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It is very easy to be deceived by the flashy media campaigns and downright misleading advertising these days

What is a Trusted Advisor? It's someone who always puts your best interests foremost without any possible conflict of interest. Period.

Sadly, it is very easy to be deceived by the flashy media campaigns and downright misleading advertising these days. There are trillions of investor dollars seeking a way to make dreams come true. Everyone wants to believe that there is a way to beat the market and get an edge – if only they can find the right advisor. Sadly, more often than not, like lambs to the slaughter, they learn the truth. Here's one more story of what can happen to the unwary.

Edward Jones, the brokerage firm with the most offices in the US - seems like there is one on every street corner these days - was exposed last month and, sadly, the firm deserved every painful, reputation-destroying minute.

Who can you trust?

(Full disclosure: Sam's son works for Jones as a network architect). The problems at Jones arose from the shoddy practice of revenue-sharing. Basically, here's what happened: Jones approached a number of mutual fund companies (ultimately, seven in all) and sold those fund companies preferred status in exchange for cash payments and brokerage commissions worth as much as \$300 million to Jones (and that's just in the last four years!).

So the mutual funds – and some pretty big names at that - gave Jones a big bag of cash to get to the top of the Jones sales list. Brokers in the 10,000 Edward Jones offices were rewarded with expensive prizes for selling these funds (in many cases, regardless of whether they were actually the best ones for the client's needs) and the fund company added these "expenses" to the annual costs it charges fund

shareholders. So who gets the short end of the stick? Why-surprise, surprise- it's the investor, at both ends of the deal. The poor client ends up paying higher costs (along with all the other fund investors) on a fund that may or may not fit their needs.

The fund companies got a virtual lock on mutual fund sales at every Edward Jones office in the U.S. While it was true that individual Jones brokers could theoretically sell any of the hundreds of other commission funds available, the Jones home office created and promoted financial incentives that virtually assured its brokers would only sell funds from the seven "preferred" families. These were:

American Funds
Federated Funds
Goldman Sachs
Hartford
Lord Abbett
Putnam
Van Kampen.



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Jones never disclosed any of these preferred arrangements to its customers who (*oh the innocence!*) believed that they were getting objective, unbiased fund advice from their Jones "financial advisors". As a token punishment for its misdeeds, Jones has settled up with the SEC, NASD, and the New York Stock Exchange, paying \$75 million in penalties. Here's a radical idea: When a financial services company screws its customers, why shouldn't it lose all of its ill-gotten gains, not just 25%? What a concept!

Northstar believes in good corporate governance and it is vital part of our mutual fund screening process. The only funds on this "shameful seven" list that we have ever included on our Recommended Fund List are two from American Funds.

Effective immediately those two mutual funds - Washington Mutual and

American Capital - will no longer be recommended for purchase.

Further, stories like this are only the tip of the iceberg. There are so many investors out there seeking someone they can trust, someone to give them good advice and help them with their dreams. There are trillions of dollars at stake and investing is a mystery to most people. It is a long-running situation where too often the little guy gets taken and life dreams are shattered because they put their trust with the wrong person or listened to the siren song and slick (but looks oh-so good) advertising of Big Money and Wall Street.

In further issues of this newsletter, we'll discuss how to find a Trusted Advisor, what to expect in a relationship with them, and places and people to avoid. We'll also give some tips on how to tell a "salesman" wolf when it's wearing "financial advisor" sheep's clothing, as well

as more cautionary tales of financial services companies and practices to avoid.

