You May Be Pretty, but You're Not a "6"

"On Wall Street, there are more commissions paid out to stock salesmen than profit is collected by stock buyers," Will Rogers

There are more than 675,000 financial advisors in the United States today. We estimate that there are 4000 or 5000 who actually know what they're doing and place your interests first. Far too great a percentage of the rest are salespeople trying to sell you something. Warren Buffett of Berkshire Hathaway, calls them "Helpers". They come in a variety of shapes and sizes accompanied with designations, a few that actually mean something. Under the guise of investment advice they give you a simple questionnaire and try to fit you into a "model", say a 1 for very conservative and 6 for most aggressive. Individual investment objectives do not fit into that matrix, however.

Let's look at different types of "Helpers":

1. The first place to look for a Helper is your Bank. Some banks employ branch or regional investment salespeople that are generally salaried and under-trained. They may know a little about mutual funds.

2. Insurance agents can be licensed mutual fund sales persons and they usually like annuities a lot. Go to an insurance agent for your investment advice? I ask you this, would you go to Jethro the Barber to buy life, home or auto insurance? (Okay, maybe some of you would, but I can't help those that are severely damaged). Insurance agents are accustomed to receiving huge fees for selling their products.

3. Stockbrokers are trained to sell stocks and bonds, and a plethora of other products from which the firm makes big bucks. Stockbrokers may get commissions on trades, but if you pay commissions, you're probably overpaying. Brokers may also get asset-based fees, but be careful. Fees in lieu of trading are seldom cost efficient unless a LOT of trading is done.

4. CPA's are perhaps your most important advisors. Use them for tax, estate and audit advice at which they are very good. They are highly trained professionals and have a strict code of ethics to follow which usually mandates the avoidance of rendering investment advice for a fee, because of the inherent conflicts. Pay them well for the expertise they provide, but don't expect them to tell you exactly what to do with your money.

5. Lawyers. Get serious. The only people worse at managing their own money than lawyers are doctors. As a lawyer, I can personally attest to this fact. Whatever you pay my lawyer colleagues, it's probably too much. Don't pay for their investment advice.

6. Financial Planners (they don't like that term anymore and hide under a variety of cloaks like "Investment Advisor", "Financial Advisor" or some other generic euphemism.) You may pay them for a financial plan and then turn around and pay them fees for implementing it (see 12b-1 fees in Part 3). Some tout "Fee-only" service, but I wouldn't pay asset-based fees. Think cash.

7. Financial Advisors represent a large growing population of variously trained and variously motivated salespeople. Their fees, like their training and motivations, are all over the board and it's difficult to separate the good from the not so. Think of it this way: Somewhere in this country there is the worst Financial Advisor in the USA. The bad news is that somebody has an appointment with them tomorrow.

8. A "Registered Investment Advisor" requires no specific qualifications and no standardized testing. Registration with the Securities and Exchange Commission costs about $175 and means nothing. Don't get too excited about the designation. They are #7 who filled out long federal forms.

9. Investment Consultant is another overused term, but the very good are well trained and don't charge you 1% of assets for their services. (See below for designations). The best ones are the best of the Helpers.

The Myth About Designations

There are hundreds of organizations which exist to charge Helpers big fees to put them through a course (usually home study with an open book exam) and then give them a fancy certificate to hang on their wall and letters to put on business cards. There are a very few that actually signify investment expertise; most do not. Let's look at some:

1. CFP -- Certified Financial Planner: Good for very general advice, but no depth.

2. ChFC -- Chartered Financial Consultant: We have no idea what that means.

3. Certified (or other official sounding term) Financial Advisor: Probably costs less than the CFP, and there's a reason for that.

4. Any designation with a "U" in it has nothing to do with investment advice.

5. Fiduciary Advisor: A child of the Pension Protection Act of 2006 that empowered thousands of under-qualified persons to give some sort of advice.

6. Senior Advisor: No not an old one, but one supposedly specializing in advice for seniors. Are you going to trust a 31 year old with a certificate on the wall with that power?

