

Advisor or Sales Person?

September 24, 2010

Finally, an actual debate about whether financial advisors require putting client interest first.

Wow what a revelation!

- A) Should the financial industry be based on selling products and transaction fees? Where the guiding principle is “buyer beware”
- B) Or should financial advisors be mandated like other true professionals and bound by ‘fiduciary’ duty.

Fiduciary is a person who occupies a position of such power and confidence with regard to the property of another that law requires him to act solely in the interest of the person whom he represents.

From day one, building customized financial solutions for clients and choosing the best product in order to realize client dreams have been our standard.

Removing conflict of interest and participate in financial or contractual incentive program is paramount to the client-advisor relationship.

Since financial advice does not have an agreed universal standard, many advisors are mutual fund sales people who work on the same principle as selling cars. We all know how that works. You walk into a dealership or car lot and negotiate with some one whose goal is to make money off you immediately.

When buying a car, that is understood. When seeking financial advice, that is not fine! Not everyone is aware of this when walking into a financial advisors office.

Clients seeking financial advice should be free to do so. Individuals seeking to buy some investments would sit down with a sales person and haggle out the commissions. The salesperson would report to the “manager” and then finally “we have a deal”. The client would know if they are hiring an advisor or out shopping to buy investments.

On March 26, 2010 FAIR (Canadian Foundation for advancement of Investor Rights) hosted the first conference on financial advisor – client relationship.

Questions discussed at the conference:

1. Are investors getting the advice they need from their financial advisor?
2. Who does a financial advisor serve first – the client, the firm/ institution or themselves?
3. Do clients understand the service they are getting?

The panel consisted of experts from Canada, US and the UK.

Key recommendations from panellist:

1. Put the client interest first,
2. Act with prudence, that is with skill, care and good judgement of a professional
3. Don't mislead clients.

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4. Require advisor to clarify a conflict of interest and disclose whether the advice being provided is independent
5. Ban commission incented products

Your financial advisor must assume the duty of advising.

The financial industry is about keeping the status quo. Better to keep allowing those mutual fund sales people to pretend they are advisors so people will trust them to buy more and more products.

Investors need to be able to make that level of distinction. Phony financial advisors are only a part of the problem.

The much bigger problem is over risky financial portfolios and the selling of 'junk' products which pay fat commission fees.

The financial crisis has brought global attention to this matter. Being a financial advisor is about removing product peddling and transaction based compensation from the client – advisor relationship.

Advisor compensation should be derived from delivering prudent long term financial results.

A good financial advisor is not measured by industry accomplishments, but by what his clients have accomplished!
