

Subprime: Fruit of the Sales Industry

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The financial services industry delivers products to most citizens, even wealthy ones, with a sales focus. This sales mentality drives irresponsibility to make money for companies, sales managers, and sales people. My contention is that if the public could hire a fee only, independent fiduciary advisor, we would not have sub-prime messes and dot.com bubbles.

First, the public is unaware of the conflict of interest, the inexperience and the sales orientation of the majority of the industry. Substantial marketing is done to create an illusion of experience and dedication to the well being of clients, which then leaves the public confused as to whom they can trust for objective, experienced advice. Due to this confusion, advisors working under a full fiduciary standard for clients are seen as advisors who work under a suitability standard. A fiduciary standard means working in the best interest of the client. Suitability means any sale, even one in the sales person's best interest, is alright if the concept is suitable.

I have been in this industry since 1980 and have seen quite a few debacles. The sales mentality has been at the core of each of financial difficulty. The limited partnership fiasco of the 1980's was encouraged with an 8% sales charge and 20% of the deal going to the General Partner. These limited partnerships encouraged the overdevelopment of real estate, which helped bring down the federal savings and loans. The sale of variable annuity mutual funds, variable life insurance and managed accounts in the 1990's was so easy making 4-6% helped to flame the dot.com bubble. The sale of structured investment vehicles, with the overt use of leverage, was logical if you got a 2% fee and 20% of all the profit.

The financial services industry, with its sales focus, breeds inexperience. Every year hundreds of people are hired by brokerage firms and insurance companies. Each new hire is licensed relatively early and then thrust into the black hole of prospecting. This process does not breed the best financial advisors, but instead the best talkers (which occasionally is compared to the digestive systems of bulls). Most think these new individuals are trained and supervised. And, they are trained to sell and supervised not to create liability.

If the public knew where to go for individual fee only fiduciary advice, then our financial system would be less likely to experience these risks. Independent fee only advisors tend to hire salaried talent to bring the best service and abilities to their clients. Professional advisors tend to be risk managers and their income does not vary with production or rate of return. Fiduciary advisors know they are held to the highest standard and they are diligent to be thoroughly skilled in the services they render. The same is true with regard to training and supervisory staff.

America is at a financial crossroads and people need a sure place to turn to know they can get objective, experienced and conflict free advice. Just like CPAs, there should not be law against non-certified accountants, but to hold yourself out as a professional advisor comes with criteria. You must be educated, experienced, fee only, independent, and held to fiduciary standard. My thesis is that we are far less likely to have clients' funds poured into SIVs, dot-com, and real estate partnership shenanigans. The time is now to take the veil off of the greed and manipulation of the sales forces in the financial services industry.