Who's in Charge of My Wealth, Inc.?

Questions investors want to answer

So, who is responsible?

Is the customer always right?

Who's brave enough to tell a customer, "You're wrong"?

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Wealth management is a business

Overheard inside an online forum for investors:

Investor #1: "Has anyone invested with Bernie Madoff? I have many friends and also know charitable organizations who invest with him. Thanks in advance for your view."

Investor #2: "My father invested with him a long time ago, and we are very happy. His returns are fantastic—our very best hedge fund!"

Investor #3: "I know his reputation is earning great steady returns, but we just could not get comfortable with how he makes money, and thus we took a pass."

Eight years after that exchange online, I received a call from investor #1 thanking me. Bernie Madoff had been arrested three months earlier. This investor told me his ultimate decision not to invest was based on this dialogue. He knew he needed to look beyond one fellow member's recommendation, and said he recalled part of due diligence was: "If it sounds too good to be true, it probably is!"

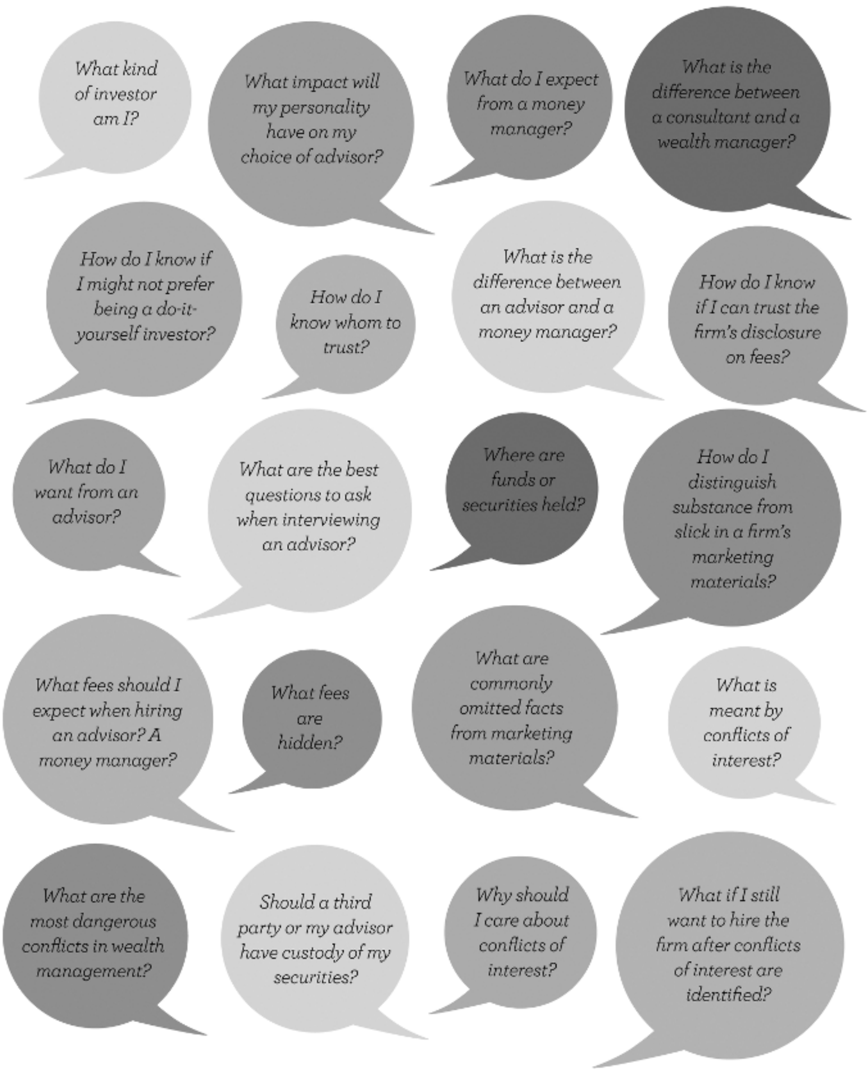
But not every investor was as fortunate as this one. In fact, many very smart investors invested with Bernie Madoff because they thought they could rely on others to perform the basic due diligence. Now, you may be moaning out loud: "I don't want to do due diligence!" Or: "I wouldn't know where to start!"

An unwillingness to learn *something* just because you don't want to learn *everything* invites an unscrupulous salesperson to take advantage of you. Investors who abdicate responsibility for their own education will likely be bitterly disappointed. Think of all those stories we read about an elderly couple who lost everything by relying on their stockbroker, who advised them to make risky investments that became worthless.

Imagine buying a new home without doing at least a little homework. Few would dare! When it comes to managing your wealth, you do need to do your homework. But I promise you that this homework is not the technical gobbledygook you might imagine. You can get an A in this class if you keep reading.

You and those other investors don't yet realize something important: *You know more than you think you do*. But first, you need to do a little homework—homework you already know by heart. It entails knowing yourself better and adding a dash of common sense.

Questions investors want to answer



Because technical jargon has sometimes been used as a diversion (along with what appear to be wonderful returns), investors have given their life savings to people like Bernie Madoff. Compounding the problem is this: When it comes to your wealth, you and many other investors believe the investment professionals know best. The truth is often quite the opposite.

So, who is responsible?

