

Chapter 10 **Bad Advisors**

MOST IMPORTANT BOOK

You might find this odd; but while I think the book you are currently reading is very important and can help you have “Peace of Mind” when it comes to growing your money, I don’t consider this, my newest book, my most important book.

Why?

Well, that’s a long story; and it is encapsulated in my book, Bad Advisors: How to Identify Them; How to Avoid Them (www.badadvisors.com).

The simple and no-nonsense answer is that most Americans receive advice from “bad advisors” where the consequence of the bad advice is often catastrophic.

In my book, Bad Advisors, I pull back the veil on multiple professions so readers can identify “bad advisors” they currently have (and fire them) and ones they will consider using in the future (so they can avoid them).

I give readers a never-before-seen look inside the legal, accounting, financial, and insurance industries in a way that will shock and outrage them.

I tell readers what really motivates most of the advisors in each field and how that motivation taints their advice.

I explain to readers why many advisors are simply not competent (for multiple reasons such as lack of good training/education or because they are receiving bad or tainted training/education).

My Bad Advisors book is dedicated to readers who are trying to determine if they currently have “bad advisors” and how to identify a “good advisor” for future use. I answer in no uncertain terms the following questions:

- 1) Is your financial planner a “bad advisor”?
- 2) Is your life insurance or annuity agent a “bad advisor”?
- 3) Is your attorney a “bad advisor”?
- 4) Is your CPA/EA/accountant a “bad advisor”?
- 5) What are the consequences of using a “bad advisor”?

And, finally, (and just as important as identifying a “bad advisor”):

- 6) How do you identify and find a “good advisor”?

Unfortunately, in this book, I’m not able to cover the vast material I cover in my Bad Advisors book. What I will focus in on are financial planners and insurance agents. I will forego talking about attorneys and CPAs.

LIFE INSURANCE AGENTS

Let’s start off the substantive material in this chapter by talking about life insurance agents.

The good thing about life insurance agents is that they can offer clients some of the best protective and most tax-favorable advice/wealth-building tools available.

If you’ll recall from Chapter 8, I discussed growing wealth in a tax-free and risk-free manner using Retirement Life™. I also discussed in that chapter fixed indexed annuities that not only allow your money to grow without risk but with a rider you can buy that has a guaranteed return (7% in my example) coupled with a guaranteed income for life that can never be outlived.

So, the above touches on the good that an insurance agent can bring to clients. Now let me talk about why most insurance agents do not know about or offer these powerful tools to their clients.

BAD INSURANCE AGENTS

What’s my definition of a “bad” insurance agent?

A general definition of a bad insurance agent is one who doesn’t understand the tools of the trade (fixed life and annuity products available) and then gives bad advice because of it.

But there are other definitions that can be used. A bad insurance agent is one who could give good advice but instead gives advice that makes the agent more money instead of advice that is in the client's best interest.

Trying to figure out who is a bad insurance agent is nearly impossible for the average consumer.

EDUCATION

Do you know how long it takes to obtain a license to practice law? Three years in law school to obtain a Juris Doctorate (J.D.) (after undergraduate studies), and then you have to pass a two-day-long bar examination. What about becoming a Doctor of Medicine (M.D.)? You need four years of medical school (after undergraduate studies) and a residency (typically two years).

To become an insurance agent in most states, you have to attend a training/education course that usually takes 40 hours. This is followed up by taking an online test at a secure testing facility that takes less than two hours.

As someone who's a J.D. and a licensed life insurance agent, I can tell you that there is a world of difference between the two licenses. Obtaining my J.D. took years of dedication and study. Obtaining my life insurance license was really easy and only took a week of my time to obtain.

In reality, the insurance agent licensing process is something that a high school student who is a B or better student could get through fairly easily.

I point this out to illustrate that the educational hurdles to become a licensed life insurance agent are not high. Therefore, you have many people take the test who become licensed and really don't know anything about selling fixed life or insurance products (and won't put in the hard work necessary to learn the products).

Does that mean that ALL insurance advisors are somehow a lower class of professionals than lawyers, doctors, CPAs, etc.? No. In fact, I know many life-only licensed advisors who know more about estate and tax planning than many attorneys and CPAs I've met.

