Merrill Lynch Clients Stay Despite Not Trusting the Firm

By Larry Swedroe | Jun 8, 2011 |

The most important aspect of the relationship between a financial advisor and the investor is one of trust. Certainly no rational investors would hire (let alone continue to work with) an advisor that they don't have the utmost confidence that the advice provided is in their interests. At least, you'd think that's the case. But **Merrill Lynch** seems to have pulled off the impossible — keeping clients who don't trust that Merrill will act in their interests.
In a poll by **Forrester Research**, two out of three Merrill Lynch customers disagreed with the statement "My financial provider does what's best for me, not just its own bottom line." This outcome shouldn't surprise anyone who understands the difference between a fiduciary standard of care and a suitability standard.

The fiduciary standard requires financial advisors to place their clients' best interests first and foremost — above both the advisors' own interest or the interest of their firms. It's the highest standard of care under the law.

On the other hand, the suitability standard means financial advisors and their firms need only make "suitable" recommendations, as opposed to recommendations in clients' best interest.

The following should illustrate this point. You're building your portfolio and need an allocation to U.S. large-cap stocks in the form of an **S&P 500 Index** fund. You have two options:

- Fund XAXAX has an expense ratio of 0.15 percent and is publicly available.
- Fund XBXBX has an expense ratio of 0.75 percent and is a proprietary fund offered by your advisor's firm.

If your advisor is under the suitability standard, he's perfectly able to choose the second fund, despite the outrageous expenses. This creates a conflict of interest as the advisor can recommend the one that creates the most income for him and/or his firm. This conflict often arises when the advisor recommends his firm's proprietary product.

An advisor under the fiduciary standard, on the other hand, would have to justify choosing such an expensive fund and would have to pick the first one, as it's the fund that is in your best interests. The question is why anyone would choose to work with advisors who aren't required to make recommendations in their best interests? And why would anyone continue to work with an advisor who they don't trust to do just that? The evidence suggests that **Abraham Lincoln** was right that you can fool some of the people all the time.