

FOCUS ON WEALTH MANAGEMENT

OPINION

What investors must know: Fiduciary standard and fee-only

By **MICHAEL JOYCE**

Special for Lehigh Valley Business

When selecting a professional to manage wealth, investors would be well-advised to consider the following “F-words” – fiduciary standard and fee-only. For practical wealth-building purposes, they are terms worth remembering.



Joyce

The fiduciary standard refers to the ethical code Registered Investment Advisers, or RIAs, are legally obligated to follow: that is, their investment recommendations must be solely in the best interest of

their client. The client's interests come first.

And even though Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010, brokers continue to have a considerably lower threshold of accountability to clients when compared to RIAs. Brokers need only recommend products they deem to be “suitable” for their clients.

Unlike the fiduciary standard followed by RIAs, this “suitability” standard means that a broker may suggest purchasing higher-priced investment products to a client – even if the broker is aware of lower-priced options.

Since many brokers make a commission on the products they sell, there are inherent potential conflicts of interest in this model. And these potential conflicts of interest may very well impact the quality of advice the client receives.

OBJECTIVITY

This brings us to our second “F-word” – fee-only. Fee-only advisers charge their clients

CONFLICTED ADVICE?

Potential conflicts of interest with the commission model of adviser compensation:

- A commissioned adviser might be incented to advise a client to make investments so that the adviser may collect a commission, when in actuality holding cash may be a more suitable recommendation at the time.
- A commissioned adviser may be tempted to unnecessarily buy and sell securities (known as “churning”) to generate commissions.
- A commissioned adviser might be motivated to recommend that a client convert noncash assets such as real estate and collectibles to cash that can be reinvested so that the adviser can collect commissions.
- A commissioned adviser may be tempted to make recommendations that pay higher commissions when a less expensive and/or more profitable alternative is available.

SOURCE: JOYCEPAYNE PARTNERS

an hourly rate, flat fee or asset management fee for financial services. They do not collect commissions or referral fees paid by product or service providers.

One of the most important benefits of working with a fee-only adviser is the objectivity the adviser brings to the relationship. A fee-only adviser is able to choose from a host of products and services without regard to any personal gain that might come from the investment.

The fee-only adviser is not beholden to insurance companies, brokerage houses, retirement fund management groups or other financial companies.

HIDDEN FEES

Hidden brokerage-firm fees are another factor to consider when making investment decisions. Clients of brokerage firms frequently are unaware of many of the fees they are charged for advice and service.

Some of the not-so-transparent fees include stock commissions (charged upon both the purchase and sale of a stock from 1 percent to

3 percent of the trade amount and often not broken out in the trade confirmation), marked-up bond fees (sometimes as much as 5 percent, which the Securities and Exchange Commission does not require broker dealers to disclose) and mutual fund sales fees (typically ranging from 1 percent to 5 percent of the trade value).

Of course, there are times when using a broker is a reasonable decision.

If an investor needs direction in rolling over individual retirement account funds, for example, but does not want a longer term relationship with a financial adviser, working with a broker and paying the requisite commission is understandable. In this case, using a discount broker would save the investor money.

If, however, the individual would prefer ongoing impartial investment guidance, with no potential for conflicts of interest, a fee-only adviser is probably the better choice.

ETHICAL STANDARD

Fully understanding the “F-words,” fidu-

please see **INVESTORS**, page 20

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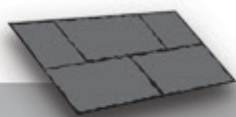
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(www.insurancechix.com) have 15 years in business in the Lehigh Valley. Starting in a 200-square-foot basement office in Fogelsville, the five-person Hosfeld Insurance LLC now occupies a 1,100-square-foot office in Macungie. She can be reached at 610-530-0304 or donna@hosfeldinsurance.com.

What's your take on the local economy?

Things are definitely turning around. We've written more new commercial business over the last year than we had in several prior years. It's been inspiring to watch local folks who've made lemonade out of the lemons they've been given. Some were downsized in their previous jobs and they grabbed the brass ring of starting a business. Watching them turn their passion into a business is a rush.

What issues are you most concerned about?

One of the biggest things that is a challenge for us is growing our team of Chix. We're blessed to have four awesome folks on board right now. Two of my team have been with me for over 12 years. Finding another person with the same commitment to service and having the right chemistry ... is our focus now. We are hoping to have someone on board before the end of 2014.

How do you build a connection to the community?

In addition to using social media platforms to meet folks and learn about them, we have also created and held various events. We put the “fun” in fundraiser, if you will. Over the last few years, we've held events that have benefited various charitable organizations in our community.

Not only is it the right thing to do, but it is an amazing way of letting the community know what types of things are important to us. By organizing these events, we've been

able to raise money within the community to share with organizations who focus on animal rescue, breast cancer, the burn unit, the pediatric cancer unit, community concert series and human trafficking.

What advice would you give to someone thinking about starting a business in 2014?

Do it! Yes, you're going to be scared. Yes, there's going to be risk.

But do you have the passion? Is it your dream? Are you willing to work harder than you've ever worked for an employer? Are you willing to be poor for a while? Can you handle a struggle?

If so, do your research. Make a plan. Talk to others who have done it. Then, take a calculated risk. Leap.

And remember, if it was easy, everyone would do it. Finally, believe.

Editor's note: On the Front Line appears periodically and offers insight on running a small business in the region. If you have a suggestion for a subject for “On the Front Line,” please email Bill Kline at billk@lvb.com.