Is it my opinion that there are many bad or terrible advisors who have life and annuity licenses? Unfortunately, the answer is an emphatic yes.

USING A “BAD” IMO

The average consumer has no idea what an IMO is (Independent Marketing Organization).

Most “independent” insurance advisors sell fixed life insurance products through an IMO. Most do not get licensed directly with insurance companies. Therefore, in the insurance industry, there are dozens of IMOs (some with over 1,000 licensed insurance advisors).

IMOs are supposed to provide insurance advisors with an opportunity to write business with multiple companies (vs. just getting licensed to sell products with one or two companies).

By being able to sell life insurance policies through multiple companies, independent advisors are supposed to be in a position to offer their clients the “best” policy (no matter what company offers it) for their individual situation.

IMOs have internal marketing professionals who are assigned to insurance advisors. These marketers are actually the ones who make suggestions to the insurance advisors about what product(s) should work best for particular clients.

Let me list for you the flaws with most IMOs which, in turn, cause bad insurance advisors.

First, some IMOs are actually owned by insurance companies. This is good for an insurance company because the IMO’s marketers can push products offered by the insurance company to the licensed agents.

My point is that, if your insurance advisor is licensed through an IMO that is partially or wholly owned by an insurance company, it is highly unlikely that the advisor is providing objective advice that is in his/her client’s best interest.

The sad thing about this is that most of the advisors selling insurance through IMOs that are owned by insurance companies don’t even know it.

Second, as I stated, most of the time, insurance advisors look to their IMO marketers to help them pick the appropriate product for their clients. The problem with this is that many internal marketers don't know the products very well and/or don't know "all" of the available products in order to make the best recommendation to the insurance advisor.

Third, IMO marketers are paid through commission overrides on products sold by the insurance agents they work with. Guess what products more often than not are recommended by the marketer to the agents they work with? Yep, ones that pay the highest commissions (for the agent and the IMO).

CAPTIVE INSURANCE AGENTS

I've found that there are two types of captive insurance agents:

- 1) Contractually captive
- 2) Mentally captive

Both can be "bad advisors" as you will see.

WHAT IS A CONTRACTUALLY CAPTIVE ADVISOR?

He/she is an employee of an insurance company. A good example is State Farm. State Farm advisors are employees of the company and have certain rules they have to follow. If they don't follow the rules, they can have their contracts terminated.

Contractually, captive agents have to sell the products and only the products offered by the company they work for.

For example: If you go to a State Farm agent and ask for a term life insurance quote, guess what you get? That's right—a life insurance quote for a life insurance policy written by State Farm. It is a State Farm product.

If you went to an "independent" insurance agent, the agent should be able to shop your insurance with a number of different companies in order to provide you choices and, hopefully, the "best" product to fit your particular situation (which also means that many times you will be able to find a product with the lowest possible cost).

It would be a minor miracle if a captive agent actually gave you the best advice. Therefore, I recommend not using them.

EXPECTATION OF DISCLOSURE

When I have debates with Northwestern Mutual agents (a group of contractually captive agents whom I frequently butt heads with), they say there is no expectation from a client that a NWM agent will bring to the table a product that is not offered by NWM.

The point being that there is no need to tell/disclose to a potential client up front that the agent is not going to shop around for the “best” products but instead is going to only bring to the table products offered by the company he/she is employed by or contractually obligated to offer.

What happens in the sales process is that a potential client doesn't really think much about only being offered a NWM product by a NWM agent.

Why not?

Because the agent typically will do such a great job of selling the potential client on the wonders of the company itself (it could be any captive company; I'm just using NWM as an example), the client thinks the agent is actually bringing the “best” products to the table for the client to purchase.

Let me ask you again: If you had two insurance agents in front of you and one of them could shop the “competitive” market with 5-10-15+ companies to find you the “best” products and the other was a captive agent working for one company, which one do you think you've received the “best” chance of getting the most unbiased advice with the ultimate outcome being that you did end up with the “best” opportunity to buy the “right” or “best” products to fit your needs?

