

**TRANSACTIONAL  
VS  
ADVISORY  
RELATIONSHIPS**

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Over the years I have seen how clients struggle with the very meaning of “financial advisor” when planning for their future. Most clients don’t know the difference between a financial advisor, a stock broker, a financial planner, or the many other titles people who handle other people’s money might throw at them. (Even the regulators use these terms interchangeably!) All those ads on TV promising a bright financial future if you work with this firm or that person just make things even more confusing.

Some terms, such as Registered Investment Advisor and Registered Representative, have specific meanings in law. Others, such as financial planner or financial advisor, can be used by anybody. I think that John Oliver said it better than I can. I recommend viewing his video on YouTube. It’s the one that talks about becoming an elf-spotter.

For me, the main thing to look for in a financial advisor is not his or her title, but whether you are entering into an “advisory relationship” or a “transactional relationship” with that advisor. If you understand the difference, you are likely to make a better choice.

In an advisory relationship, the client is buying advice. The advisor sells no products, earns no commissions, and acts as a fiduciary. A fiduciary puts the clients’ best interests ahead of his or her own. (Google “fiduciary standard.”)

In a transactional relationship, one party wants to buy something and the other party wants to sell something. That something is some sort of product, not advice, though some element of advice might be incidental to the transaction. The seller is not a fiduciary, though he or she may be operating under the suitability standard, a much less stringent standard than the fiduciary standard. (Google “suitability standard” too.)

I’ll give the example of a car purchase. If I go to the Toyota dealership, the salesperson will ask me what I need in a car and will help me decide which car is most suitable for me. It won’t be a coincidence that the most suitable car is a Toyota, not a Ford. The salesperson is not going to walk away from a potential commission (and possibly lose his or her job) by advising me that the best car for me is down the street at the Ford dealership.

When I bought my last car, I paid Consumer Reports for their advice regarding the best car for my needs and wants. Consumer Reports charged a fee, not a commission. Their fee would be the same no matter what car I purchased. There was no conflict of interest, and I got unbiased advice for my money. That was an advisory relationship. After deciding which car I wanted, I went to the dealer who could sell me that car and entered into a transactional relationship. I wanted to buy a car from the salesperson; the salesperson wanted to sell a car to me. Our relationship was clear to both of us.

I am going to do something that, to those who know me, is quite unusual. I'm going to quote the Bible, Matthew 6:24: No One Can Serve Two Masters.

The financial "advisors" in the banks and brokerage firms work for the shareholders of those companies. Their job is to sell their companies' products, or the products that their superiors tell them to sell, in order to make money for themselves and their companies' shareholders. They do not work for the customer. They can't. If I take \$100,000 to an "advisor" at a bank or brokerage firm, the "advisor" is going to "advise" me to buy his or her companies' products. He or she will not tell me that I should pay down my mortgage instead, or that I should fund a retirement account at work instead, or that a competitor has investments that would better meet my needs and objectives. If he or she did that, if he or she truly acted as a fiduciary and put my needs ahead of those of the shareholders, he or she would be out of a job. See Biblical quote above.

Working with a true financial planner, however, means entering an advisory relationship. A true financial planner is one who operates under a strict fiduciary standard and who creates long term comprehensive financial life plans to guide all decisions. A true financial planner sells no products and earns no commissions. A financial planner works for the client, not for the shareholders of a bank or brokerage firm. A financial planner serves only one master – his or her client.

A financial planner will tell you if paying down your mortgage is better than putting your investment assets under his or her management. A financial planner will tell you to fully fund your retirement account at work before you put any assets under his or her management. A financial planner will not sell you master limited partnerships, annuities, whole life insurance policies, or any other product that enriches the planner but which is not in your best interests.

In summary, follow the money when choosing a financial advisor. Just ask yourself, “whom does this person actually work for and how is he or she paid?” That will tell you if you are entering into a “transactional relationship” or an “advisory relationship.” It will also tell you whether you are dealing with a salesperson or a fiduciary.