The professionals know only as much as you can tell them about your needs, desires, and tolerance for risk. Charley Ellis, author of the widely acclaimed book on investing, *Winning the Loser's Game*, reminds you that you "own the central responsibility. . . [which] cannot be delegated; it is your job, not theirs."[1] The good news is you can discover your needs, desires, and tolerance for risk—or find someone to help you learn what they are.

Once you finish reading *Wealth Management Unwrapped*, not only will you be armed with answers to many questions—you'll also know which questions to ask those who advise you on your wealth. What is your reward? You can truly begin to enjoy the present.

So let's begin with our discovery by asking an age-old question.

Is the customer always right?

You say you want the highest return without taking too much risk. You intend to find the "best" advisor. You expect your advisor to select the "best" money managers, hedge funds, or mutual funds, and to have access to the "best" investment products. You wish to have the "best" asset allocation for today's market. You may even ask your advisor to tell you exactly what that allocation is at your very first meeting.

Sadly, you are off to a stumbling start—and you won't get very far. You may even hit a dead end.

This dead end is fraught with rampant conflicts of interest. Advisors are eager to show off their various capabilities. They also have a bottom line and likely a new business goal. Salespeople may paint a beautiful picture of no risk or big rewards. Advertisements may promise you almost anything just to win your business. Investors are eager to find the "best in breed" but don't want to pay "too much." You may think you can rely on word of mouth or a golden reputation to point you to the best. Unfortunately, this is just not true. Both you and your advisors get hurt in the process.

Who's brave enough to tell a customer, "You're wrong"?

The best advisors recognize you may not be right about everything, and will even dare to say it to your face! The very skilled ones will show you how and why you're veering off into treacherous thinking, and you will feel grateful—not angry.

- Instead of seeking the very highest return, you learn how to assess risk inside that breathtaking return.
- Instead of asking who are the "best," you learn how to discern who will work best with you.
- Instead of insisting on "best in breed," you learn the fallacy of that term. "Best in breed" is a powerful phrase in a sales brochure, but not a reality that stands the test of time.
- Instead of placing yourself onto an assembly line that dispenses template advice, you learn to recognize those advisors who take the time to fully understand you and your goals.

The lesson learned is that finding an advisor who will work well for you is not just a function of good chemistry, good friends' recommendations, and good intuition.

Something for nothing

Why do certain wealthy investors expect fee concessions, free advice, and first call, preferential treatment, and so on? Why do some individuals cancel appointments with scant notice, feel no obligation to thank firms who entertain them, fail to reply to emails, or never bother to return phone calls? Is it because you believe that your assets entitle you to more? After all, you pay more, purchase more, hire more advisors and lawyers, and so on.

Watch out! Because of this attitude of entitlement, many advisors do not enjoy working with ultra-high-net-worth investors—*unless* there is a big payoff, such as a nice fee or commission that goes along with new assets to manage!

You're the boss

When it comes to your wealth, you are the newly appointed CEO of My Wealth, Inc.[2]—whether you want to be or not. If you are to be a successful CEO, you need to consider what you will pay for, and what you will be lucky enough to get for free. Then consider the cost of this so-called free advice. What hidden incentives are being paid to your advisor so he or she will push a particular product that includes a big payout? Is that investment the best one for you—or just the most lucrative one for the person selling it to you?

An investment that is not appropriate for you should not be sold to you. Once you finish this book, you will be smart enough not to buy it!

Free lunch, anyone?

Advertisements try to convince you that you can get something for nothing—a free lunch. You are invited to have your investments/retirement/401(k) receive a complete "analysis"—for free. Many firms invite you to a "free" dinner where "investment secrets" will be shared, or offer "free" referrals to top managers or funds. Unfortunately, these offerings are usually bundled into a commission or an incentive fee, or "given away" to gain you as a client. Because you are so grateful, impressed, or eager to do something (anything!), you decide to place assets with the firm.

Let's put this "free lunch" another way: If you do not want to pay for excellent advice (as opposed to products), what firm will even attempt to provide it to you? Advice without an investment product embedded in it often gathers dust on the shelf of the financial services supermarket. Recent research on mega–concert ticket prices seems to prove that we tend to pick the lowest price *even if* the exclusions—like shipping or other fees—are added in later.[3]

Once you read this book, you will know how to tally up the cost of advice and decide if it's worth it.

Be a partner, not a victim

Partnering with your advisor is a very different scenario. The conversations are authentic, and honesty is the norm.

Once you finish this book, you will soon enjoy the rewards of a real partnership with your advisor. You will learn how to ask the right questions and how to describe your needs, your goals, and your tolerance for risk.

Wealth management is a business

The natural tension between customer and salesman or supplier and distributor exists in our industry like any other. The economics can be, and should be, favorable and in balance for *both* you and the financial services professional.

You can build the foundation for this mutually beneficial partnership by understanding the economics of wealth management, or who gets paid for what. If you don't uncover what hidden fees there are, those hidden fees stay hidden and you invite an unethical advisor to pursue profitable transactions behind your back, and worse, sell you a product that is *not* in your best interest.

While Wall Street unquestionably needs to reform how advice is sold to the investing public, you, too, have a responsibility to reform how you buy advice. You can be smarter and more responsible. You can take on that role of CEO—the person who learns enough to avoid being naive and who refuses to be hoodwinked or deceived.

So let's start unwrapping. The next 13 chapters are intended to give you many more practical tips, sort of a crib-sheet to help you fulfill your responsibilities as the CEO of My Wealth, Inc.