Spoiler Alert

By Editor Test *Mon, Aug 26, 2013*

How I ruined a $250,000 mutual fund sale for a pair of Primerica reps, disrupting a transaction that may have been suitable but definitely wasn't fiduciary.

Here's a true story.

Not long ago, I phoned a person in New Orleans who owns a Victorian bed-and-breakfast. I was writing an article about Airbnb.com, which she has used as a tool to help market her B&B and, ultimately, to help fund her retirement. We had talked a lot about her plans for retirement—she's an energetic 60-something—during the two days I rented one of her rooms.

"It's funny that you should choose this moment to call," she said. She was about to leave her house to sign an agreement with a pair of Primerica representatives. They had convinced her to move an inheritance of $250,000 from a wrap account at Chase into Franklin Templeton mutual funds.

Her money had lingered at Chase for over a year while she fretted about what to do with it. Though she was experienced at running a small enterprise—she had overseen the reconstruction of her B&B after Hurricane Katrina—she was a stranger to investing. But she had come to trust two Primerica reps who had conducted free seminars in personal finance at her local community center. Now, after several intense meetings, they had arrived at closing day.

She was satisfied that she was about to do the right thing. "The Primerica people told me that it would be much cheaper for the money to be in mutual *funds*," she said. The expression, mutual funds, was clearly new to her.

"That might be true," I said. "But those are probably load funds that they're selling you. How much will you be paying for them today, when you sign the papers?"

"I don't know," she said. She also didn't know which funds she would be buying, or how her money would be allocated between stocks and bonds.

"I wish could go to that meeting with you," I said.

There was a pause at the other end of the line. Money is a very personal matter. Perhaps I had violated her space.

"Well, you could," she said. "I could put you on speaker phone."

About an hour later, the four of us gathered for the meeting—the two Primerica reps, my friend, and I, as a tinny, disembodied voice emerging from a smart phone. The B&B owner introduced me simply as a "friend," and explained that I wanted to ask a few questions. Meanwhile, in my office in Pennsylvania, I had opened a browser window and was scrolling through a list of descriptions of Franklin Templeton funds.

“Fire away. Absolutely,” said a man and a woman, congenially.

“How much exactly will this transaction cost my friend today?” I asked.

The sound of rustling papers could be heard. Then one of the reps said, “$5,300.”

My friend said nothing. I couldn’t see her face, so I didn’t know how this piece of information registered. So I proceeded with a few routine questions about asset allocation and about their specific fund choices.

The portfolio was allocated for moderate growth. Nothing unusual there. But I noticed on my screen that the actively managed growth fund that the reps chose for her carried a load of more than 5%. That helped explain the $5,300. Oddly, however, the fund had returned only about 3% in 2012, when the S&P 500 saw double-digit growth. I questioned the fund choice.

The reps became defensive. “It’s easy to cherry-pick the data,” they said. “You have to consider the entire portfolio.” I asked a few more questions. They became irritable. The man demanded to know who I was and whom I represented. He looked up my website on his computer and saw an advertisement on my leaderboard. How much do they pay you, he asked.

The B&B owner defended me. “He’s just a friend of mine. I don’t think he needs to tell you that.”

“We’ve had this happen before,” the rep said heatedly, “where somebody comes in at the last minute and takes a sale away from us.”

During the pause that followed, I stared at my computer screen with my telephone headset on and tried to imagine the tableau at the unseen office in New Orleans. The rep’s mask of dispassionate advice had slipped, revealing the sales machinery underneath. Anger, like a fang, had been displayed. The rep apologized and tried to recover his poise, but he had crossed an invisible line.

After a few moments, I said I had no other questions and thanked them for their information and cooperation. The call ended.

In my office, I paced back and forth across the carpet, and wondered whether I should have minded my own business. After all, these reps were just doing their jobs. They had obviously worked hard for the account. Had I not accidentally called the B&B owner today, she would never have known that the transaction had cost her anything at all. Then I thought: *Friends don’t let friends pay retail*.

“Are you alone?” I asked when she picked up her phone.

“No, but I can be,” she said. After a moment, she added, “Now I am.”

I urged her not to sign anything until she received a second opinion from a fee-based advisor. She agreed and said that she would end the meeting. For a moment, I was speechless with gratitude; rarely does anyone, in my experience, have enough trust—or humility—to accept such advice. We said goodbye and rang off.

The next time we spoke, two or three weeks later, I asked if she had visited with the advisor whom I had located for her through an online database. She had.

“How did it go?” I asked.

He had offered to set her up with a portfolio of no-load mutual funds and to charge her an hourly fee, she said. But she probably was not going to use his services. I asked why not.

“Because he was going to charge *$600*,” she said.

“But you just saved $5,300.”

“Yes, I know,” she said. “But $600 is a lot of money.”

It is a lot of money, I admitted, especially when you’re writing a personal check. So I played the last card in my hand, and suggested that she call one of the big no-load mutual fund houses. A special high-net-worth representative, I said, would happily guide her through the transfer of her money from Chase and recommend a moderate-risk portfolio of inexpensive index funds. She said she would.

I don’t know how that turned out. I suppose I should give her a call.

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