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## Major Brokerage Firms

**W**hen you think of Wall Street, what names come to mind? Depending on where you live, the answer might be different. If you are in Milwaukee, Wisconsin, you might think of Robert W. Baird & Company. If you live in Philadelphia, you might think of Janney Montgomery Scott. In Tampa, you would probably think of Raymond James. In many regards, these firms that are not headquartered in New York are just smaller versions of the Wall Street giants like Morgan Stanley Smith Barney and Goldman Sachs. Regardless of their size or the location of their headquarters, most firms offer investors a comparable array of products and services. Each is literally a financial supermarket chain of investment products and services ranging from stock and bond transactions to insurance and annuities, cash management accounts, trust services, financial planning, discretionary portfolio management, mutual funds, alternative investments, and even lending services. For fairly large firms with access to nearly anything the financial services industry has to offer, many of the topics covered in this book will apply some of the time to any of these firms, depending on the product or service the broker (the industry prefers to call brokers “financial advisers”) is selling you. Since the financial

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meltdown in 2008, most of the major firms have either become banks, or merged with banks, adding traditional banking services to their menu. (For example, Goldman Sachs obtained a bank charter, and Merrill Lynch was acquired by Bank of America.)

I worked in that industry for more than 15 years, first as one of those brokers, then moving up the ranks of management running various departments and divisions, and ultimately reporting to the vice chairman of a major firm as managing director of strategic planning. I've seen the training that brokers received. I've seen how brokers are recruited away from competing firms. I've seen the sales contests where brokers could win trips for generating commissions, and I have even had the opportunity to go on some of those luxurious trips. I've seen how the compliance departments implement policies to monitor the actions of brokers to attempt to stay within the laws. I've testified in arbitration cases clients brought against the firm where the client felt the broker harmed him.

On the surface, all of these firms on some level want to do a good job for their clients. This intent is proudly professed on television commercials, brochures, and marketing literature: One client at a time . . . Independent advisers with the freedom to serve their clients' interests . . . We always put our clients' interests first . . . The knowledge and experience of a global investment firm . . . A 100-year tradition of serving our clients to meet their goals . . . The resources and experience to weather difficult times . . . all slogan concepts you may have heard from any of these firms.

But you need to understand one thing that is disclosed to you in fine print in your agreement with the firm (well, two things if you consider that you are binding yourself to arbitration instead of the courts). Your account agreement will say:

Your account is a brokerage account and not an advisory account. **Our interests 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 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 on what you buy.** Therefore, **our profits, and our salespersons' compensation, may vary by product and over time**" (emphasis added).

Now there is a potential in the future that this wording may change because the Dodd-Frank Bill instructed the Securities and Exchange Commission (SEC) to examine whether brokers should be held to the same fiduciary standard as Registered Investment Advisers (RIAs) are. This is currently being debated and the outcome is uncertain. On the surface, one would think that regulating brokers to put their clients' interests above their own (as is required by a fiduciary standard) would be a huge win for consumers. If the final decision does hold brokers to the fiduciary standard, I think the only real winners will be attorneys. Here is why. Brokers earn compensation from products, which will create a conflict of interest. This conflict already exists for many fiduciary SEC-Registered Investment Advisers that are already *dually* registered as brokers too. Their escape from this conflict is to disclose it in their documents. Many clients have been harmed by these conflicts by advisors selling a product that was not in the client's best interest. The problem is that it is expensive for an investor to pursue a lawsuit based on a breach of fiduciary duty and even harder for them to win when the advisor disclosed the conflict of interest in their thick disclosure document that rarely is read by consumers.

So in the end, presuming that the new rules that are created for brokers to act as fiduciaries are significantly the same as those that already were applicable to RIA fiduciaries, albeit with product conflicts, the only thing that really will likely result is more protection from lawsuits for the firms and more misleading sales presentations to consumers on the basis of brokers now being "fiduciaries putting your interest above their own" even though the conflicts of product sales will remain.

I personally think that there is no way you can truly be an objective fiduciary to a client when you have the incentive to sell products that pay you big commissions. You cannot regulate ethics. There is no reason for a truly objective adviser to also be a broker unless they want to earn commissions for selling products. I think the Dodd-Frank Bill would have accomplished a lot more consumer protection if it treated the disease instead of just the symptoms. Requiring advisors to make the choice of being EITHER a security seller earning commissions for product sales OR an independent objective fiduciary ONLY earning advisory fees from clients and NO commissions from products would have made the disclosure much clearer for the consumer. For the broker, all you would

need to disclose is that the broker's incentive is to sell you products and any advice you receive is likely to be conflicted and may not be in your best interest. For the fee-only adviser, they could disclose that they do not receive compensation for product sales and only receive advisory fees for advice as a fiduciary to you. The industry would lobby against this heavily because it would eliminate the shell games they play.

