Jack Waymire: 'Pound Foolish' author needs to wise up

Olen's criticism of advice industry off the mark, naive

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The book “Pound Foolish: Exposing the Dark Side of the Personal Finance Industry” by Helaine Olen has an onerous title designed to get maximum attention, but it's off target. The problem is much bigger than 320,000 personal financial advisers.

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Americans are solely responsible for their work ethic and savings rates. However, when it is time to invest their savings, they turn to professionals who claim to be ethical investment experts. Do they take the time to learn how to select high-quality professionals? They do not. Instead, they make easy, quick decisions that minimize their involvement so they can get back to their careers, companies, families, and activities. At this point, they are their own worst enemies.

Financial advisers become the facilitators for the achievement of the American Dream. They preach working hard, saving more and investing to live happily ever after. What else would they sell? This is what people want to hear and advisers are adept at telling them that. Do advisers promise returns? They aren't supposed to, but they do. When investors ask, “What can I expect if I select you to be my adviser?” very few professionals are going to say, “I don't know, my crystal ball doesn't predict future returns.” That answer will cost them clients. It is a simple choice. Tell them the truth and lose a client or tell them what they want to hear and win a client. Experienced advisers know how to minimize expectations and their accountability for achieving those expectations.

Do highly experienced fee-only advisors laugh at $100,000 accounts? They don't laugh, but they don't accept them either. A 1% fee produces $1,000 of revenue and most higher-quality advisers have minimum fee requirements of $5,000 or more. Investors still have some credible choices. They can look for less experienced fee-only advisers who generate revenue from planning and investing advice, or they can look for more experienced fee-based advisors who have access to additional types of income.

To say investors have been exposed to a “vast investment experiment” is pure hyperbole. There is no experiment. In general, advisers sell capital market theory that is supported by long-term studies such as Ibbotson market returns that started in 1926. Over longer time periods, stocks outperform bonds, and bonds outperform cash equivalents. This is the foundation for recommending equity and balanced portfolios to investors who can tolerate the risk. Unfortunately, the performance relationship between major asset classes is not true every year. Olin used 2008 to illustrate this point.

Two major bear markets (2000-02, 2008) in the first nine years of the new millennium have definitely contributed to the decline of the American Dream. Most investors ended up using the results of the good years to win back losses from the bad years. Down markets damage the “dream,” but so does the transition from corporate defined benefit plans to 401(k) plans and rising longevity. All of these events impact Americans' ability to accumulate assets and achieve financial security. The “dream” is not over, but people will have to take more financial risk to achieve it.

Ms. Olen is on target when she says investors are confused. They do not know there are the two ethical standards that regulate the financial services industry. Not one investor in a hundred knows sales reps are held to lower ethical standards than financial advisers. In fact, they believe reps are advisers because they do not know the difference between sales recommendations and investment advice. Neither do I. Words like fiduciary and suitability mean nothing to investors. What also means nothing is the alphabet soup that appears after many advisers' names. She says there are 200-plus designations that are used by financial professionals. In fact, our researchers found 232 certifications and designations. Have you ever met an investor who knew a certification's prerequisites, curriculum, testing method, or continuing education requirements? I haven't either. Unfortunately, our surveys show a high percentage of investors know what a CPA is — and that's about it.

Who benefits from all of the confusion? If you guessed Wall Street, you would be correct. An uneducated, confused client is a dependent client. Confused clients are easier to sell to. How else do you explain an industry that is supposed to be helping Americans achieve the “dream” in complex global investment markets, but has no minimum education, training, or experience requirements for advisers? The industry spends millions of dollars per year fighting mandatory disclosure requirements. The reality is educated clients ask questions Wall Street does not want to answer and confused clients buy what they are sold. That latter creates maximum impact for the sales culture that dominates the industry.

There is no question the industry's highest quality advisers have registered investment adviser credentials, a fiduciary business model, are compensated with fees and are committed to the ethical treatment of investors. However, after researching the credentials, ethics, and business practices of more than 30,000 advisers and reps I believe approximately 5% of the industry adheres to this business model.

Wall Street's contribution to the demise of the American Dream is not buy-and-hold investment strategies, low ethical standards for sales reps or bogus certifications. It goes much deeper than that. Powerful corporate interests and the 95% of advisers who benefit from the status quo impact willingness to change in ways that benefit the American Dream. Corporate interests spend hundreds of millions of dollars per year on lobbyists who make sure regulations favor companies and not investors. Then they use the American Dream to gain control of assets that drive profits for companies, bonuses for executives, and incomes for advisers and reps. Do these business practices damage investors? Sure they do, but they are not going to change any time soon. No, there is too much at stake.

Jack Waymire spent 28 years in the financial services industry. For 21 years he was the president of an RIA that provided wealth management services to more than 50,000 individual and institutional investors. He is the author of “Who's Watching Your Money?” and the founder of www.PaladinRegistry.com, a website that provides free adviser research, ratings and reports to investors.

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