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In This Issue

THE DEMISE OF THE SMALL MUTUAL FUND

Small to medium sizes asset managers will have a difficult time in the next few years, according to an article by Mark Gilbert of Bloomberg News. Revenue pressures will continue, and not only in the 401k area. Competition from the giants, rollups , index funds and ETFs will make it difficult to compete on anything other that raw performance. Exactly the wrong thing to compete on. What makes you can kill you when it goes down. Costs: compliance, marketing and sales, administration—they're not going down. These, says Bain & Co." will hasten a divide in the industry between bigger firms enjoying economies of scale, and smaller specialists that can justify charging higher fees by excelling in niche markets"

Digital answers? How can the small fund afford it? I'd like to hear an opposing view or idea. Do small funds disappear?

WHAT'S IN A NAME?

So here comes the SEC newly mandating who can use the terms "advisor' or "adviser"
The SEC will prohibit a broker- dealer or an associated person of a broker-dealer when communicating with a retail investor from using the title "adviser" or "advisor" unless the firm is registered as an investment adviser. Brokerage firms that are not dual registrants could not call their registered representatives financial "advisers" or "advisors," wealth "advisers" or "advisors," or trusted "advisers" or "advisors." Broker- dealers and their associated persons also may use the title "financial consultant" when communicating with retail investors. The SEC does not believe using the title "financial consultant" creates the same level of confusion with investment adviser representatives.

Well, that will go a long way to prevent misrepresentation.

What I think is that the SEC is looking at the wrong word. They should block the use of "wealth accumulation", "wealth advisor' or "wealth " anything". And if they want to curb the use of marketing titles, lets go back past "stockbroker" to this: **If you sell clients products, you are a salesperson. If you manage people's assets, you're a money manager. If you're somewhere in between, you figure it out**.

LET'S QUIT USING THE WORD "WEALTH" WHEN TALKING ABOUT MONEY

We have an unhealthy obsession with wealth. Money managers, brokers and RIAs have become "Wealth Managers, "Wealth Advisors" You can read about "becoming wealthy" and "wealth accumulation" in every financial ad or website.

There is a UK publication, *Generation Wealth,* now also a Documentary film out next week. Photographer Lauren Greenfield did an extensive project getting into the lives of some of the rich and famous accumulators of wealth. She offers a sobering summary, No matter how much people have, they wanted more."

Did it change? Ask F. Scott Fitzgerald (*The Great Gatsby*, 1925). Go back on the timeline to tribal chieftains, pharaohs, Kings, emperors. There have always been the Haves and the Have nots. No, capitalism did not change that; it widened the gap. And what do most of the Have nots want?—some of what the Haves have. What do most of the Haves want?—more. In my recent SA article, "Greed and Ego move markets" I postulated that these were the reasons people will make bad investment decisions. I undershot that, big time. Crooks, from common thieves to ponzi schemers, dictators to home owner association presidents, bankers to bank robbers, movie stars to TV evangelists, you name it—<u>most</u> are in to for more accumulation. There used to be a social mover called "keeping up with the Joneses". Now your neighbor is the Kardashians, thanks to the media.

It is not a new phenomenon or seed change. It's been here all along. We talk about the 1% vs the rest of us, and how the rich just get richer while we live paycheck to paycheck, ass over heels in debt. But is that no different from 3000 BCE, William the Conqueror or the world scribed by Charles Dickens. I believe the gap has always been there and is not much wider that it was since we learned to walk upright and covet our neighbor's bigger stick. Capitalism didn't grow it; socialism doesn't fix it.

Why are Americans in general obsessed with celebrity wealth, the biggest yachts, the $20 million mansions, jewels, *Oceans 8, 11, 12,13* (all good movies). Those of us who don't have wealth are positively voyeuristic about those who do. It is to be admired, emulated, even with one of those fake Rolexes sold on street corners in NY.