But back to the current state of your brokerage agreement: You have it admitted to you in writing that brokerages currently are not necessarily serving your interest. This is exhibit one in any arbitration case you might bring against the firm for not putting your interests first. Despite the brochures and television ads that would have you believe otherwise, when it comes time to sign the account agreement, you are acknowledging that their "financial advisers" are not advisers, but instead are salespeople with conflicts of interest that may not be the same as yours and are getting paid based on the product sold.

Now, being large supermarkets of financial stuff, these firms also offer advisory services that require a higher standard of fiduciary responsibility to you and serving your best interests. This hybrid model of being both a broker salesperson and offering a fiduciary service is covered in Chapter 3. This chapter will focus on the makeup of these firms, a bit of the history, and some disclosure of the conflicts of interests that you probably do not know enough to ask about so you get the other side of the story that you need to know when dealing with someone that is acting as a broker.

## **We All Start Somewhere**

Have you ever wondered what it takes to get a job as a broker? From what is marketed by the firms, you might think that a deep understanding of financial markets, advanced degrees in finance or accounting, and a keen, objective, yet skeptical mind would be the sort of skills that would be required. Some in the industry have argued with me that that is really what they are usually hiring as trainees, and perhaps that is the case today. But, most advisors have been in the business well over a decade and these criteria are not what firms were looking for when they hired a new trainee . . . and I suspect that still might be the case. Clearly, there are some brokers that have these skills, but they are the exception, not the rule.

Historically, broker trainees were normally hired mostly for one trait—sales skills. Now the industry would like to repackage this as “people skills” or some other politically correct verbiage, but the reality is that a broker’s job is to make sales and hunt down new clients and no matter what criteria a firm tries to spin, this is the reality of what will determine whether a trainee will survive and thrive. And there are not many people who have the type of sales skills needed to become successful brokers. To be a broker, you need to be able to bring clients in. You need a thick skin to deal with rejection. You need to know how to network with the right people to get introductions to others who could be potential clients.

Some sales jobs require deep product knowledge to be successful; the brokerage industry in general is not one of them. Firms will challenge me on this point as well. They would lose in the debate of evidence. There are a lot of people with those sales skills who study and deeply understand the products they are selling in numerous sales positions. But, in the brokerage industry, deep product knowledge is not a key to success as a broker. The type of salespeople that might be successful in some sales jobs (those that have the initiative to get a deep understanding of product knowledge) may lack the “hunting” skill needed to bring clients into a brokerage firm. This “hunting” skill is what makes a broker successful or unemployed. Its relative rarity and the value it brings to firms for the distribution of their products is why brokers are so highly compensated. In major firms, few will remain employed if their earnings from the commissions generated are less than \$100,000 (which means they must generally produce more than \$285,000 in revenues for their firm for this level of earnings). The average in some large firms can be double or triple that amount, and some of the top “producers,” as they are known, earn several million a year.

Despite all of the advertising you see from firms, little of it does anything to directly bring clients to the firm. Most financial services advertising isn’t meant to bring clients in, but instead to create an image or brand of the firm; in many cases, it is meant to target the brokers who are out there hunting for new clients instead of the consumers themselves.

Contrast this to the advertising in your Sunday newspaper. The flyer from Best Buy isn’t designed to create a brand image around the Best Buy firm so their salespeople can cold call or network to bring in new clients to buy the latest flat-panel television. The ads

Best Buy runs are designed to get people into the store now to buy products that are on sale. The Best Buy salespeople (hopefully) are trained and knowledgeable about those products and how to sell add-on things like accessories and expensive extended warranties on the products to increase Best Buy's profits. There is a *huge* difference in these sales skills versus the broker who needs to hunt down new clients. The Best Buy salesperson stands behind the counter waiting for the firm to bring customers into the store for them to sell something. In brokerage firms, it is the exact opposite. The firm stands behind the counter with a selection of products offered to advisers for them to sell when they hunt down prospects.

