The Ethical Treatment of Somebody Else's Money

Straight From The Horses' Mouth

February 15, 2019

In This Issue

DANTE'S CORNER: From the annals of this month's fraudsters comes

VALENTINE FRAUD:

Not what you might think for the day after Valentine's Day. Lifetime bars from participating in penny stock offerings await attorney Mark E. Fisher of Boca Raton, Florida and businessman Joseph F. Capuozzo of Sunrise, Florida They were charged with facilitating a pump-and-dump scheme involving shares of a Sunrise, Florida company that purported to be in the beauty products business. They got millions of shares of Valentine Beauty Inc. in connection with a pump-anddump scheme orchestrated by Eddy U. Marin, who controlled Valentine. Coordinating with the now jail headed Marin they launched a marketing campaign touting Valentine's purported operations. Once the promotional campaign increased the liquidity and price of Valentine's stock, Fisher and Capuozzo sold a significant portion of their shares, collectively reaping more than $150,000 in stock sale proceeds. A criminal case awaits them.

ANOTHER ADVISER BILKS FRIENDS

Bruce J. Fixelle solicited investments from close friends he met through a local community organization, telling them that he was going to invest their money in initial and secINSTEAD, he allegedly used investor money to pay mounting personal debt and personal expenses. At least a $1.5 million penalty is in store for him.

Sean Kelly used his companies, Lion's Share Financial of East Cobb, Inc., Lion's Share & Associates, Inc., and Lionsshare Tax Services, LLC, to raise at least $1 million from 12 investors, including elderly retirees, promising that he would invest their funds in a variety of investment products including private placements and real estate funds. Rather than investing the money, Kelly spent it on personal expenses including Super Bowl tickets, luxury vacations, and cash withdrawals. As alleged, Kelly continued to steal money from investors even after having received an SEC subpoena, and did not show up for his scheduled testimony after informing the SEC's staff that he would show up and "come clean."
Now arrested on criminal charges, the ongoing fraud probably has been squelched.

FROM MONEYCULTURE (moneyculture.org)

Student loan debt is paralyzing Gen X, Millennials and beyond.

The facts:
1. Americans currently owe a combined $1.48 trillion on their student loans. Student loans are now the largest form of consumer debt in the U.S. other than mortgages—exceeding car loans and credit card debt. It's collectively owed by 42 Million Americans. The delinquency rate is 11.2%
2. Current student debt varies widely by state and college. The average graduates' likelihood of graduating with debt in 2016 ranges from 43% to 77% depending on state. That means the vast majority of young graduates are currently saddled with debt.
3. The average student loan balance is around $34,000. The average among Gen Xers—or those who are between 35 and 49 years old—is even higher at nearly $40,000. Young people between 18 and 20 owe less than $12,000 on average. That's probably because they haven't finished borrowing for school or don't owe as much in interest yet.
4. The amount people owe varies widely. Around 7% of borrowers owe more than $100,000 – which equates out to an entire 1% of the country's population.

Two true student loan horror stories:

Getting an almost unmarketable degree.

It took $100,000 in private and federal loans to get a Jazz guitar degree. Mother co-signed and when the student defaulted, her wages were garnished. Student's comment: "I wish I had that information: If you have this degree, what generally do people make from it? The (federal) government loan has been cool with deferments and forbearances and looking at my income. I don't know why I assumed that's what all the loans would do." The fix now: Call lenders. Debt consolidation. The fix then: Education. Proper explanations. School counsellors.

From a financial planner. Joseph Orsolini, CFP, was quoted online: "I am working with a young lady who recently graduated from an elite college with $172,000 of student loan debt. She is going to law school in January and will add another $100,000 on to that total...some people never learn! We got her loan payment down to $1,200 per month by having her go back to school at her local community college so she could continue deferral on some of her loans. It was cheaper to pay that tuition than her student loans…I would never have let [her] get in this deep."

BUILDING YOUR ADVISORY BUSINESS:

Don't stigmatize the homeless.

They may be your clients some day. Take, for instance, Joyce, a family inhabitant of a local shelter. I met with her last week to help with her student loan debt. Joyce is an ambitious, energetic, inspirational person. She is smart, has some college, and wanted to be a nurse, but she didn't like sticking people with needles. She ran into some unfortunate debt situations which were not caused by her. While clearing those, she had problems paying back her student loans (just like everybody else).

But she's on her way back. She asked our advice on raising her credit score, cancelled all the credit cards and got a job as an administrative assistant at the Hospital. There she is exploring other "non needle" jobs in Health care institutions, and we talked about many. With some help from us, she is working on some forgiveness elements of the Federal student loan process.

The next step, for Joyce armed with a clear explanation of what she'd doing to raise her credit score for landlords, is a home of her own, for her and her young daughters. She is on the road to success and we can't wait to see her 5 years from now in your office.

How do you quantify the value of advice?

