



Gary Tagtmeier

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Is Your Financial Planner Getting Rich at Your Expense?

By Gary Tagtmeier, CPA © 2008

Lots of financial organizations offer “Free Investment Seminars.” But an investigation by Federal and State regulators of “free” investment seminars has found (1) high-pressure sales tactics pretending to be educational sessions, (2) misleading claims for unsuitable financial products, and (3) in some cases even fraud.

Christopher Cox, the chairman for the Securities and Exchange Commission (SEC), which is the watchdog agency of the financial industry, has stated that the SEC plans a “sustained and increasing focus” in protecting the assets of aging baby-boomers. The SEC and other regulators have brought several enforcement cases against investment advisors alleging a variety of improper investment schemes designed to defraud investors. Because of this, people really need to be careful when it comes to getting help with financial planning.

Personal financial decision-making has always been complicated and is getting more so every day. Complex choices in employer-sponsored 401(k) plans, retiring baby boomers dealing with the rollover issue, an explosion of mutual fund offerings and new IRA rules are only a few examples of complex and confusing issues. These issues are especially critical for retirees who are looking to others to help them make decisions about their life savings.

Some people have the time and energy to study the ins and outs of all of these issues; however, most people simply don't know where to begin. They need help from someone who can put them on the right track, help when unexpected life events happen, and give reliable, unbiased, objective financial guidance. Unfortunately, most people don't understand how to find someone who can give them objective advice where there is no conflict of interest.

In the financial world today, there are basically two types of advice: brokerage accounts and advisory accounts. With brokerage accounts, the investment community has developed a bewildering variety of ways to charge customers in order to pay their sales people. These difficult-to-spot charges include: upfront commissions, deferred sales charges, back-end loads, 12 (b) 1 fees, trailing commissions, mortality charges, annual management fees, administrative fees and hourly fees among others.

Additionally, some brokerage account sales people receive other prizes, awards, bonuses and/or special incentives for recommending particular investment products. Many investment products carry high fees and generate a lot of compensation for the advisor. Others have lower fees and less compensation for the advisor. So it is easy to understand why some advisors would recommend investments that generate the highest commissions for themselves. In too many situations, the fees the investors pay are so hidden that the client never really knows what he or she is paying for advice.

To help consumers spot potential conflicts of interest with brokerage accounts, the SEC, as of July 22, 2005, now requires all brokerage firms to disclose the following to a potential client: “Your account is a brokerage account and not an advisory account. **Our interest may not always be the same as yours.** Please ask us questions to make sure you understand your rights and our obligations to you, including the



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extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you, and sometimes, by people who compensate us based upon what you buy. Therefore, our profits and our sales persons' compensation may vary by product and overtime."

So why would anyone work with an investment advisor who states "...our interest may not always be the same as yours? ... probably because they are not aware of the potential conflicts of interest and are not aware of the alternative.

The second type of advice available is through an advisory account. With these accounts you work with Registered Investment Advisors (RIA's) who are held to a higher standard of advice than stockbrokers when it comes to putting investors' interest ahead of their own. It is one of the best ways to avoid conflicts of interest. The key term to be aware of, which is becoming very commonplace in the media and investment world, is "fiduciary responsibility". When an advisor accepts fiduciary responsibility, it means they put your interest ahead of their own compensation interests and agree to act in your best interest.

One good source to find RIA's is the National Association of Personal Financial Advisors (www.napfa.org). All members of this organization are strictly fee-only which means they do not, and cannot by their by-laws, accept commissions from recommending specific financial products. And the members of this group are duty bound to accept fiduciary responsibility for the advice they give.

You can get a sample "fiduciary responsibility" oath statement by going to www.napfa.org and clicking on "Consumer Information" and then "Financial Planning Diagnostic." This is an extensive checklist of information you should review whether you already have a financial advisor or are thinking of hiring one. This document also has a Fiduciary Oath statement that you can ask a financial advisor to sign either before or even after you have engaged his or her services.

Financial issues will continue to become more and more complicated. And most people will need financial planning and/or investment help at some point in their lives. Working with objective financial advisors who accept fiduciary responsibility will help insure that you get truly objective advice which is a key factor in the success of any personal financial plan.

About the author

Gary Tagtmeier is a speaker, trainer and founder of Financial Awareness Institute, a financial education firm dedicated to providing objective financial education. With over 27 years of experience, Gary teaches people to get more from what they make and how to do their own financial planning to avoid the pitfalls. He is the author of several financial books, videotapes and audio cassettes and has worked with major corporations, unions and government agencies from coast to coast to help their employees. To find out more, visit www.garytagtmeier.com or call 630-963-7000.

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