

Elevating the Profession of Financial Advice

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In my 30 years of experience, I have seen the financial services industry work to implode our financial system more times than once due to greed and manipulation. Let's take a stroll through history.

In the 1960s, average investors were introduced to the stock market through "Go-Go" Mutual Funds. Many Americans bought into these canned, 10-year contractual funds that provided commissions of 50 percent in the first year and 4 percent for the remaining nine years. The market was so hot at the time that even these onerous commissions seemed trivial - until the party ended.

In the 1970s, commodities were all the rage with gold, diamonds and oil wells all masquerading as "no lose" opportunities. The commissions on these were a more moderate 8 percent to 20 percent. Those commissions were not a problem for many since the assets appreciated considerably. But like the "Go-Go" Mutual Funds, that party also ended.

In the 1980s, there was the real estate tax shelter boondoggle. These deals normally paid a flat 8 percent regardless of the amount invested and, considering the tax benefits, large sums could be placed in a deal by a single investor. Commercial real estate and other forms of tax-preferred deals were overbuilt with little or no economic benefit. The sole reason was for tax benefits, which in some cases returned more in tax savings than the actual investment did. In many cases it was the ultimate legal Ponzi Scheme - normally prescribed by some of the better credentialed and technically skilled planners and advisors of the day.

The 1990s brought the Technology Bubble - mainly from investments recommended as part of 401(k)/403(b) plans, Separately Managed Accounts and, once again, Mutual Funds. Advisors were more modest than in previous years only asking for 1 percent to 3 percent each year. Investors did not think twice about these commissions because the stock market was doing. When the bubble did burst, the financial blow was much more severe since American workers were investing heavily in company stock through employer-provided retirement plans.

After a rough start, the new millennium restored faith in the old adage, "stocks for the long run". Efficient Market Theory was proven true and provided an opportunity for advisors to collect a humble 1 percent to 2 percent each year by setting clients up in pre-determined asset allocation models. This was laziness at its finest. The new millennium also brought the launch of Asset Backed Securities, Exchange Traded Notes, Collateralized Debt Obligations and many other "deals".

All of this came to an end in 2008 with the near economic collapse of the U.S. In response, President Obama's administration authored a white paper on the need for new regulation governing the financial services industry. The President's concept of a Consumer Financial Protection Agency (CFPA) to protect investors from unscrupulous investment advisors is one of the many proposals for regulatory reform I support. While I applaud what President Obama has laid out, I do believe the administration MUST clearly define what constitutes a professional financial advisor. I believe professional means:

- An advisor is completely independent of all brokerage firms, banks and insurance companies
- An advisor is highly educated, experienced and credentialed to provide advice to the public
- An advisor is strictly Fee-Only, which means they receive ZERO commissions for selling products
- An advisor is held to a strict fiduciary standard without compromise, meaning he/she works entirely in the best interest of the client

If the President's proposals provided a formal definition of professional financial advisor, the "profession" of financial planning would be elevated to that of medicine and law. Even though these professions are not perfect in execution, no one can argue that the quality of service is dramatically better than that of the financial industry. A true professional's income is not tied to a product or product companies. Many of the past problems could have been eliminated if the public had assurance that the professionals they worked with had the knowledge, expertise and independence to guide them. Some facts to consider:

- Most advisors with brokerage firms and insurance companies are given less than two weeks of training
- Advisors are not required to be educated in the area of personal finances, but merely to pass the Series 65 exam
- Most financial firms have a sales focus mentality with their advisors, which is why trips and other monetary rewards are offered to top producers
- Product wholesalers are actively promoted inside firms on a regular basis

Simply holding brokerage firms to a fiduciary standard is not the answer. We must develop a true professional advisory standard that is independent, Fee-Only, educated, experienced, credentialed and working purely in a fiduciary capacity. Now is the time for a true professional advisory standard for all Americans. A true professional will create an opportunity for the public to get truly objective advice.