Wealth Creation and Preservation

Special Report

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How to tell when your Financial Advisor doesn't have a clue

I wish this article could be written tongue-in-cheek; unfortunately, I have to be in earnest on this topic. I always hesitate to write about my peers for two reasons; first there actually are a few people out there who do their best to serve their clients and, second, it can seem very self-serving. My business exists in two rather different worlds; I disseminate advice for a fee on the one hand, and I practice what I preach by managing money for my clients on the other. I do not claim to be the best in the world in either camp. I do claim to be highly professional, thoroughly trained, very experienced, honest and objective.

With that disclaimer in my, allow me to attack both industries. Let's start with the business of selling advice, and then we get to the financial professionals who want to work directly with you.

Retail sales of investment advice; one of the few industries that grow rapidly despite mediocre or negative results

There are thousands of people in this country and elsewhere who make their living from selling financial advice. As I discussed in my book Moneywise, just about every one of them who does any analysis at all adhere strictly to one school or another, those two schools are fundamental analysis and technical analysis. My experience has demonstrated clearly that both must be utilized and integrated if one's recommendations are to have any value at all. Simply put, it doesn't do you any good to buy the best stock in a declining industry. Neither does it do you much good to buy a stock with tremendous momentum in a market that's about to turn south in a big way.

To my knowledge, only two people predicted the stock market crash of 1987. Since then, hundreds of people have claimed to have done that. Similarly, very few people predicted the crash of 2000. I was one of them, though I thought it would happen at a much earlier date. I don't know of anyone besides me who predicted that the stock market would fall automatically after forming a double top. The 2000 high was the first top; we made the second top in 2007. You probably know what the market has done since that 2007 peak.

The thousands of people who sell their financial vice all have a gimmick. For many of them their gimmick is their marketing approach; they really don't have much to say, but they promote themselves shamelessly. For others, the gimmick is some secret investment or trading strategy which has made millions for people you will never hear about - probably because they don't exist. There are always those who seem to have a superb track record in which the vast majority of the recommendations have been profitable for their readers. As study after study has shown, this is largely a matter of luck. The most important survey of market performance came to the simple conclusion that it was impossible to time the market.

How can you tell when your favorite newsletter editor doesn't have a clue? Take a look at what they're recommending now. Many still recommend that you keep 60 to 90% of your money in the stock market, though if you have done so you have seen the value of your investments decline by as much as 50 to 60% in 2008.

Does your editor investigate and examine areas of investment outside of his direct expertise? Is he or she willing to adjust strategies based upon events? "To the person who is good with a hammer everything looks like a nail". Many financial writers get into a rut early on their careers and stay there. Many of them stick with one strategy long after it has become obsolete or after it has been proven that it never worked in the first place.

It is much more difficult to identify those advisers who are open-minded, willing to investigate new ideas, and capable of changing their approach when events dictate. Such people have to have a degree of flexibility most people do not possess.

Most important, regardless of how honest, diligent, and thorough a financial writer may be, he or she will make mistakes. We are all fallible human beings, and events in history can go against us at any time. That's why it's important that any financial writer you strategies that will hedge against both anticipated and unanticipated risks.

A model approach

A good financial advisor should <u>be</u> all of these things:

- Humble
- Honest
- Experienced
- Highly trained
- Open-minded
- Flexible
- A technical analyst
- A fundamental analyst
- A skilled financial planner

In addition, he should do these things:

- Perform extensive and ongoing research
- Constantly investigate new areas of investments
- Interact with the investing public
- Focus on increasing the net worth of his readers while reducing the risks they face
- Be personally involved in the same types of investments he recommends for his readers

What about money managers and financial advisors?

Money managers and financial advisors are relatively loose terms that can be applied to people who manage investment accounts for clients for a fee and/or to provide financial planning services and advice for a fee. For middle-class Americans the financial planning portion is usually quite simple and should not require the payment of a fee or the expenditure of more than a few hours each year; it is the day-to-day management of the investments that is critical to the success of the individual or family.

