

Understanding Financial Advice: Fiduciary vs. Non-fiduciary

SUBJECT(S): Personal Finance

GRADE LEVEL(S): 9, 10, 11, 12

≡ NBEA STANDARD(S):

- Personal Finance, III. Managing Finances and Budgeting
- Personal Finance, IV. Saving and Investing

≡ RELATED ARTICLES:

- [“The Investor Lifecycle: Changing Priorities, Changing Portfolios”](#)
- [“Portfolio Managers: The Challenge Is Picking More than One Winning Stock”](#)

TOPIC/COMPETENCY: Investing: Fiduciary vs. Suitability Standard – impact of fees on investing

CEE National Standard:

Standard 5 – Benchmark 12-7

Jump\$tart National Standard:

Investing Standard 1

Common Core State Standard:

CCSS.ELA-Literacy.RI.9-10.9

CSS.ELA-Literacy.W.9-10.9

LESSON TITLE: “Whom Should You Trust? Whom Should You Pay?”

LESSON OBJECTIVE: Students will recognize that financial advice is a service that one pays a fee to receive and that there is a difference between fiduciary and non-fiduciary advice

ESTIMATED TIME: 50 min

MATERIALS NEEDED: Computers with Internet access for both teacher and students; print copies (or links to digital versions) of articles listed in the Comprehension Category of this lesson; paper and pencil for students to make notes on lesson content; access to digital equipment for displaying this lesson’s [Fiduciary PPT](#)

KEY VOCABULARY/TERMS: Fiduciary, Investing, Suitability, Investor

WHY THIS MATTERS TO YOU NOW: As you grow older, you are faced with many choices. Learning how to differentiate and distinguish facts that can help lead you to a final decision is an important skill that you will use the rest of your life.

Motivational Hook / Activity – 3 – 5 minutes

- Instill an element of surprise for this lesson by doing this: As students enter class, hand out three articles randomly, each student should receive only one article. Ask them to put those aside as they take their seats; they will use them later.
- Don’t answer any questions yet, just proceed with the start of the lesson

Content – 20 minutes

- Provide students with a short lecture on investment planning using these suggestions for guiding your lecture and discussion:
 - “Humans are rational in theory but err in practice” – says Cognitive Scientists Phillip Johnson-Laird and Ruth M. Byrne.
 - The study of economics and the practice of personal financial decision-making always include choice. You have to make a choice and as adults, we often make as many as 6-10 decisions EACH DAY about money and our spending habits.

- When it comes to investing, there are many, many choices about what you can do with your money. So many choices, in fact, you might become paralyzed by having so many options you can't make a decision
 - As an investor, you often have to pay a fee to implement your decisions. The purchase of stocks, bonds, mutual funds, etc... often involve working with financial specialists who provide this service. Just like you pay someone a fee to cut your hair or clean your teeth, you will pay a fee for the knowledge and skills of financial services someone offers you as an investor.
- **Show these short video clips to help reinforce the investing terms of Fiduciary and Suitability**
- “Fiduciary and Suitability Standards” <https://www.youtube.com/watch?v=3MPQQE7DDFI> (1:30 length)
 - “What is a Fiduciary?” <https://www.youtube.com/watch?v=aGIkdsZZSgk> (2:57 length)
- Next – Have each student read the article they were given upon entrance to the class today. As they read, they should make notes on their own paper about important topics/content that is revealed to them in the article. Encourage them to list at least 5+ important concepts or even statements from the article so they can be prepared to connect important financial concepts for the next activity.

Here are the articles – *BE SURE EACH ARTICLE HAS #1, #2 #3 LISTED AT THE TOP BEFORE HANDING THEM TO A STUDENT*

1) “Is Your Financial Advisor a Fiduciary?”

<http://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/2015/03/19/is-your-financial-advisor-a-fiduciary>

2) “How the Fiduciary Standard Protects You”

<http://www.bankrate.com/finance/investing/fiduciary-standard-1.aspx>

3) “Stock Broker Costs <http://personalfinance.costhelper.com/stock-broker.html>

***Practicing (10 – 15 minutes)**

- Use the Power Point Slides “Fiduciary, Suitability & Fees” provided with this lesson to conduct a review and practice session to get kids up out of their seats and moving
 - The instructor will click through the PPT and control the game
 - Tell students to pick up the article AND the notes they made as they read their article to participate in this game
 - Ask students to stand up at their seats
 - As each slide appears, a question will be asked about the readings handed out to students. The instructor should read aloud the question that appears on each slide
 - The instructor should click again, and the slide will reveal ARROWS pointing to the left or right side of the classroom.
 - The instructor will tell students to think about their answers, referring if necessary to their notes and/or article, and then move physically to the side of the classroom that represents their answer .
 - The instructor should click again to reveal the answer and invite students to move to the correct side of the room before going on to the next slide and question.
 - There are 7-8 questions asked on slides, so the game will take approximately 10-15 minutes to play.
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- **Assessment (Begin in class, finish at home)** There are 7-8 questions asked on slides, so the game will take approximately 10-15 minutes to play. Ask students to create a list of five to six questions they could use to ask someone if they were considering making some investment moves. Tell students to use their notes from the articles and any notes/concepts they have from watching the videos. They should also be encouraged to ask a parent/guardian/significant adult for advice on whether they (the adult) thinks the questions are appropriate.

Homework/Further Exploration:

Upon return to class, ask a few students to read their questions aloud and share discussion time with the class.

Share with students these questions that are recommended by financial experts to ask someone when you are working with an investment advisor:

- Are you acting under the fiduciary standard? Can you put that in writing?

- Which licenses do you have?
- Are you a registered investment adviser? Can I get a copy of your credentials?
- If you are not acting as a fiduciary, are you willing to fully disclose all conflicts of interest and the amount of compensation received from advice and products recommended?

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