CALENDAR

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Time: 8:30 a.m.-10 a.m.

Cost: \$14 members, \$18 nonmembers

Contact: Francee Fuller at 610-398-0904 or register at www.crewlehighvalley.org

Tuesday, June 3

Held by: Greater Lehigh Valley Chamber of Commerce

Summary: Lehigh Valley Women's Summit 2014

Where: Cedar Crest College, 100 College Drive, Allentown

Time: 7:30 a.m.-4 p.m.

Cost: \$125 members, \$200 nonmembers

Contact: Meg Dowd at 610-739-8858 or megd@lehighvalleychamber.org

Wednesday, June 4

Held by: Manufacturers and Employers Association

Summary: Occupational and Safety Health Administration basics and safety training

Where: Top of the 80s, 3 Top of the 80s Road, Hazleton

Time: 9 a.m.-4 p.m.

Cost: \$155 members, \$310 nonmembers

Contact: Chris Robbins at 610-622-0992 or crobbins@maea.biz

Thursday, June 5

Held by: Greater Reading Chamber of

Commerce & Industry

Summary: Doing business in Berks reverse trade show

Where: Center for Business Excellence, 49 Commerce Drive, Wyomissing

Time: 8-11:30 a.m.

Cost: \$50

Contact: Diane Reed at 610-376-6766 or dreed@greaterreadingchamber.org

Thursday, June 12

Held by: Valley Networking

Summary: Business to business networking

Where: Capital Blue, Promenade Shops at Saucon Valley, 2845 Center Valley Parkway, Center Valley

Time: 6-9 p.m.

Cost: Free, includes hors d'oeuvres

Contact: Register online at www.valleynetworking.net

Wednesday, June 18

Held by: Greater Reading Chamber of Commerce & Industry

Summary: Resolving conflict

Where: Center for Business Excellence, 49 Commerce Drive, Wyomissing

Time: 12:30-4:30 p.m.

Cost: \$210

Contact: Diane Reed at 610-376-6766 or dreed@greaterreadingchamber.org

Wednesday, June 18

Held by: Greater Lehigh Valley Chamber of Commerce

Summary: Small Business Council Excellence in Business Awards

Where: Blue Grillhouse and Event

Center, 4431 Easton Ave., Bethlehem

Time: 5-7 p.m.

Cost: \$45

Contact: Meg Dowd at 610-739-8858 or megd@lehighvalleychamber.org

Wednesday, June 18

Held by: Greater Reading Chamber of Commerce & Industry

Summary: Power networking lunch

Where: Stokesay Castle, 141 Stokesay Castle Lane, Reading

Time: 11:30 a.m.-1 p.m.

Cost: \$15, includes lunch

Contact: Diane Reed at 610-376-6766 or dreed@greaterreadingchamber.org

Wednesday, June 18

Held by: Lehigh Valley Economic

Development Corp., Women and Minority Business Opportunity Council

Summary: LinkedIn - how to leverage it for real results

Where: Penn State Lehigh Valley, 2809 Saucon Valley Road, Center Valley

Time: 2:45-5:30 p.m.

Cost: \$20

Contact: Kat Schneider at 610-266-2220 or kschneider@lehighvalley.org

Friday, June 20

Held by: Greater Lehigh Valley Chamber of Commerce

Summary: Small business social media boot camp series

Where: Lafayette College, 316 Markle Hall, Easton

Time: 7:30-9:30 a.m.

Cost: \$15/session members, \$20/

session nonmembers

Contact: Meg Dowd at 610-739-8858 or megd@lehighvalleychamber.org

Wednesday, June 26

Held by: Greater Reading Chamber of Commerce & Industry

Summary: Sharpening people skills

Where: Center for Business Excellence, 49 Commerce Drive, Wyomissing

Time: 8:30 a.m.-12:30 p.m.

Cost: \$110

Contact: Diane Reed at 610-376-6766 or dreed@greaterreadingchamber.org

Wednesday, July 16

Held by: Greater Reading Chamber of Commerce & Industry

Summary: Power networking lunch

Where: The Heritage of Green Hills, 200 Tranquility Lane, Reading

Time: 11:30 a.m.-1 p.m.

Cost: \$15, includes lunch

Contact: Diane Reed at 610-376-6766 or dreed@greaterreadingchamber.org

COMPILED BY JENNIFER GLOSE

Please use email to submit Calendar items at least two weeks prior to publication, and be sure to write "Attention-Business Calendar" in the subject area. Address them to jennifer@lvb.com. Please provide the name and telephone number of a contact within your organization.

INVESTORS

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ciary standard and fee-only, is advantageous to investors. A client benefits most when served by a fee-only financial adviser who must uphold the fiduciary standard - working solely in the client's best interest and with no incentive to suggest less-than-ideal products.

Investors should strongly consider the ethical standard to which a financial adviser is held, as well as a firm's method of collecting compensation for products and services, before making investment management decisions.

Michael Joyce, founder and president of JoycePayne Partners of Bethlehem and Richmond, Va., is responsible for overall investment strategy, management of investment portfolios and financial counseling services. A Chartered Financial Analyst and Certified Financial Planner, he has more than 30 years of experience in the financial industry and seven times has been named one of the top 100 wealth advisers in the nation by Worth magazine. He can be reached at mjoyce@joycepaynepartners.com.

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