

## The Problem with People Like Me

Gregory A. Naylor

4/15/2011

**T**he financial problems that have beset the American economy in the last few years have created a crisis of confidence. In conversations with clients, friends, family, or the person seated next to me on the plane, it is clear that we have lost trust. Many of us no longer trust the government, Wall Street, the banks, or the Federal Reserve. Many of us also have a hard time trusting financial advisors, who often appear to be agents of a corrupt financial system.

This seems to be the cruelest paradox. In a time of heightened uncertainty and economic complexity, the good financial advice that we need the most is sometimes the hardest advice to trust. This newsletter is the first of two: in this first newsletter, I will focus on the problems in the financial planning industry. In the second newsletter I will focus on solutions for the consumer to evaluate their advisor.

### Industry Problems

- Anyone can become a financial advisor in a few short months. Unlike the term 'doctor' or 'attorney,' there is little regulation of the term 'financial advisor.' Life insurance salespeople can call themselves financial advisors, even if they know little or nothing about investments. Annuity salespeople can call themselves financial advisors, even if they really only advise you to buy an annuity. Investment managers might call themselves financial advisors, when they know nothing about insurance. Unlike medicine and law, none of these financial salespeople need more than a high school diploma.
- There is no professional code of ethics. Again, in the fields of medicine and law, these are mandatory. A doctor takes the Hippocratic Oath, and an attorney must protect a client's interest and privacy to the utmost. The financial planning industry has a 'fiduciary standard' which requires that advisors only make recommendations that are in the client's best interest. It is elective. Many salespeople elect not to follow this standard. Instead they follow a much looser 'do not do anything illegal' standard which allows them to sell a broader variety of products in a broader range of situations.

- Historically, the field of financial planning has paid its workers through commission. Financial companies that hire salespeople usually have minimum sales requirements. The financial advisor who spends time learning about investments and taxes is often fired for failing to meet sales expectations. Meanwhile, the best salespeople often spend little or no time on education, instead focusing on marketing. Although there are exceptions, some of the most successful, longest-tenured financial advisors sometimes are not professionals with ‘years of investment experience’ but rather ‘years of sales experience.’ This is how some 30-year veteran advisors lost half of their clients’ money in 2008. They were veteran salespeople, but rookie investors.

Up until 2008, many of these industry problems were covered up by America’s widespread prosperity. It did not matter what stock or bond or mutual fund or annuity you purchased in 1980 or 1990 or even 2000. With occasional hiccups, the value of everything kept going up. A salesperson did not need to sell you a good investment. They only needed to sell you any investment.

In 2008, the rising tide receded, and bad investments were quickly exposed. Economic and investment knowledge, a scarcity in a sales culture, became the only product worth selling. My industry, without uniform educational and ethical requirements, and a problematic compensation structure, often failed its clients.

The problems with people like me are not insurmountable. The industry is debating the ‘fiduciary standard,’ and might make it a universal requirement. Until then, you can and should ask your financial advisor whether or not your relationship falls under this standard of care. There are also many educated and wise financial advisors who do an excellent job taking care of their clients. Ask your advisor what their educational background



is, and remember that there is no college degree that teaches financial wisdom. Warren Buffett has a degree in finance, which makes sense. But George Soros, one of the world’s brilliant hedge fund managers, has a degree in philosophy. Ask about their education, but also ask about their philosophy and what they currently read to stay informed about the world. Most financial advisors enjoy talking about economics and politics and will happily answer your questions. A salesperson might be less at ease.

Finally, you might ask how your advisor is paid. There are fee-based planners and commission-based advisors. The fee-based model is inherently better because of its transparency and flexibility, but the commission-based model is not necessarily bad. When you get a bill from a doctor, plumber, or attorney, you know exactly how much you paid and what you received. The same transparency should exist with your financial advisor. If your advisor is comfortable explaining their services and

what they are paid for their work, you are likely working with an ethical advisor. If they are squeamish discussing what you are paying them, that could indicate a problem. Transparency is key to a relationship of mutual trust.

*FIAT Wealth Management is located in Long Lake, Minnesota. It is a boutique financial planning company owned by Matt Stahl and Greg Naylor. We especially enjoy working with people who live within their means so that they can give back to their families and communities. We specialize in retirement income planning and asset management, and are currently taking on new clients.*

---

Opinions expressed here are those of FIAT Wealth Management and not necessarily those of Woodbury Financial Services, Inc. or its affiliates. Information provided is from sources deemed to be reliable, however the accuracy of these sources cannot be guaranteed. The information contained within is for general information only and should not be considered a recommendation of any particular product or service. Neither Woodbury Financial Services, Inc. nor its representatives offer tax or legal advice. For assistance with these matters, please contact your tax or legal advisor. Diversification does not ensure profit or guarantee against loss. Past performance is no guarantee of future results. Gregory Naylor is an Investment Advisor Representative of Fiat Wealth Management, and offers Securities and Investment Advisory Services through Woodbury Financial Services, Inc. PO Box 64284 St. Paul, MN 55164 (800)800-2638. Member FINRA, SIPC and Registered Investment Advisor. FIAT Wealth Management and Woodbury Financial Services, Inc. are not affiliated entities.