You don't see financial firms advertising "Sale! Limited quantity! This weekend only! Save 20 percent in management fees on Acme Balanced Fund!" with the sure-to-follow line of customers waiting outside the brokerage firm's office to get the sale price two hours before they open. The ads that firms run do not have customers rushing in, and since a broker is not on salary and doesn't earn anything unless he or she brings customers (and commissions) in, the main skill he or she needs is to hunt down clients. Their survival is dependent on it. All packaging, spinning, and political correctness phrasing aside, the industry should admit this fact.

## **Are You the Prey of Such a Hunter?**

Before the cold-calling rules were in place, the typical broker trainee would spend countless hours on the phone. Many branch managers supervising their trainees would start them on their first day with a telephone, a phone book, a sales script for some product, and let them have at it. They also may have had a "quote machine."

Don't get me wrong—brokers receive some training. They normally have to pass Series 7, along with a couple of other exams. These exams, though, are not focused much on financial education per se, but more on the laws they must comply with and the basics of how different financial products are structured. There is also normally a several-month apprentice period where they are not allowed to sell to the public. Their training outside of the industry exams, however, is normally focused on sales skills and how to build a "book" of clients.

Broker training often is focused around how to sell a financial product. Trainees are not normally encouraged to deeply learn all of the products, but instead choose some they are comfortable with presenting, and then contacting as many people as possible about them. If you think about this, it should be somewhat obvious to you that if you are getting pitched a financial product, it may not be in your best interest or even remotely connected to your financial goals. To the salesperson, this makes no difference, especially at the beginning of his or her career. It merely needs to be defensible as something that could be deemed “suitable” for you. There are not many products sold by brokers that could not be positioned as being suitable for anyone. I’m wondering how this might change though if brokers are held to a fiduciary standard, or, if it will change at all by merely legally positioning what was “suitable” in the past as “in the client’s best interest” through legal maneuvering and disclosure. Time will tell.

What is ironic to me about this is the contrast of how these hunters of client prey sometimes grow to a higher level of professionalism than merely hawking a handful of products to people for which they have become comfortable with the sales presentation. The firms employing these advisers really, and sincerely, ultimately do not want them to just peddle a bunch of investments to an endless list of new prospects their broker hunters prey upon. They want these brokers to grow into the role of being your primary financial adviser, not just someone that sold you something three years ago like a balanced mutual fund or a municipal bond. There are some very good reasons for this.

First, from the ethics and integrity perspective, the risk to a firm is much lower (and their advertising slogans would be less contradictory to their practices) if they actually knew more about their client than he put \$50,000 in some municipal bond, has a net worth of \$500,000, earns \$85,000 as an engineer, and is 55 years old. (These are the basic brokerage suitability questions needed to determine whether the municipal bond that was sold to the client would meet the legal requirements of being “suitable.”) These firms really want their salespeople to grow into the role of being your primary financial adviser, and for good reason.

The typical broker earns about 1 percent in revenues on assets for the firm (the broker himself normally gets paid 30 to 50 percent of that based on how much revenue he generates in total,

and often the products used). There is often another 1 to 1.5 percent or so in other expenses that may go to other financial firms (mutual funds, insurance companies, money managers, etc.), as I highlighted in the Preface, to easily exceed that 2 percent expense of all financial assets in the financial services industry as a whole. One main reason firms want their advisers to serve as your primary financial adviser is that they can get much more in revenue, per client, by getting all of your assets. This is commonsense business. To earn 1 percent on assets \$50,000 at a time and meet the firm's minimum \$200,000 revenue production requirements (as an example) means that the broker has to hunt down 400 clients. If the average client had \$500,000 in assets and the broker migrated from selling \$50,000 pieces of a product toward advising clients on all of their assets, he would need only 40 clients. (\$20 million times 1 percent revenues equals the \$200,000 minimum revenue production. To get \$20 million in assets \$50,000 at a time requires 400 sales, but at \$500,000 requires only 40 sales.)