Again, to me this is a rhetorical question.

There is one last problem with the argument that the client has no expectation that a captive agent will be able to offer products from other companies. What's the problem? It's one of disclosure about the types of products the captive agent has to offer.

As stated, the company a captive agent works with may have a limited product line. While the agent may even go out of his/her way to tell the client that he/she is not able to sell products by other companies, the agent will still make the hard sell about why the captive company's products are the "best."

Even if we assume that to be the case, the product line is still limited; and, therefore, a captive agent who doesn't disclose the fact that the product line offered is limited or very limited, I would still consider to be a "bad advisor."

MENTALLY CAPTIVE AGENTS

I'm not sure what's worse—a contractually captive agent or one who parades as an independent agent who is in reality a mentally captive agent.

What do I mean when I say mentally captive?

It's an insurance agent who has the ability to shop insurance and products with a number of different companies but chooses not to do so. The ultimate outcome of working with mentally captive agents is that you will be sold the same products from the same companies that they use for virtually all of their clients (no matter the fact pattern).

Let me go through a few obvious examples, and then I'll explain the reasons mentally captive agents exist.

Example—buying an annuity to build wealth.

Let's assume you are 55 years old and have accumulated \$500,000 in an IRA for retirement. You plan on retiring in 10-15 years; and because of the recent stock market crashes and general instability of equity markets, you decide you want to build wealth with an annuity that will guarantee you a specific rate of return for as long as possible with a guaranteed income for life you can't outlive.

You sit down with your local "independent" advisor to learn about the various annuities available in the market with the expectation that the advisor will help you pick the "best" one to accomplish your goals.

Bad Advisors

Let's assume that the advisor is both securities licensed and holds a life insurance license.

Because the advisor is securities licensed, the chances of him/her knowing anything about Fixed Indexed Annuities (FIAs) is low.

Unknown to you, the advisor you are meeting with always recommends a variable annuity with an income rider at company XYZ for clients who want protection in the market and a guaranteed income for life.

What you don't know is that the advisor is not shopping the VA marketplace for the "best" VA and has never reviewed the FIAs with similar types of guaranteed riders.

To make matters worse, assume the advisor is a Certified Financial Planner (CFP[®]) who, in fact, does work with a Broker Dealer (like Edward Jones or Merrill Lynch) that forbids him/her from selling FIAs.

Why worse? While I think all advisors have a fiduciary duty to provide their clients with "best" advice that is in the client's "best" interest, CFPs[®] tout that they have a higher fiduciary standard to follow because they are CFPs[®]. This is ironic since many CFPs[®] work through Broker Dealers that forbid them from selling FIAs and equity indexed life insurance (two tools you must be able to offer clients in order to provide them the "best" advice possible and comply with any fiduciary standard and certainly the higher standard set forth by the CFP's[®] board).

Getting back to the example—you give all of your financial information to the financial planner who takes it, reviews it, and sets up a meeting with you the following week to go over his "research" and provide you with his recommendation.

You meet the following week, and what does the financial planner recommend to you? The same variable annuity he recommends to all his clients.

Because the financial planner took a week to come up with the recommendations and because you don't know any better, when the planner puts forth the information as to why the same variable annuity that he recommends to all of his clients is the one

POM Planning: Losing Money is No Longer an Option

for you, you don't know any better and decide to sign on the dotted line to transfer your money to the VA that was recommended.

What's wrong with this picture? A few significant things are wrong.

-The financial planner works with a Broker Dealer that forbids him from selling FIAs.

-He really didn't research the VA products in the market; he really just recommended the same one he has a comfort level with and recommends to all of his clients.

What would a "good advisor" have done given the same example?

-If the advisor worked with a Broker Dealer that forbids him/her from selling FIAs, this would have been disclosed so the client could find an advisor to run numbers on FIAs to compare them to the numbers offered by the VA.

-Assuming the advisor didn't have his hands tied by a Broker Dealer and that he wasn't a captive insurance agent working for one insurance company, he would have done the following:

-researched all the viable FIAs in the market

-researched all the VAs in the market

-provided the data and the pros and cons of the top VA and FIA products.

