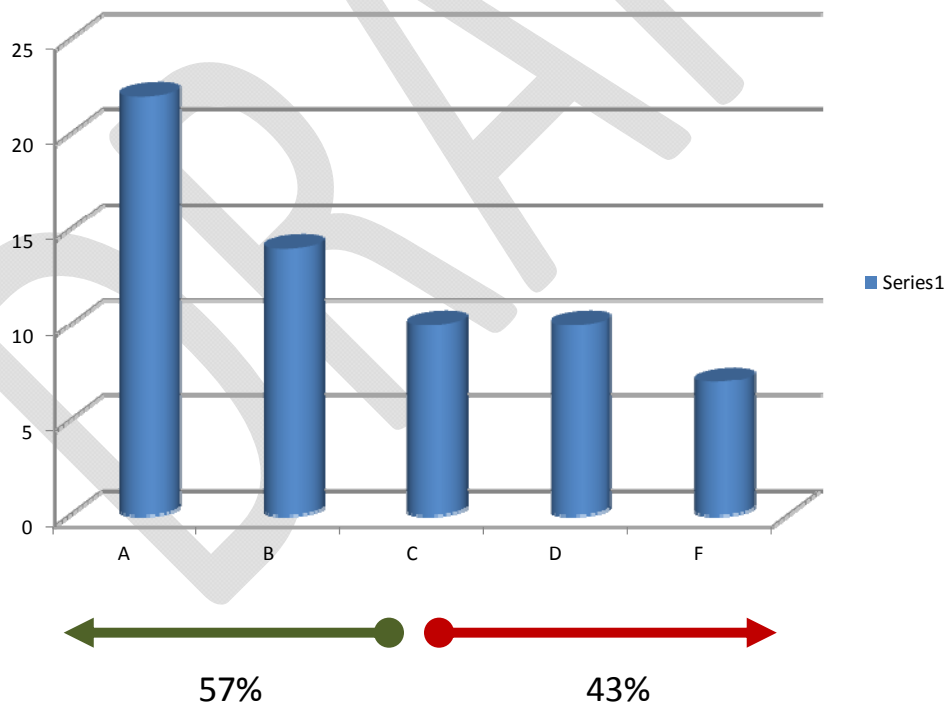
5. Respondents who identified themselves as a “retirement advisor” tended to have a slight edge over wealth managers and financial planners:

Percent	Practice Areas	FBPI Score	FBPI Grade
12.0%	Retirement advisors	79.4	C+
41.0%	Wealth managers	79.0	C+
47.0%	Financial planners	73.0	C