For more than a decade, I have been an outside observer of the dichotomy between how brokers are initially trained and the role their firms want them to grow into with their clients. I once met a financial adviser team of two certified public accountants (CPAs) who left a Big Six public accounting firm to become financial advisers in a major Wall Street firm. Normally, trainees are measured on a few metrics like the number of accounts opened, the number of calls they make, and the number of sales made. These guys almost got fired as trainees because they opened only a handful of accounts their first year in the business. They were big accounts, though. While other trainees in their class were getting recognition and going on incentive trips for opening 300 accounts that produced only \$150,000 in revenue in their first year in the business, my CPA friends were low on the list of trainees in their class, opening only a dozen accounts. Yet, despite their opening only a handful of accounts, they were big accounts and were focused from the beginning on being their clients' primary financial adviser. They brought in \$12 million in assets and produced \$120,000 in revenue for six clients across 12 accounts. The firm saw the wisdom behind this and decided not to fire them for failing to meet the trainee account-opening requirements. Eight years later, they built a client book of less than 100 clients that was generating more than \$8 million in revenues for their firm and nearly \$2 million each in compensation to them.



Several years ago I had a meeting with the training director of one of the largest national firms in the industry. This firm's business model was different than most on the street. Their business model was to train a lot of new brokers and have them open small local offices, unlike most other large firms that have been focused on recruiting experienced brokers from competitors into a small number of large offices. This guy was objective and contacted me about reinventing how their army of new trainees would be trained each year. Like all the other firms, their training program focused on getting the required licenses, how to prospect and hunt down clients, and how to sell a few products to open new accounts.

Together, he and I both realized that the very things they trained new advisers on were in contradiction to how they wanted the adviser to grow years down the road. The skills they were recruiting for a successful trainee and the metrics they measured on trainee success were not necessarily related to the success years down the road of the firm's long-term objective.

I know some of the best former trainees that are somewhat successful decades later. They open a lot of accounts. They sell a lot of products to a lot of people. I know one adviser who has more than 5,000 accounts, has been in the business for more than 40 years, and generates only \$1 million in revenue. He obviously has a lot of customers. He has few clients. Contrast this to the CPA team that has 100 clients generating eight times the revenues in only eight years.

The training director and I both realized that it is rather stupid to start trainees off learning a bad way of doing business and hope they forget their training years down the road to become their clients' primary financial adviser. In fact, many firms actually spend money to have training programs as advisers get more experienced to coach them on how to wean themselves from the very habits that were pounded into them during their initial few years in the business.

We worked together to design a training program focused from the beginning on training new advisers to be the primary advisers to their clients at the get-go. Of course, new metrics would have to be used, and the skills of new recruits would have to be rethought. The program was never launched, though, despite the common sense behind it.

If you think about it, brokerage firms hire people and train them to make a lot of small product sales, measure them on it, hire

people with the skills to do exactly that, and then somewhere down the line they want these people to morph into exactly the opposite of who they are and what they have been trained to do. It really is quite stupid. But, like any industry, the brokerage industry has a lot of tradition. The sales director at this firm proclaimed long-held beliefs as to why they shouldn't train their advisers at the beginning to be primary financial advisers. At the operating committee meeting, he shouted old, long-held sales manager bromides like "Trainees need to learn to walk before they run" and "We can't afford to bet on a broker that isn't opening accounts" and things such as this.

Conceptually, if you are a baseball fan, or even if you are not, there is a great book on this concept of being stuck in tradition called *Moneyball*. It is a great read and from a conceptual basis shows what is so backward with Wall Street. For example, in *Moneyball*, an objective perspective of one of the traditions of measuring runs batted in (RBIs) of players is questioned. RBIs have more to do with the ability of the previous players in the line-up of getting on base than they necessarily have to do with the skill of the player who gets credited with the RBI when those previous players tag the home plate. This is the conceptual equivalent of measuring a broker trainee on the number of accounts opened. A player with high RBI stats won't mean he will win more games for you if you recruit him to your team any more than a broker trainee who hawks a popular product to an endless list of victims and opens a mountain of new accounts is any more likely to earn their trust to manage all of their assets (particularly when such products blow up) or do a better job for their clients.

In this case, the sales director at the firm stuck to his tradition that "always worked for us in the past" instead of addressing the main issue that they did not want their experienced brokers to do business the way trainees did, but their training program trained them to do business the wrong way. Somehow, he thought the easiest way to train advisers the right way to do business was to get them to learn how to do it the wrong way, keep the advisers who succeeded in the wrong way, and fire those who did in the right way. This wrong way of training has not really changed all that materially in the industry yet, nor have the primary skills they are seeking in the people they hire to train.

