

Searching for good financial advice?

Why the system does not work and what to do about it.

by F. Mark van Gelderen

© 2014

At some point most people need some 'expert' advice in order to make better financial decisions, to get to the next level.

We may need such Advisors to help us (a) budget better, (b) begin saving, (c) start investing, (d) manage newly attained wealth - like an inheritance, (e) do general financial/tax/retirement planning, (f) manage assets for others, etc.

Whom do you turn to for 'expert' advice? Possibly (1) family, (2) friends, (3) clergy, (4) lawyers, (5) accountants, (6) stock brokers, (7) bankers, (8) insurance-men, (9) financial planners, etc.

The interface between these two lists often leads to difficulties.

The problem.

- I. How does one find individuals who thoroughly understands the problem and know the full spectrum of possible solutions?
- II. How to determine whether advice given is trustworthy and objective?

The methodology presented here also applies to most areas of life and business.

Some specific problems with each category.

(a) Budgeting

Although this topic is not the focus of this article, it is a fundamental financial issue. Lets be honest, how many people have you heard of, much less met, that are renowned at doing good financial management? Therefore, going to the possible leads given above, will not necessarily lead to good initial results. However asking these people the right questions, or even asking Google, can get you to people trained in this area, successful Budgeting practitioners, or perhaps successful CFOs of smaller firms.

- (b) **begin Saving**
- (c) **start Investing**
- (d) **manage newly attained Wealth**
- (e) **Financial/Tax/Retirement Planning**
- (f) **managing Assets for others**

The logical solution for these types of needs would be someone who works in the respective field. Savings = the local bank. Investing & Long-term Planning = a Broker, Real Estate salesman, Insurance professional, licenced Financial Planner, etc.

Here the problem is that the advisor is usually a 'tied agent' -- where salary or commissions are dependent on selling the organization's commodity. Knowledge and interest in other alternatives is often limited. Square pegs too often are pushed through round holes. A slightly different version of the same problem occurs with managing a family trust by a well-known law firm or bank trust department. The managers will often know how to make a perfect tax compliant structure, but will have few skills in managing the assets.

- (1) **Family**
- (2) **Friends**
- (3) **Clergy/Counselors**

These non-professionals may either have advice they can/want to give, or can provide leads to 'good experts'. See below to learn how to interpret what they say, and to ask the right questions.

- (4) **Lawyers**
- (5) **Accountants**

Although these professions are well-respected, individual practitioners may be out of their level of expertise in the areas where help is needed. Alternatively, do they have a stake in the recommendations given? Can they properly understand and empathize with your situation? See below for ways to understand if they are being helpful.

- (6) **Stock Brokers**
- (7) **Bankers**
- (8) **Insurance Brokers**
- (9) **Financial Advisors**

And, a wide range of other professionals who work in businesses dependent on clients like you to produce their income.

Are they tied agents with limited knowledge about anything other than what they were taught to sell? Do they have a stake in the recommendations given? Can they properly understand and empathize with your situation? See below for ways to interpret if they are being helpful.

Caveat Emptor

Become aware of the traps that are lurking out there if you are not a thoughtful and careful Buyer. Our premise, unfortunately, is: Everyone wants to get a large share of what is in your wallet. Thus the basic issue is: **Are you getting your money's worth by allowing them to profit from you?**

Questions you should be asking – a generic Due Diligence checklist:

Here are a Baker's Dozen of questions that are useful to ask as part of any 'due diligence' effort. Only by asking the same questions to many possible candidates for providing solutions, do you have a reasonable chance of finding a good answer. However, as you ask the same questions repeatedly you will learn of new critical criteria, and may need to recontact the first candidates to ask additional, improved questions.

[At an earlier stage of the research you will be asking family friends and others to give you leads to possible good solution providers, by using variations of the same questions below.]

As already stated, you need to look at more than one possible provider, or use a service like ours to do this for you.

After you have given each interviewee a one-paragraph description of your problem begin asking them your list of questions. Obviously, you will add many additional detailed questions to this list regarding the specific problem.

