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Can Name Recognition Be A Bad Thing?

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San Diego may be immune to bad weather, but we *are* susceptible to bad financial advice. Nearly everyone at some point in their life has sought out the advice of a financial professional. But whom can you trust? Sometimes, name recognition isn't necessarily the best option. You should consider that:

- The vast majority of people who call themselves "planners" or "advisors" are actually just financial product salespeople. Many advisors work for and represent a bigger organization like an insurance company or a Wall Street firm. They may have quotas and pressure to sell their own brand name products, which may not be the best choice for the client. Some are awarded incentive vacations for selling a certain amount of a product. The rewards can be lucrative, and firms use these financial incentives to attract potential representatives.

- Recruiting new candidates at these firms is an ongoing process since many leave after failing to meet their initial quotas. Search for "financial advisor" on monster.com or hotjobs.com for an interesting look at job descriptions and requirements. You will find some recognizable firms that don't even require a bachelor's degree, however, they do look for "persuasive ability" and "motivated self-starters".

- Training usually revolves around sales and products, not financial planning. Recruits spend their time cold calling and understanding how to handle objections, not in a classroom learning about basic concepts like risk management, diversification, economic theories, and how capital markets work. With little or no experience, these "advisors" hide behind the name recognition of their employers and forge ahead.

- These big financial organizations spend millions on advertising telling consumers to trust them (advisors holding babies or attending soccer games, etc.). Then they turnaround and, of course without admitting any wrong-doing, spend millions on fines for fraudulent or unethical behavior, but that's another story. Besides the cost of advertising, these firms also pay for a lot of the expenses for the advisor (office, administrative, etc.) and may even give them a draw salary against future commissions. But these firms are not run as charities, eventually it is time to pay the piper.

- Advisors give up 60%-70% of their earnings to the "house" for their support. With that cut, think of how much money advisors need to earn to make a living. Selling products for a commission is the fastest way to make money. The biggest commissions often come from the firm's own proprietary products. Commissions compromise objectivity though, and objectivity is definitely needed when entrusting someone with your financial future. So when you hear the classic line "You don't pay me, the company does", run!

For further reading about the industry's conflicts of interests, check out "License to Steal" by Timothy Harper, HarperCollins Publishers, 1999.

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