Distribution of FBPI Grades

Retirement Advisors

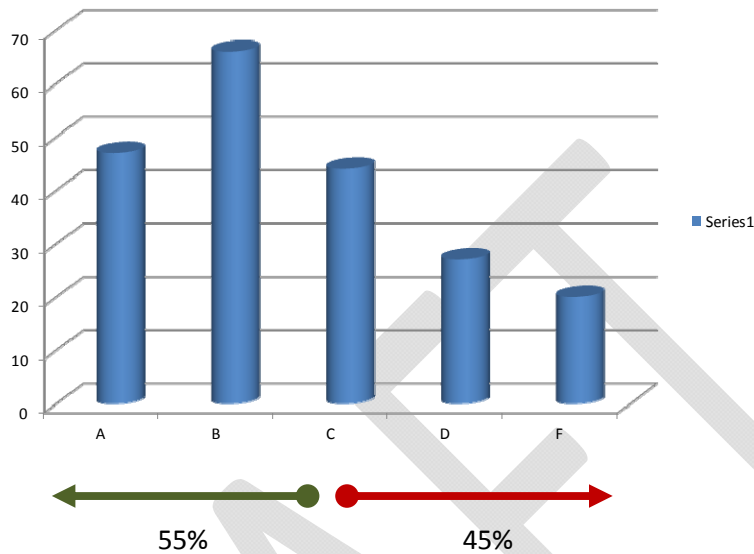
63 Respondents



Distribution of FBPI Grades

Wealth Managers

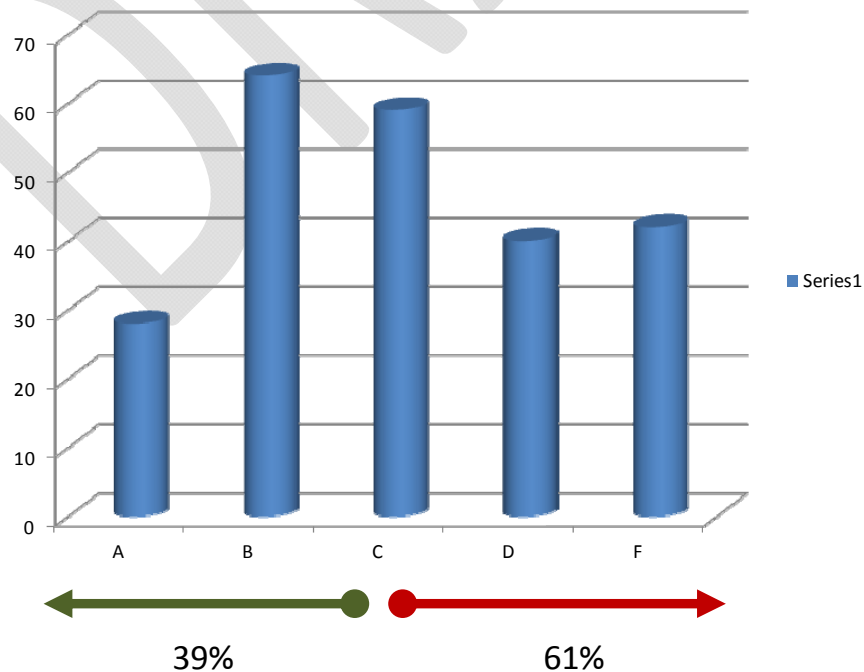
204 Respondents



Distribution of FBPI Grades

Financial Planners

233 Respondents



6. Respondents who crossed over to other practice areas tended to have a significant edge over other advisors:

Percent	Practice Areas – Sub Groups	FBPI Score	FBPI Grade
2.0%	I am a retirement advisor with some wealth management, foundation and endowment accounts	85.0	B
18.0%	I am a wealth manager with some retirement, foundation and endowment accounts	84.0	B
6.0%	I am a retirement advisor with some wealth management accounts	82.0	B-
10.0%	I am a wealth manager	80.0	B-
8.0%	I am a financial planner with some wealth management, retirement, foundation and endowment accounts	78.0	C+
5.0%	I am a retirement advisor	76.0	C
14.0%	I am a financial planner with some wealth management accounts	75.0	C
13.0%	I am a wealth manager with some retirement accounts	74.0	C
14.0%	I am a financial planner	72.0	C-
11.0%	I am a financial planner with some retirement accounts	71.0	C-

7. There does not appear to be any correlation between the number of client's a respondent services, and their FBPI:

Percent	Number of clients	FBPI Grade
24.0%	1-39 Clients	C
24.0%	40-99 Clients	C+
26.0%	100-199 Clients	C+
26.0%	200+ Clients	C+

8. There appears to be a strong correlation between the respondent's minimum account size, and their FBPI:

Percent	Assets Under Management	FBPI Grade
41.0%	\$0k - \$50k	C+
18.0%	\$50.1k - \$250k	C
25.0%	\$250.1k - \$1 mil	B-
16.0%	\$1.1 mil +	B

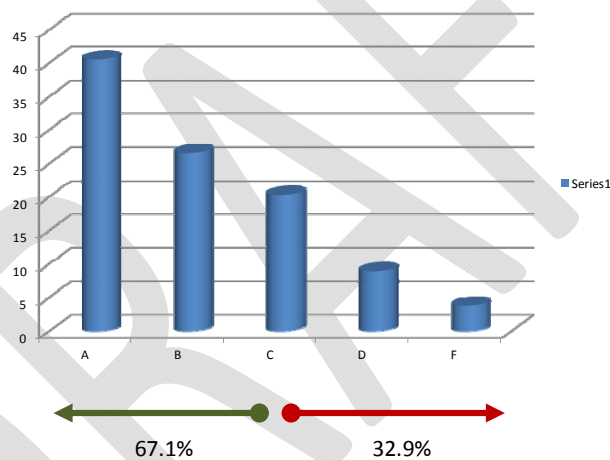
9. There appears to be a strong correlation between the respondent's assets under management, and their FBPI:

Percent	Assets Under Management	FBPI Grade
26%	\$20 mil or less	C
22%	\$20.1 mil - \$50 mil	C
28%	\$50.1 mil - \$150 mil	B-
24%	More than \$150 mil	B