Let's look at a few of the wealthy, including some examined so eloquently by Greenfield

<u>Bernie Madoff</u>; ENOUGH SAID

<u>Florian Hamm:</u> A hedge fund manager sentenced to 225 years in jail in the US, now in exile in Germany (waiting: He'll be in shackles). Called, "The Antichrist of finance" for frauds, he claims the value system and morals changed in the 80s. " It used to be about who you were, now it's about what you have.

<u>David Siegel</u>, the timeshare king. Devastated (but not broke) in 2008 was trying to build the largest house in the US in Windermere, FL (14 bedrooms, 32 bathrooms, a 30-car garage, bowling alley, five swimming pools (three indoor, two outdoor), a two-story cinema and a ballroom with capacity for 500 guests). Traveling on commercial jet the first time, one of the Siegel kids supposedly said, "Mommy, what are all these people doing on our plane? Oh, he's back, still building.

<u>Eden Wood,</u> a six year old beauty pageant princess and star of reality TV show Toddlers & Tiaras, told Greenfield "My favorite princess is me" and says beauty means "that I get money, and I'll be a superstar." SIx. Nice.

Greenfield concludes "Americans don't hate the rich, as they imagine they could become the rich. They don't want high taxes as they think they could become rich and won't want to pay them. But what they dream of is an increasingly unbelievable fantasy."… "I felt like we had gone from the American dream of opportunity for all to a desire for ever more wealth, in the currency of money, fame, beauty or youth." She says it's not just an issue that effects the wealthy, but everyone in society. "We're all complicit in generation wealth."

<u>GOOD BYE HORATIO ALGER</u>

I founded a charity to teach personal finance and investing to the public, starting with children, for free, We have professional advisors who will volunteer to give advice to those who need it, but can't afford it. Investment advice should be free, and it's getting there. Wealth is whatever gives us value. Let's drop it in referring to our assets.

THE STOCK MARKET GAME TEACHES THE WRONG LESSON

A broad stock market fund such as the Vanguard Total Stock Market Index Fund (VTSMX) has a zero chance of winning SIFMA's (Securities Industry and Financial Markets Association), over a short time period or even a year. It is likely to just turn in a slightly above average score. Yet, according to Morningstar, it bests 88% of U.S. equity funds over 15 years. SO, what gives? It isn't exciting; in fact it is boring because it takes on no risk. SIFMA said the index fund would be "over diversified."

To win the game, a player or team has to take on the most risk. To do that, the logical conclusion for maximizing the probability of winning would be to build the portfolio as follows:

- Take out the maximum margin loan immediately.
- Buy the minimum number of stocks (three).
- Pick the most volatile stocks trading at or above the minimum required $3 per share price.

Of course, while this maximizes the probability of winning, it also maximizes the probability of huge losses. Since the SMG doesn't measure losses, except as they deduct from winnings, you "win" by having the highest value in a short time.

This is exactly the opposite of sound investment strategy: plan, evaluate, select, measure, rebalance—over a longer time period.

The SMG teaches:

- Maximize volatility to increase probability of winning.
- Investing – Minimize uncompensated volatility (and fees) to maximize risk-adjusted return.
- Excitement.

SIMFA has 520 members: broker-dealers, banks, money managers More than half of the members are broker-dealers. You don't actually suppose SIFMA would use their game to teach kids they ware either smart enough to day trade (and they need an online broker) or they're not smart enough to do it themselves and need a broker? DO you?

FRAUDS

There are nine new frauds charged by the SEC this week. To see the summary of each, see our companion newsletter and site at somebodyelsesmoney.com

PETITION:

WE BELIEVE THAT PERSONAL FINANCE AND FINANCIAL LITERACY ARE ESSENTIAL LIFE SKILLS AND SHOULD BE TAUGHT IN SCHOOLS AND COLLEGES AS PART OF A CORE CURRICULUM.

We are circulating this petition to states and educational groups and organizations Since you are a follower, we hope you agree with our statement. To help build our message, we would like to include your name to the Petition list. Lists, Emails are not shared, nor do we share names, just numbers. If you prefer that we not count you among the supporters of this petition, please just send me an email at john@moneyculture.org, and we will certainly comply.

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