7. CIMA -- Certified Investment Management Analyst: A difficult, demanding program taught at leading Universities which requires rigid analytical study. Offered by the Investment Management Consultant's Association which imposes a strict code of ethics on its members. There are only maybe 4000-5000 CIMAs in the country for this reason. It is a symbol of qualifications in this industry.

8. CFA -- Chartered Financial Analyst: Requires a rigorous 3 year course of study which only the smartest analytical minds can endure. The best finance credentials.

But there are plenty of self-appointed designations to be wary about. For instance:

Elderly clients thought they had every reason to trust Michael DelMonico as a financial counselor. After all, the Massachusetts insurance agent had become a "Certified Senior Adviser" in 2002, a credential he made sure to advertise on fliers sent to retirees. He did not mention how easy it had been to get that title.

He had paid $1,095 for a correspondence course, then took a multiple-choice exam with questions like, "Marketing can best be described as:" (The answer: "The process or technique of promoting the sale or distribution of a product or service.") Like more than 18,700 other applicants since 1997, he passed.

Insurance companies, eager for sales representatives, embraced Mr. DelMonico, as they have thousands of other newly credentialed advisers. The following year, insurers paid him commissions worth $720,000 as his business with retirees soared. But many of those sales came from steering older Americans into unwise investments, Massachusetts regulators contend in a lawsuit.

Mr. DelMonico denies all wrongdoing, but one of his clients — a 73-year-old widow caring for a son with Downs Syndrome — said he tricked her into buying complicated insurance contracts that left her unable to pay dental and home-repair bills. "His office was filled with things saying he was certified to help seniors," said that client, Mary Ann St. Clair. "The only one he really helped was himself."

Mr. DelMonico is one of tens of thousands of financial advisers working hand-in-hand with insurance companies to market themselves to older Americans using impressive-sounding credentials like "certified elder planning specialist," "registered financial gerontologist," "certified retirement financial adviser" and "certified senior adviser." Many of these titles can be earned in just a few days from for-profit businesses, and sound similar to established credentials, like certified financial planner, that require years of study, difficult tests and extensive background checks.

"The degree isn't worth the paper it's written on," said T. Kevin McElreath, a financial adviser in Milford, Mass., who took the certified senior adviser exam but does not use the credential. For many agents, he said, "it's a scam, a way to put a title on a business card that impresses gullible seniors."

Many graduates of these short programs say they only want to help older Americans. But they are frequently dispensing financial counsel they are unqualified to offer, advocates for the elderly say. And thousands of them are paid by some of the country's largest insurance companies — including Allianz Life, Old Mutual Financial Network and American Equity Investment Life Insurance — to sell elderly clients complicated investments that economists say most retirees should never own.

The prize for these insurers and sales agents is a piece of the $15 trillion held by Americans 65 and older, the largest pool of assets ever amassed by an aging population, according to the Government Accountability Office.

As older Americans' wealth has grown, so too have programs that offer quickly earned credentials or that teach agents how to sell to the elderly. The number of certified senior advisers has increased by 78 percent in the last five years. More than two dozen such programs now exist, and have enrolled more than 39,000 people over the last decade. As more baby boomers retire, the number of programs and enrollees is likely to grow significantly, analysts say.

But some of the existing programs, which are often linked to insurance companies, have taught agents to use abusive sales techniques, regulators say. Over one-third of all cases of financial exploitation of the elderly involve annuities, according to the North American Securities Administrators Association, a group of regulators. Hundreds of lawsuits have been filed against insurers over annuity sales to the elderly. A judge in Minnesota ruled this year that just one class-action suit, against Allianz, could encompass as many as 400,000 plaintiffs.

There are hundreds of companies like Piece of Pie that teach sales agents how to find retirees willing to buy annuities. Many of them are paid by insurance companies. Piece of Pie was founded by Michael Kaselnak, who was fined by regulators in 2001 for selling improper financial products.

Many elderly buyers of annuities agree, and say they have been treated as callously by their insurance companies as they were by deceptive sales agents. This year, Massachusetts prohibited most financial advisers from using titles like certified senior adviser unless they were recognized by an accreditation organization or the state.