Distribution of FBPI Grades

AUM - \$150 million or more

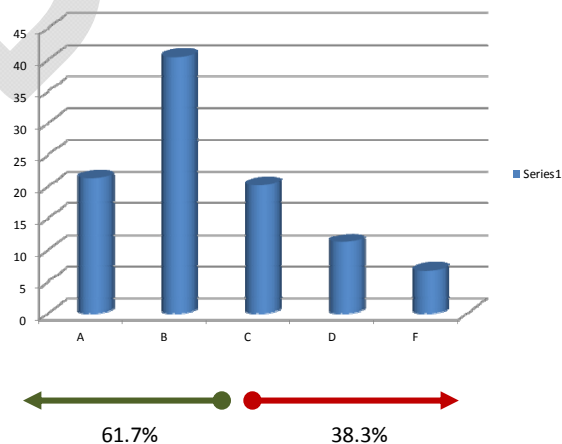
79 Respondents



Distribution of FBPI Grades

AUM - \$50.1M - \$150 million

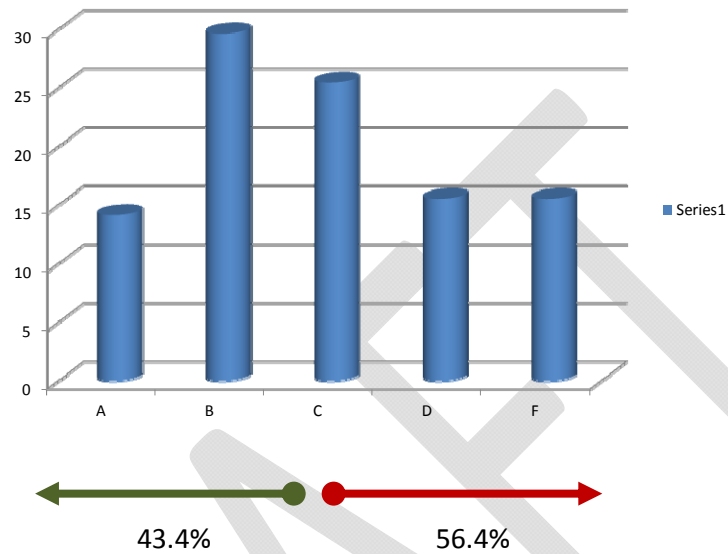
89 Respondents



Distribution of FBPI Grades

AUM - \$20.1M - \$50 million

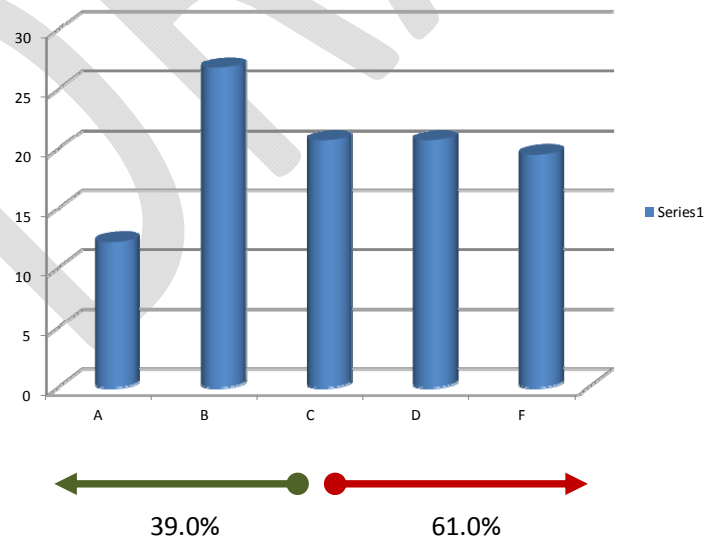
71 Respondents



Distribution of FBPI Grades

AUM - \$20.0 million or less

82 Respondents



10. When implementing a fiduciary standard, respondents indicated the following preferences for financial products:

Percent	Product Preferences	FBPI Score	FBPI Grade
7.0%	Collective Trusts	86.0	B
9.0%	Hedge Funds	85.0	B
14.0%	Unified Managed Accounts	80.0	B-
9.0%	Private Placements	80.0	B-
75.0%	ETFs	79.0	C+
8.0%	Proprietary Products	79.0	C+
92.0%	Mutual funds	78.0	C+
55.0%	Individual Stocks and Bonds	78.0	C+
33.0%	Separate Accounts (including Wrap Fee Accounts)	78.0	C+
22.0%	Commissioned Products	71.0	C-

11. When implementing a fiduciary standard, respondents indicated the inclusion of the following best practices:

Percent	Best Practice
96.0%	a. Align investment process to avoid conflicts of interest
96.0%	b. Delegate to an expert when lacking expertise
94.0%	c. Use a formal client data gathering checklist
94.0%	d. Monitor investment options on a quarterly basis
88.0%	e. Apply a due diligence process to each recommended investment option
87.0%	f. Use a risk-measurement questionnaire
87.0%	g. Use an independent custodian
80.0%	h. Have a process for monitoring conflicts of interest
79.0%	i. Provide clients a quarterly performance report in addition to the custodial statement
78.0%	j. Provide clients the option of implementing a portion of their portfolio with a passive strategy
77.0%	k. Provide clients with an Investment Policy Statement (IPS)
66.0%	l. Use asset allocation software or third-party modeling
62.0%	m. Have a formal process for determining when a manager should be terminated
55.0%	n. Provide clients the option of implementing a portion of their portfolio with a SRI strategy
55.0%	o. Have a succession plan
49.0%	p. Benchmark each client's fees and expenses

12. For respondents who have not implemented a particular best practice, there is a strong correlation to lower FPBI Grades:

When Best Practice <u>Has Not</u> Been Implemented	FBPI Grade
a. Align investment process to avoid conflicts of interest	F
b. Delegate to an expert when lacking expertise	D
c. Use a formal client data gathering checklist	D
d. Monitor investment options on a quarterly basis	D
e. Apply a due diligence process to each recommended investment option	D
f. Use a risk-measurement questionnaire	C-
g. Use an independent custodian	C-
h. Have a process for monitoring conflicts of interest	D
i. Provide clients a quarterly performance report in addition to the custodial statement	C-
j. Provide clients the option of implementing a portion of their portfolio with a passive strategy	C
k. Provide clients with an Investment Policy Statement (IPS)	D
l. Use asset allocation software or third-party modeling	C
m. Have a formal process for determining when a manager should be terminated	C-
n. Provide clients the option of implementing a portion of their portfolio with a SRI strategy	C
o. Have a succession plan	C
p. Benchmark each client's fees and expenses	C