- i. a - What is your background and level of experience, licencing/degrees in this field, and with this kind of problem? [Whom do you recommend that has such qualifications.]
b - Does your firm do this kind of assistance or will you be able to give me independent advice (Another way of understanding this: Are you a client's agent/advocate or a sales agent/rep?) [Is the lead you are giving me broadly knowledgeable or a 'tied' agent?]
- ii. What is the one thing you or your firm are really good at. or which makes you most proud? [Why are you recommending this specific person/firm?]
- iii. Do you have (or is he exhibiting) any special bias toward the subject under consideration, and why? [Do you know of any biases they have.]
- iv. What would you do if you were in my shoes?
- v. Have you actually done for yourself what you just suggested for me?
- vi. Have you or your company had any regulatory or legal problems in the last 10 years?
- vii. Would you be able to give me several references of professionals and clients who have been doing something similar with you for a number of years?
- viii. Please provide a history of your record of accomplishment for these types of activities, and if your regulator does not allow that, give other ways I can verify that I should under normal conditions get the results you promise?
- ix. Whom would you recommend I go to for further advice (if this person is not selling the service you want)? Who do you consider as your main competitors (if they are selling you something, so you know who else you might want to check out)? What makes what you offer superior?
- x. a - Who will be managing my affairs if I was to take your preferred product?
b - How do I stay in touch?
c - How do I keep up with the progress of my account?
d - What is the institutional depth in case the lead person is incapacitated?
e - What is the financial strength of the organization, errors and omissions insurance, etc? (How will we be protected?)
f - Walk me through your procedures and IT facilities so I know how everything works and am comfortable using it.
- xi. What kind of liquidity is available: How long will it take from when I give notice to receive funds? What are the procedures for disbursements? (Review this in detail, because all too often providers want every excuse they can create to own your money for as long as possible.)
- xii. What secondary services will you be able to provide, such as tax and estate planning advice, so that I am certain I am taking the best path for this situation?
- xiii. What have I forgotten to ask? (Ask this in different ways at least 5 times before leaving the meeting - you may be amazed at what you find out.)

Why?

If you have stayed until the end of this article, you might want to know why it was written.

Too often inquiries we receive are variations on the following story.

New lady in town from abroad, who has retired here to be near her children and grandchildren. Someone told her to call us because she is frustrated. She was originally told there were several well-known financial advisors in the English speaking community who would be able to help her invest the payout from her pension, which for tax reasons had already been sent here from her British Commonwealth country. She had already met these well thought-of Financial Advisors.

One of the first things this lady asks: Are you going to give me a long talk about all your wealth management credentials and all your satisfied clients, and then try to talk me into opening up a US brokerage account with you?

In this example, the lady realized she would now become a taxpayer not in 2, but 3 countries. Unfortunately, many clients do not realize this, or other glaring issues, until the year following opening their accounts, because they have not asked sufficient questions. The tax issue was only one of several reasons these providers were not necessarily a good fit.

Since we have seen this so often, not only is it important to provide a primer on the subject; but to identify for the reader how the system creates inappropriate advice/solutions for a large percentage of the inquirers.

Just to be sure you understand the underlying problems:

Grandma was not interested in now having to worry about third country's tax requirements, understand unfamiliar procedural systems, decipher opaque performance and regulatory information, etc.

The 'advisors' she met can only be licenced by one Custodian at a time and had chosen to use a large international one because they thought it would provide the best coverage in their local marketplace.

The firm where the local advisor 'hangs' his licence requires total loyalty. For several reasons, a 'tied' Advisor cannot be selling products that have not gone through the approval process of his Broker. Especially today, when a custodial firm in New York can easily be sued if the advisor in Timbuktu was also found to be dealing independently.

Regulators and the Advisor's insurers, do not allow local professionals the ability to work in flexible enough ways, so they can have steady income without being 'tied' sales agents.

This broken system, that doesn't look at the client's complete needs, is not unique to the investment world. In many ways it is worse in the insurance industry, and certainly has similar problems, for different reasons, among bankers, lawyers, accountants and medical professionals.

Mark van Gelderen is the manager of the Jerusalem office of the Financial Resource Network, that has been helping clients make financial decisions since 1992. Contact Mark to learn more, or to have a no-obligation initial consultation.

Mark@FinancialResource.Net



	F. Mark van Gelderen
	Box 31066 Jerusalem 91008, Israel Tel: 972-2-622-3065 Fax: 972-2-624-5850 mark@financialresource.net