

So, let's look at who's there to help them.

There are more than 700,000 financial advisors in the country. They include wirehouse registered representatives and independent registered advisors (formerly known as "stockbrokers"), registered investment advisors and insurance agents (formerly known as "financial planners"), bank representatives, mutual fund representatives, life insurance agents, CPAs, attorneys and others permitted to hang out a shingle calling themselves "Financial Advisors".

35% of the money is in wirehouses and the banks, but only 20% is with advisors (the old 35/20 rule). The breakdown looks something like this (Data by Tiburon).

| | |
|-------------------------|------------|
| 68,000 wirehouse reps | 36% assets |
| 67,000 bank reps | 32% assets |
| 82,000 independent reps | 12% assets |

They are all after the same 20% of the Boomers, yet 86% of U.S. households *do not* have a financial advisor. Either the financial advisors are poor marketers or the investors are short sighted. This despite the fact that everybody is getting in the game of offering platforms and services for the independent advisor. Mellon Bank, Wachovia Securities and SEI were the latest firms who just last week announced major initiatives to attract users from the independent ranks. And, the Advisor community is now enriched with the prospect of being able to hang out a shingle touting themselves as "Fiduciary Advisors" or "401K specialists" Everybody, just everybody has a retirement product. We'll look at some later.

Industry experts such as Len Reinhart, Chip Roame and Nick Murray believe that today's budding retiree needs a 30-year life plan. Yesterday's stockbroker would be ill equipped to develop such a plan, but independent providers, associations and firms are building programs to meet these investor needs.

Look at the "Total Merrill" offered by Merrill Lynch. Services include:

- Goal Setting
- Advice and Planning
- Investments
- Estate Planning
- Beyond Banking
- Business Financial Service
- Retirement Plans
- Credit and Lending
- Tracking the Progress

Widely applauded is the service firms are now offering known as the Unified Managed Account (UMA) or Unified Managed Household (UMH). Media miscast, it is not a product, it is a “technology platform that supports solution based advice with multiple asset classes and multiple products,” according to innovator, Len Reinhart.

In a single household account, clients receive active management of mutual funds, ETFs, commodities, REITS and separately managed accounts based on investment research and client suitability financial analysis. The UMA/UMH allows wide diversification with rebalancing, tax optimization and consolidated reporting with the personal services of a financial advisor. “Active management” now means actively managing passive components.

If the investment solution for our Boomer who wants income now with principal growth is to withdraw funds at the current inflation rate while investing at three times the inflation rate, then according to Nick Murray, “The only safe retirement investment is equities. It is incumbent upon today’s financial advisor to get their clients into equities and keep them there.”

Today’s financial advisor needs to retool their thinking. The problem with financial advice today is that most of it is a product push. If you google “401K advice” what you’re likely to get is a series of advertisements that look like like financial advice. Advisors’ thought processes need to shift to total client needs fulfillment from commissionable product sales. Many media outlet firms have applauded the shift to fee based accounts as a major shift in financial services, but the fact is, it simply hasn’t happened.

Plus, the fee-based advisor has it’s own *caveat emptor (buyer beware)*. Take annuities, for example. An advisor may assist you in picking an annuity, but why, in heaven’s name should you pay said advisor an annual fee for ongoing advice? They’re adding no value beyond the original pick. To quote author Dave Loeper, “It’s a rip off!”. Generally the one time commissions an advisor can earn from your selection of an annuity is a huge payday, maybe 5-6% of your deposit. Way disproportionate for the advice. So, be careful and be informed as to who is making what on your investment!

The most popular investment vehicle used by the independent rep market is by far, the commissionable mutual fund. 40% of independent reps favor these funds, while 60% of the *fee only* advisors use commissionable mutual funds. Only 5% favor Separately Managed Accounts (SMAs)

There is \$11 trillion in mutual fund assets, far more than in any other vehicle. ETFs, even though their flow rate is now \$93 Billion a year, will *never* catch up to mutual funds. For every dollar in ETFs, \$12 is in mutual funds. Mutual funds are too big and still growing. Even though the rate of growth is slowing, it is believed that mutual funds will remain the dominant financial product for the next 30 years.

What about Hedge Funds? In 2003, there were 6700 hedge funds with \$6 billion in assets. Today there are **8800** hedge funds and not much more in assets. And, the numbers are declining somewhat because of scandals and the like. By contrast, there are fewer than 6000 mutual funds. Note that 74% of all registered representative revenue mutual fund is in load/trail business.

It seems that today's financial advisors are taking the path of least resistance by polarizing portfolios, indexing core portfolios and wrapping the rest. Chip Roame calls this the "Alpha-Beta Stretch". Again, financial advisors need to retool their thought process. Outperformance is not a financial goal, it is impossible. The financial advisor's mission today *should* be to help people achieve their financial goals. Yet, investor behavior drives the quest for performance and financial advisors are forced to be psychological behavior modification coaches for their clients with two goals.

1. Replace client emotion with knowledge.
2. Keep the clients from blowing themselves up.

There are three premises to these goals, according to Nick Murray:

1. Forget about modern portfolio theory—the concept of the "Rational" investor has gone the way of Newtonian physics.
2. Portfolio switching should occur *only* if it is based upon a fundamental change in investor goals.
3. Lastly, timing matters.

There is a grid of investor emotions which drive investment decision-making. Conventional wisdom spawned by the media (led by misinformation director, *USA Today*) drives the thought processes of mom and pop investors. None of the following Conventional Wisdom principles are valid methods of investing, yet mom and pop invest according to the following rationale:

1. Pick last year's winners to out perform somebody. Advisors need to be mindful of what Nick Murray calls "The Miss America Principle"—"She won't win twice."
2. Focus on one idea, one pick.
3. Let the euphoria of "I can't lose" motivate your investment behavior.
4. Be driven by the panic of "I'm too late" or "I'm selling a company that I just bought and didn't make any money on to buy one that's on top, ready to go down."
5. Leverage (if you lose it all, you can borrow more).
6. Speculate when you think you're investing.
7. Look for yield rather than total return.
8. Let your cost basis drive your investment decisions.

Investors who behave along those principles are either undereducated or illiterate financially. Or, perhaps they are just stupid. (Get your financial advice from *USA Today*, my ass.)