## What You Need to Care about When Dealing with Brokers

All of this sales tradition in the brokerage industry still permeates today. There are exceptions, but most of the rewards, recognition, titles, incentives, and the like are all based on sales. If your financial adviser was promoted from senior vice president to managing director, it does not mean he necessarily did a good job for his clients (although it may mean none of them filed a case against him). Officer sales titles are based on how much revenue the broker generated for the firm, not how well clients have done.

Brokers also are now required to participate in continuing education programs, but don't count on the quality of that education being your savior in trust of your adviser. Also, you need to be careful of the credentials of your broker, as there is an alphabet of letters and fancy titles they may have by their name that may or may not mean they have some worthwhile education. In many instances, I would argue that some of these certifications mislead advisers and thus encourage them to mislead their clients.

The bottom line to protect yourself is not going to be based on the broker's firm (80 percent-plus of clients generally switch firms when their broker changes firms, often for signing bonuses upward of two to three years income!), nor is it necessarily going to be based on even his education or years in the business. The firm that is promoted in that brochure is touting how they put their clients' interests first and that certification credential-requiring exams and experience do not mean much if your broker is really just a salesperson, as your contract with the firm asks you to acknowledge.

## Why the Firm Isn't All That Important

Let me count the ways. Below are headlines from just one industry trade journal (*Investment News*) for one month.

- "Ex-Credit Suisse Brokers Charged In \$1B Scam"
- "Merrill Settles with Massachusetts over ARS"
- "Hedge Trader Slapped with \$291M Fine"
- "Ex-Broker Stole \$1.4M from Couple, Panel Finds"
- "UBS Execs Knew of Rule Violations"
- "RJ Probed on Auction Rate Securities"

- “Morgan Stanley to Buy Back ARS”
- “SEC Deals Out \$48M to Vivendi Victims”
- “Vick’s Adviser Charged with Fraud”
- “Arbitrator Hits Wachovia for \$5.3 Million”

There are no large firms that have not had problems with products they have sold, brokers who wronged clients, violations settled for law or rule violations, and so on. When you are being hunted by a broker, they may nonetheless highlight to you some of the brand advertising messaging about their firm and its expertise, resources, and the like. They will do this when they are first stalking you even though when they leave for another firm to get a huge signing bonus, they will later discount the value of the very firm they touted to you while they were on the hunt for your business. While you are considering whether it is a good idea to trust this adviser and how much weight to put on the firm, consider some of the realities of how important the individual adviser is and how little the advice you receive will necessarily be related to the firm.

I mentioned earlier that most major firms are the equivalent of financial supermarkets, but their advertising is really more for the use of the advisers they employ instead of bringing you into their financial superstore to buy the beef tenderloin mutual fund that is on sale this week. But this type of supermarket advertising and promotion happens every day; it just is not directed at you. That advertising and promotion is directed at your adviser. The reason the firm makes little difference is that the financial supermarket promotes these “sales” to the brokers and the broker has a *wide* latitude to choose from among all of the products and services offered by his firm’s financial supermarket. The firm does not advise brokers on what to do with your account or your life goal advice. By and large, brokers are acting as your personal shopper within the bounds of their firm’s financial supermarket.

You can walk into 10 different offices and speak to 10 different advisers of the same firm (or even just 10 different advisers within the same office) and you will get a completely different answer as to what “advice” you should follow. If you are basing the decision on the firm, shouldn’t the rationale be consistent? If you get 10 different answers from 10 advisers within the same firm, obviously the firm had nothing to do with the ultimate advice you received.

Ironically, some firms even promote this contradiction to consumers. They may say their advisers are “free to serve each client’s interest independently,” yet which one of the 10 advisers’ interest, if any, are really in your interest? How can they come up with 10 different answers for the same client? This business model of letting brokers do their own thing actually protects the firm from excess liability.

Broker number 1 advises an 80 percent equity exposure for a client “because recent declines have the market undervalued and markets should revert to their mean,” while Broker number 2 advises the same client that 30 percent equity market exposure is currently appropriate because “there is currently a lot of uncertainty in the markets, and it is less risky to dollar cost average into the markets in such an environment to move toward the 45 percent exposure we should ultimately target.” *They both cannot be right.* They just have different pitches and are choosing different products from their financial superstore shelves. Both of these advisers might be Certified Financial Planners® (CFPs), get all of the same research from their firm that they tout so highly (while they are employed there), and clearly have access to the same products and services offered by their present firm. *But they both cannot be right.* Arguing or advertising that the reason for this is that the advisers are independently free to choose what is in their clients’ interest can mean only one of a few things:

1. One adviser is incompetent or they both are.
2. One (or both) did a poor job of understanding the client’s goals and the trade-offs among them.
3. One (or both) have a conflict of interest in selling a particular product or service to earn a trip or extra compensation, or it is merely something they are more comfortable selling and they are not as familiar with other products on the shelves.

