



SEPARATING THE WHEAT FROM THE CHAFF

Most people know they should do a better job of financial planning and investing if they want to achieve their life goals.

In many parts of the developing world, modern farming machinery has not taken over and part of the grain harvesting process includes a step where the good part of the raw grain stalk is separated from the wastage- the "chaff". This step is essential before further processing can take place – no separation equals lousy bread!

Investors today face much the same situation. Most people know that they should do a better job of financial planning and investing if they want to achieve their life goals. The problem is that these activities are complicated, filled with jargon and too often cloaked with an aura of special & insider knowledge or secret ways to make wonderful things happen - such as beating the market with no risk of loss. Can't happen, but that doesn't stop those who are out to separate you from your money from saying it is so.

Consider the following cautionary tale.

Being of a certain age, I get mail inviting me to come to a free luncheon seminar where, it is promised, nothing will be sold and the sole purpose is to "educate" me about retirement or estate planning. I got this one a few weeks ago from the local American Express office.

Complimentary Consultation with a Financial Advisor Plus a \$25 American Express® Gift Cheque!

Request a complimentary initial consultation with an American Express financial advisor to discuss the financial issues that interest you most. After your meeting, we'll send you a \$25 American Express® Gift Cheque.

What can you expect from a consultation? You're likely to find our professional, confidential consultations unique. Here's why –

- **Your goals.** Our advisors concentrate on understanding your needs and financial goals, rather than only promoting specific products or investments.
- **Options and advice.** Trained in a wide variety of retirement and investment strategies, our financial advisors can lay out the facts and provide you with options and advice.
- **No Obligation.** This is a complimentary consultation. There is no cost of obligation, just sound financial advice.

So –they offer to pay you \$25 to come in and talk with them. Ever wonder why?





Investors who sign up for “free” or low cost financial plans may believe they are getting independent advice tailored to their own needs.

They do NOT!

Consider this interesting tidbit:

In February of this year, the New Hampshire Bureau of Securities Regulation filed suit against American Express (Amex) charging investor fraud. The State accused American Express Financial Advisors of “defrauding customers by giving its brokers and advisors secret incentive to sell its own weak-performing in-house mutual funds.” The complaint alleges that Amex gave local representatives bonuses tied to sales of its mutual funds and gave top fund sellers a year’s free lease of a Mercedes Benz sedan.

American Express filed suit seeking an injunction to prevent New Hampshire from pursuing the case, stating that this was a Federal matter and did not belong in the State courts.

Or this, from the Wall Street Journal (2/9/2004)

“John Haritos was looking to cut his tax bills and save for retirement when he agreed to a free financial consulta-

tion with American Express Financial Advisors. When told his finances wouldn’t allow him to meet his retirement goals, Mr. Haritos paid \$500 for a financial plan. Recalls Mr. Haritos:” I figured I was paying for unbiased advice.” Now he says he figured wrong.

What did Mr. Haritos get? A laundry list of American Express products he should buy. So he moved his money from a money market fund into a Amex brokerage account that charged a flat 1.5% annual fee and invested in high fee Amex mutual funds. He also rolled a life insurance policy into a annuity offered by IDS, a unit of Amex. Nearly all of the investments, which generated high fees for Amex and its advisors, did poorly.

Investors who sign up for “free” or low cost financial plans may believe they are getting independent advice tailored to their own needs. But one of the “open secrets” in the industry is that these plans are often little

more than sales tools that stand a better chance of making money for advisors and their firms than for the client. *“The financial plan is their big claim to fame. But if that’s all you did, you’d starve to death.”* says Judy Reed, an advisor who left Amex in early 2002 after a decade with the company.”

So what is an investor or someone looking for good unbiased financial planning or investment advice to do? Is everyone out there just looking for an easy mark and not caring at all about the clients’ needs and circumstances? Is everybody who calls themselves a “financial planner” or “financial advisor” really just looking out for “# 1”?

In a word — NO!





**A
 Fee-Only
 Planner
 will
 NOT call
 them-
 selves
 “Fee-
 Based”
 or
 “Fee-
 Offset”
 or some
 other
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A few suggestions that will help you separate the wheat from the chaff:

Never trust anyone who offers you something of value for nothing (or close to it)

See the previous stories about the State of NH, Mr. Haritos and American Express for details.

Ask questions-after all, it's your money and your future we're talking about.

Ask how the advisor gets paid and how much. Don't give up. If you don't get full and honest disclosure, in terms you understand, head for the door.

Work with a CERTIFIED FINANCIAL PLANNER™ professional.

It's not the only criteria-after all, American Express touts in their TV ads that they have more CFP licensees than any other financial services

company – but it's a start. The CFP mark is a great first step in making sure your financial planner really is qualified to give you advice.

Look for a Fee-Only CFP® advisor.

“Fee-Only” means the only source of income for the person sitting across the table from you is - you! No sales commissions, no surrender fees, no “kick-backs”. A Fee-Only planner will NOT call themselves “Fee-Based” or “Fee-Offset” or some other clever play on the word “Fee”. In this case, a rose by some other name does not smell as sweet!

Never work with anyone who stands to profit directly from the products they recommend.

The conflict of interest is obvious, but these folks are trained to radiate charm and sincerity. The late great Bernie Corn-

feld, the founder of IDS and a genius in separating people from their money back in the '60's used to say:

“Once you can learn to fake sincerity, you've got it made!”

Follow these simple rules and you stand a much better chance of ending up with “good bread” in your experience with your financial advisor!