Say you're a financial advisor. Why do your clients have You as THAT financial advisor? Is is inertia, too much trouble to change, trust ? I'm willing to bet that for a lot of clients the fact that their broker or advisor is or will be a "Fiduciary" won't mean much of anything. If we have good, well-trained financial advisors out there, it shouldn't mean anything at all. It's because they trust you I

have a financial advisor who manages my money. He's my friend as well as financial confidant. I've known him for more than 30 years. I know his wife and his kids (adults now). I've stayed at their house. My kids (adults now) know him and his family. They swam in his pool and watched the fireworks at Disneyland from there. He's managed the investments that we have for most of the time that I've known him. My kids put their IRAs with him. He knew my late wife and took care of her estate issues when she died. My kids know that if something happens to me the first thing they do is call him and his son who works with him. That son is the contingent Trustee on our Trusts. They're smart people.

I don't measure his investment performance compared to anyone or anything else. I have no idea what he charges. I simply do not care. It's not a race. I trust him and his son with my very life. Despite what is being made about it, "Fiduciary" is just a label. For my Financial Advisor and his son, the ethical treatment of somebody else's money is a way of life. So what I want to ask our infinite wisdom regulators is this. "Hey, DOL, SEC, FINRA or whatever, how do you think I should evaluate the value of his advice? What's that? You have no idea?" I didn't think so.

FROM RETIREMENT CULTURE

There are several key issues contributing to the failure of the American Retirement system.

#1) Lack of Saving: The most common culprit of the lack of retirement readiness is the lack of saving. Retired Boomers realize the downside to insufficient saving as employment income dissipates. Additionally, employees don't contribute enough – The solution lies within a combination of education, plan features, employer communication, and funding. Service providers need to be empowered by the plan sponsors to fully engage participants in the importance and process of saving for retirement.

#2) Financial Illiteracy: Financial literacy is often cited as a major problem when it comes to our retirement system. Many plan participants, whether they take part in a 401k or profit-sharing plan, do not understand all of the features of their employee sponsored retirement plan. This lack of understanding decreases participation in the plan and leads to lower retirement preparedness by the employees. .

Auto-enrollment and auto-escalation has helped with 401k plan participants even without increasing their understanding of the plan. More education by employers needs to be encouraged to promote understanding of the retirement plan so that employees can maximize their retirement savings opportunities. Investments, and more importantly, retirement plans, are complicated topics. Advisors need to be sure that those that are investing in plans that they supervise understand financial goals, the fees they are paying, and risk/return parameters. For too long, retirement plans have been set up as a passive employee benefit. Having a proactive education program is key to having an educated workforce invest in a retirement plan.

#3) Everything's Too Confusing: Compounding both of the above problems is the fact that retirement plans and interacting with them can be confusing for the typical person. People tend to be inert, and any reason not to look into starting something new will be jumped upon. This is especially true for retirement plans. There is so much information and marketing out there regarding different kinds of plans, that it makes a potential investor throw up his/her hands in exasperation and leave it for 'next' Sunday. In addition to encouraging participants to start saving early and invest properly, plan sponsors and fiduciaries need to continue to help participants understand the difference between investment options, with a focus on the various associated costs. More work needs to be done to clarify and simplify the information provided to participants.

#4) Plan Sponsors Still Don't Understand Fees: It's not just participants who are confused. Even today, after a lot of publicity, many plan sponsors still don't know the true nature of the fees they pay. For the most part, they cannot compare them across providers, and don't understand the value of services they are receiving for fees paid – Fee disclosure needs to be streamlined more thoroughly and plan providers need to be held to a uniform standard for charging fees.

#5) Market Uncertainty: In addition, and this was especially acute the early downturn this year, the wild gyrations of the market turn people off from investing. Nobody wants to invest in a losing proposition, and the constant "if it bleeds, it reads' financial reporting reinforces investor beliefs that the market is inherently unstable

Continued….

Retirement Culture Continued

#6) Not Enough Financial Planners: One problem that's becoming more apparent is that there are not enough financial planners. Participants have nobody to go to if they need help in managing their holdings. The financial planning industry is struggling to attract new planners. There are just not enough talented and young employees joining the ranks. While this has not yet become a major problem, in twenty years this will be a huge issue. Financial service companies need to go back to the drawing board and figure out what exactly it takes to attract a new generation of advisors. The current strategies are not working and a new approach is needed. The current generation of college graduates have different desires and career goals than previous generations. Recruiting in the industry needs to focus on the impact that this generation wants to make.

#7) All the media hype and"expert" opinions the past two few years have not improved the lack of understanding about a Fiduciary Standard. I, personally do not think it matters, I think the word "fiduciary" should be abandoned, because it's turned into a marketing ploy. I can define it simply as "the ethical treatment of somebody else's money."

Our Charity: THE MONEYCULTURE INITIATIVE, a 501c(3) organization

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If you support us you help improve employee productivity by helping us deliver financial and investment education, information and advice to the general public. We hold in person conferences, seminars to groups, calls, webinars, video, audio, articles and online courses for free. WE have a core of experiences Advisors who have donated their time to help us give personalized education

http://www.moneyculture.org.

Thanks and Stay Tuned

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