It clearly *cannot* be that the firm is giving both advisers special insights based on their resources and experience to serve your best interests.

This freedom that advisers have in nearly any firm means that you will likely get 12,000 different answers from a firm that has 12,000 advisers. As a former executive in a major brokerage

firm, we often had discussions about which broker in what branch we would tell our spouse to trust if something happened to us. It was a **very** short list. If you are dealing with a broker who is part of a large firm and maybe a large branch, tell him or her to tell you honestly who in the branch or firm that you **should not work with** and then ask this question directly:

*Have you told your spouse who he/she should trust in advising you about your personal finances if something should happen to you?*

There are a couple of ways the adviser could answer this. They might say, no, I manage our finances. *This should be a warning flag.* They might sell (guilt) you into insurance to protect your family from a premature death, disability, or long-term care costs, but as a planner they obviously do not lend enough credence to planning any preparedness aspects of many of the products they sell to even give their own family the most basic of all of these things in terms of telling their spouse who to trust. If this is their answer, you do not have an adviser who thinks through the things in your financial life that need to be considered—what you are seeking advice about! This is true regardless of their title, certifications, education, experience, or their firm.

If they answer the question with “Yes, I told my spouse that if something happens to me, they should trust only Harry in our suburban office,” you have to have the courage to say the following:

*Understand that the weight of the decision I am making about whom to hire as my financial adviser represents the responsibility of the stewardship of the results of an entire lifetime of compromises and hard work I've made to accumulate my wealth. I also understand why there are many advisers in your company you would not tell your spouse to trust if something happened to you. If you want me to trust you, here is what I would like you to do. I would like you to introduce me to Harry, but I do not want you to tell Harry anything about me other than that you have a potential client who is choosing among advisers in your firm and that you suggested he would be someone I should consider if something happened to you. I don't want you to share any of my personal information with him. I don't want you to share the advice you gave me with him. I will be able to tell if you did so. Are you willing to introduce me to Harry?*

Your assets, whatever they are, are very important to you. *You* have the right to ask this question, regardless of how uncomfortable it might be. There is a mountain of financial advisers who want your business. This is one of the best ways of potentially finding a more honest, objective, and ethical adviser. Meet with Harry and listen to his rationale to see if it might make more sense. Harry may be a crook or just a very convincing salesperson, but before you hire or even remotely trust *any* adviser with the results of your lifelong productive labor, you should at a minimum go through this exercise.

## Protecting Yourself

The summary of all of this is that brokers are salespeople and they all have a potential conflict of interest in getting paid by selling products. Some are more objective and honest than others; the firm they work with doesn't really make a material difference in the quality of the advice you will receive regardless of what they say or promote to you, and they are generally trained to sell, not be objective financial analysts.

To protect yourself, in addition to seeking the referral to "Harry" to contrast the difference in the advice you might get, you need to take the following steps:

1. Check the adviser's background at: [www.finra.org/Investors/ToolsCalculators/BrokerCheck/index.htm](http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/index.htm)
2. Ask the following specific questions:
  - a. Please explain exactly how much you will earn over the next year if I follow your recommendation.
  - b. Also, please explain to me how much your firm and product providers will earn over the next year if I follow your recommendation and what my total costs would be.

*Do not* accept an answer of 1.5 percent, there are no fees, or the biggest red flag, "It isn't what you pay that counts; what matters is the return you receive net of fees."

The percentage answer should be converted to the actual dollar amount because there are all kinds of games that can be packaged into the sales pitch to make this sound lower than it really is.

The "there are no fees" pitch is a flat-out lie and you should *run* from this adviser, not walk. They are not nonprofit entities,

and while they might be able to *legally* say there are “no fees,” depending on what they are selling, from an ethical perspective they are not being honest with you about the price you are paying. They are getting compensated, and that is the question you asked; telling you there are no fees should be a huge red flag to you that they are evading your direct question and attempting to hide something. You *cannot* trust someone who does this—period. I’ve actually heard an advisor on a radio talk show promote on the show that his client’s don’t pay any fees at all for his services because he is paid by the various product companies with which they work. I can’t believe the regulators haven’t shut this misleading spin down, but such misleading spin happens every day.

