Retirement Income
JOURNAL

A Few Words of Advice for You Advisors

By Editor Test *Tue, Mar 5, 2013*

While I was reading an excerpt of a new report from Boston-based Cerulli Associates and Phoenix Marketing, memories of close encounters with brokerage advisors came rushing back to mind.

Lightyears ago, when the Great Boom was a toddler and I knew bupkis about financial services, a Merrill Lynch broker called and invited me to invest my savings with her. I felt flattered, which tells you how many lightyears ago that was.

We chatted. She happened to own a Fiat Spider. *I* had owned a Fiat *Sport Coupe!* The next thing you know, I owned a few hundred shares in a Health Sciences mutual fund and a few hundred more in an Information Sciences fund. The rest of my money went into a new concept called a Money Market fund.

My relationship with Merrill Lynch was brief and unremarkable. The Dow was then hovering at an all-time high of 3,500 or so. I was nervous. Even my broker thought that the bull market was too good to last. So I liquidated those assets and put the money down on a little brick row-home.

Flip forward a few years. My wife and I had accumulated enough savings to start investing again. We consulted our friends and, just to play it safe, turned our assets over to my wife's former roommate, a recently licensed broker at a brokerage whose brand no longer exists.

Ignorance was bliss—until our first statement arrived. I noticed that our account had taken a 5% haircut—though at the time I had not yet heard the word "haircut" in any but a tonsorial context—and phoned the ex-roommate. Surely, I said, there'd been a mistake. Fees or expenses hadn't been mentioned during our sole interview with her.

No mistake, she said cheerfully. That's how it works; didn't I understand how it works? No, I didn't. Welcome to the big city, she said, adding just a tiny schmear of irony to her good cheer. I protested. That seemed to sadden her, though not in the way I'd hoped it would.

Memories of these experiences came rushing back to mind recently while I was reading an excerpt of a new report about advisors and clients from Boston-based Cerulli Associates and Phoenix Marketing. (Not to be confused with The Phoenix Companies.)

The report, titled *Retail Investor Advice Relationships 2012: Meeting Investor Needs Post-Crisis*, described a state of affairs in the advice industry today that echoes my encounter with the Merrill Lynch agent so many years ago. For instance:

"In many cases, especially for younger households, these sessions [between clients and advisors] would have little focus on long-term accumulation portfolios as these investors are more interested in saving for short to intermediate goals such as home ownership or funding a wedding."

That captures my former self perfectly. And the Merrill Lynch agent, for her part, handled me with the kind of light touch that Cerulli and Phoenix recommend.

"An important part of understanding the advice process is realizing that many investors consider it a temporary need," the report said. "Rather than engaging in an ongoing comprehensive financial planning engagement, many investors would prefer the opportunity to have periodic check-ins with advice providers regarding their overall financial position."

The Merrill Lynch broker treated me exactly that way. If she hadn't dropped out of finance, I might have remained her client. Her behavior toward me was in line with Cerulli's description of an advisor who takes the long view regarding client acquisition:

"Providers interested in establishing trust relationships with younger investors should consider being able to provide basic, but personalized, financial planning guidance for these clients. Simply having a representative qualified to speak for few minutes on the choices a client faces with financial topics such as life insurance or mortgages could go a long way toward strengthening client relationships."

Another section of the Cerulli-Phoenix report was also spot-on in describing at least one of the elements of my run-in with my wife's former roommate. I may have been clueless about the terms of our relationship, but apparently many people are. As we implicitly did, most people assume that a broker puts their interests ahead of his or her own.

"Nearly two-thirds of investors who identify having a commission-only relationship with their provider also indicate that the provider is obligated to operate under a fiduciary standard," the Cerulli-Phoenix report said. "Households in commission relationships largely believe that their advisor must put their best interests first."

Back then, I don't think we even understood how commissions work. My wife's ex-roommate, of course, was simply doing her job—which she turned out to be very good at—and following the suitability standard. One irony of the situation was that while we assumed that no harm (or haircuts) could come to us if we invested with her, she must have assumed that friends and family would help jump-start her business.

At the time, the situation was awkward. We weren't sure how to handle it. So our money, some of it in trust accounts for our children, remained with her for 15 years. But she eventually lost us as a client. Now part of our money is in a rollover IRA at a do-it-yourself no-load fund company and part is in a 403(b) account with TIAA-CREF.

Our disenchantment with our treatment under the suitability standard happens to be something else that the Cerulli report warns advisors about:

"In Cerulli's opinion, trying to cling to business models that allow for ongoing conflicts of interest holds the industry back from making true advances that would ultimately rebuild investor trust and advance the industry overall," the report said.

"Firms that continue to operate solely on a suitability standard basis must be ready to answer client questions as to how they ensure clients are being served, and *potentially lose clients* if the public comprehension spreads about how the various standards impact client relationships."

Emphasis added.