Financial professionals who deal with the public have a much more difficult task than those who simply write financial newsletters or books. They have to meet face-to-face with prospective clients and sell them on the services they offer. They should also take responsibility for their clients' money in the sense that they will be able to make the best possible recommendations because they have done their homework.

Most professional money managers are paid whether they make money for their clients or not. I believe this is not appropriate, but it is a method favored by the regulators. The regulators assume that if it a money manager were compensated for the performance of his clients' accounts he would simply put them into higher risk investments that would otherwise be appropriate.

Some money managers simply parrot common strategies, some of which have been proven to be worthless. If you are being solicited by a financial professional who wants you to become a client, if he begins to talk about "diversification", "buy and hold", or "dollar cost averaging", I suggest you politely terminate the interview and leave. You can pursue any of those strategies yourself using a family of no load funds and save yourself all the fees and commissions you would pay to that financial professional. As my research has clearly demonstrated, however, those strategies don't work very well. They assume that either you or your financial professional don't know how to manage money, and therefore they put you into a strategy which requires no conscious thought on your part or theirs. In my interviews with thousands of stockbrokers and financial professionals over the years, I have seen that the vast majority favor and recommend just these strategies. Most of them do so because their job is to sell things, not to manage them.

How to tell if your financial advisor doesn't have a clue

Here's what I think a competent, caring financial professional ought to do for you and his other clients:

- Meet with you face to face.
- Discuss your current financial situation and your hopes and plans for the future.
- Work with you to establish meaningful, achievable financial goals.
- Recognize your uniqueness and tailor his or her recommendations accordingly.
- Maintain a regular and personalized contact with you.
- Review your financial situation and the progress you are making on a regular basis, and report the results to you.
- Make well thought-out and appropriate recommendations both for investments and strategies.
- Ensure that you understand what he or she is doing for you, and why it is important.
- Fully disclose all of the successes and failures as they occur.
- Treat you as if you were important, and not as if you represented just a commission.

These people are very hard to find. Many have been trained to do some of these things, and often the "personal touch" can seem strained, artificial, and mechanical.

It is even more difficult for you to judge the knowledge, skills, and experience of this financial professional. We live in a day of "grade inflation" and "resume inflation" in which people overstate their qualifications and experience. The practice is very common, and the regulators have made significant efforts to restrain it. You are entrusting your hard-earned savings to someone about whom you know little or nothing. You cannot rely upon a company he works for, for if your professional makes a serious mistake or if he turns out to be dishonest his company will disavow all knowledge of his actions and distance themselves from him for their own protection.

Following are some key phrases that will instantly identify the clueless or the dishonest. I have heard all of them spoken in earnest by financial professionals.

- "If a customer needs to make more than 8% per year I always put them into a growth mutual fund, because they always average more than that".
- "I don't work with stocks for my customers. I work with mutual funds".
- "I guarantee my clients __% per year".
- "This investment always goes up just before the [Expo] [trade show] [product introduction] each year".
- "The financial professional you have been working with as a very poor job. I can do much better for you".
- "The stock market averages gains of 10% per year".
- "Technical analysis doesn't work".
- "Our ‘in-house’ mutual funds are the best in the business".
- "This annuity doesn't charge you any commissions".

There are many more such statements, and you may have already heard most of them. Most financial professionals are nothing more than salespeople, and you should treat what they say about themselves as you would treat what a car salesman has to say about his product. Even if you find someone who is honest, sincere, diligent, knowledgeable, and helpful, he or she will still make some bad recommendations.

Please don't settle for a famous name, a multilevel marketing program, one specific method of analysis, or anything that will prohibit you from preparing for the unexpected. After all, it is your money. You worked hard for it. Alternately, you bear responsibility for it. Your success or failure in finding suitable professional financial help will have a major effect upon the quality of the rest of your life. You owe it to yourself to make the best possible decisions when choosing someone who will advise you.

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