The last example, saying “it isn’t what you pay that matters, it is the net return you earn” is a popular sales technique. *Anyone* who says this to you should not be trusted. While the statement in itself may be accurate, *no one* knows what the returns will be in advance. It also is not a straight answer to your direct question. Do not hire anyone who uses this sales pitch line because they are not being straight with you, and you thus cannot trust them now or in the future to become so.

## Track Records

If only I had a time machine. Many advisers will show you “proven” records of superior results, yet the disclosures on all of them say that it is not necessarily indicative of future results. **If the record is not predictive (or an indication of future results), then why would one care about it?** Think about this for a moment.

The sales game that is played by these hunters preys on your innate desire to win. Track records are not indicative of being able to win going forward, but because others won in the past we have a hope and belief that we can do it, too. But the track record applied to *other* people’s money, not yours, and unless you have a time machine, the track record is of no real use to you.

It will be very hard for you to find an adviser who doesn’t show a track record. It has become so ingrained in the sales process for products, and the disclosure that tells you to ignore it has become so expected, few pay attention to the disclosure. So when you are



presented a track record for *any* product from *any* adviser, ask this simple question and listen carefully to the response:

*This track record is not necessarily an indication of future results. I know that it says that here somewhere, so why should I care about it?*

This is the million dollar bonus question for you in terms of protecting your assets. An honest, objective adviser who is ethical can answer this question in only one way, which is, “You shouldn’t really care about it because it is not an indication of future results—the future results are uncertain.”

Good luck in finding an adviser who says this, though. Most will come up with a litany of excuses and misleading twists in the conversation. If you do not get an honest, straightforward answer to the preceding question, you cannot trust the adviser. Don’t hire them. Your life’s labor and compromises are too valuable to trust someone that isn’t telling you the truth. **You will more likely hear things such as these sales spins, and you need to avoid advisers who use them:**

*While not an indication of future results, it is all we have to go on.*

Think about this, why go on it if it is not an indication?

*The future is uncertain, but this management team has demonstrated they have the ability to add value.*

Again, what is demonstrated if it is not indicative? I personally answer these sales pitches with “The demonstration would be useful if I had a time machine. Is that what you are offering?”

## **Don’t Be Fooled**

There are some good, honest, ethical advisers in every firm that is of material size. There are those who think they are, but do not know enough to know that they are really just a salesperson regurgitating a sales pitch they learned from their firm, or a product wholesaler. And there are some that are downright unscrupulous. Your wealth is the product of your lifetime of labor and compromises. It is too valuable to trust to a salesman or a crook. It will not be easy to ferret out someone who is a truly objective adviser worthy

of your trust because such people make up a tiny percentage of the industry. But you are better off waiting to hire someone who is worthy of the weight of the responsibility you are giving them in your life until you find such an adviser rather than just accepting the average Joe or Sally whom even other advisers that know them wouldn't trust. These few questions are critical to your well-being if you are dealing with any adviser within a brokerage firm. Very few will answer the questions in a way that demonstrates they are worthy of your trust. The credentials, certifications, titles, firm, and so on are not going to materially improve your odds. If you are dealing with an adviser in a brokerage firm, deal only with one who you know is ethical and answers these questions in a way that demonstrates that.

A big part of the reason people choose a particular adviser is based on "gut" instincts. Your wealth is too valuable to have this dominate your decision. I know advisers who are complete idiots that have cycled through selling one failing product after another who nonetheless have a large book of clients willing to subject themselves to this. Brokers are like Congressmen. Every rational consumer knows you can't trust brokers in general, but *their* broker is trustworthy. Just like we don't trust Congress overall but repeatedly vote our incumbent to return. The personal relationship a broker forms with you clouds your objectivity, and this is why, when brokers change firms, more than 80 percent of clients typically follow the broker to the new firm, and why brokers earn giant signing bonuses for bringing you with them.

Do yourself a favor. I know you might trust (without really good reason) the broker you have been working with and know very well. **But isn't your life savings worth a little bit of an objectivity check?** Is there a chance you may have been sold on his or her personality and convincing sales story? If you deal with a broker, odds are that he or she is not really as honest and trustworthy as you think. Ask these questions and carefully listen to the answers. Your financial future is dependent on you being objective about this as well, and for many, they end up being their own worst enemy by falsely trusting someone they should not.