COMPASS WATCH

MARK S. HALVERSON | JAY M. JACKLEY, CIMA | CHARLES M. KELLEY, CFA
CHRISTOPHER C. KELLEY, CFA, CAIA | LEIGH E. NIEBUHR | MARK A. VITELLI, CFA

A quarterly newsletter of Compass Capital Management, Inc. *Volume 29, Number 1: Spring 2017*

FIDUCIARY RULE: COMPASS HAS ALWAYS PUT OUR CLIENTS' INTEREST FIRST

Effective June 9, after years of battling Wall Street and the insurance industry, the Department of Labor's (DOL) Fiduciary Rule expands the definition of fiduciary under the Employee Retirement Income Security Act of 1974 ("ERISA") and the Internal Revenue Code of 1986 ("the Code"), ensuring that advisers who work with tax-advantaged retirement savings put clients' interests ahead of their own. This "new" standard holds financial professionals, brokers and insurance agents to a higher standard than the less stringent "suitability" standard. The suitability standard generally coincides with commission-based compensation and rebates (i.e. kickbacks) common among brokers and insurance agents.

According to Morningstar, the fiduciary rule stands to affect approximately $3 trillion of retirement assets in the United States.

Many investors assume the individuals and firms investing their hard-earned money are operating under a legal and ethical standard, much like a doctor. But brokers and insurance agents are generally required only to recommend investments that meet the less stringent "suitable" investment standard. For example, a broker could sell you her own firm's proprietary mutual fund without disclosing a cheaper alternative or a cheaper share class. Similarly, an insurance agent could fail to mention that selling you an annuity would earn her a free trip to Hawaii.

> *At Compass…our clients' best interest has always been our focus.*

Advisers come in two forms: Registered Investment Advisers (RIAs) and brokers. RIAs are legally bound to serve as fiduciaries or trusted caretakers. To minimize conflicts, they are typically compensated on a fee-based schedule by clients; thus avoiding mutual funds, annuities and other products that offer sales incentives. Brokers however, are allowed to sell products that pay them the most in commissions and other incentives as long as the product suits the client's needs. How do you know if your adviser is a fiduciary? Just ask. If you hear unclear responses, ask the name of their regulator. The Securities and Exchange Commission (SEC) regulates RIAs, while the Financial Industry Regulatory Authority (FINRA) regulates brokers. Also, be aware that some advisers at brokerage firms may be "dually registered," allowing them to serve as both a broker and an RIA.

Let's be clear. Just because someone is acting as a fiduciary, doesn't mean there are no conflicts. To flush out conflicts, it's important to ask advisers how they are compensated and how they manage the ethical dilemma arising from their fee payment structure. Even fee only advisers can have conflicts. For example, an adviser charging an hourly fee can create incentives to work as slowly as possible.

At Compass (governed by the SEC as a Registered Investment Adviser), our clients' best interest has always been our focus—and not just only for retirement accounts, but for *all* account type registrations (taxable, foundations, trusts, etc.) We did not need a law to be passed to govern our team on how to behave. Every single day, the Compass team must continue to earn your trust through our actions. We are grateful for those that have entrusted their savings/investments to us. We will continue to work for you—serving your interests.

For more information regarding our company, disciplines and results; please call, write, e-mail or visit our website: www.compasscap.com

*Compass Capital Management, Inc. * 706 Second Avenue South * Suite 400 * Minneapolis, MN 55402 * (612) 338-4051*