If the above were done, then the client would have been receiving very good advice and then could make a full-disclosure decision as to which annuity to purchase.

Advisors who have restrictions that are not disclosed to clients are truly the classic definition of a "bad advisor."

FREE TRIPS

This may or may not come as a surprise, but insurance companies often times offer free trips to advisors who place a certain amount of business with them over a specified period of time.

What kind of trips?

Bad Advisors

It depends. For X level of production, agents might earn a three-day trip to New York City where they are treated to a play on Broadway, a professional sporting event, a sightseeing tour, and, most certainly, dinner and cocktails every night at some of the best restaurants.

The agent's airfare, hotel, and other miscellaneous expenses are also taken care of. The total value of the trip might be \$2,000.

If the agent qualifies for the top free trip, it could be seven days in Europe, a cruise in the Greek Islands, an Alaskan Cruise, or a trip to a beach resort in Mexico or even Jamaica. Cost of the trip can run between \$5,000-\$6,000.

Of course, agents are able to bring one guest with them for free.

So what? What's the big deal? Let me just tell you the big deal with an example.

Assume an agent is \$10,000 in life insurance premiums short of bumping himself from the New York trip to the Greek Island Cruise trip. Assume the agent has a client coming in who can allocate \$10,000 to a CVL insurance policy to grow wealth for retirement in a tax-favorable manner. Assume that the "best" policy for this client is NOT the one that will qualify the agent for the better trip. Assume that the cutoff date for new business to qualify for the trip is next week.

If the agent doesn't sell the policy from the free trip insurance company, he will be stuck going to New York for three days vs. going on the Greek Island Cruise for seven days.

What does the agent do? What would you do?

I can tell you what should be done. The agent should go through a due diligence process and find the "best" products for this particular client. If it is from a company not offering this trip, that's life.

A "good advisor" always recommends products or investments that are in the "best" interest of the client. A "bad advisor" takes care of #1 first (himself/herself) even if it is at the client's expense.

Is the client going to know any better? The answer is no (unless he/she reads this book and calls me or another “good advisor” to review the situation).

Does this really happen or am I just putting forth entertaining fact patterns to make the book more interesting?

Not only does this happen, it happens on a routine basis. How do I know? Because I’ve talked with dozens of advisors who have admitted, without regret, that they’ve done this to make sure they qualify for a trip or a better trip.

SUMMARY ON MENTALLY CAPTIVE AGENTS

Again, it’s tough to say which is more offensive—an agent who is contractually obligated to sell products only from the company they work for (captive agents) or ones who parade as independent advisors who act captive out of self-interest.

I find both problematic; but when it comes to mentally captive agents, I believe this is more offensive because the client has an expectation that the “best” advice is being given because the agent can shop products with multiple companies in an effort to provide clients with the “best” products.

At least with contractually captive agents, many times it is obvious that the products they are going to recommend are the ones from the insurance company they work for. Many consumers understand this (although they may not understand the consequences of using a contractually captive agent’s products), and there may be no expectation of truly independent advice.

An independent, but mentally captive agent, gives the appearance of independence but may not actually be providing independent advice.

CAREER AGENTS

Career agents are sort of a dying breed and don’t fit neatly into contractually captive agents or mentally captive agents.

What is a career agent? Let me start with what is NOT a career agent. A non-career agent is not a W-2 employee of an insurance company. Non-career agents are NOT contractually obligated to sell ONLY the products of the employer (meaning

Bad Advisors

they can sell insurance products to clients with any number of other companies).

However, career agents have quotas they must meet in order to continue to be a W-2 employee and receive the benefits that go along with being an employee.

Why would an agent want to be a career agent? There are a few reasons: 1) an initial salary, and 2) health insurance.

When someone is just coming into the insurance business, usually they are not leaving a good job they like or leaving a profitable business they own. Most new agents who come into the insurance fields do not have a job and have very little money.

Why do you need money when becoming an insurance agent? Because it takes time to make sales and for the agent's initial commissions to come in.

If the insurance company didn't provide a reasonable salary for at least the first six-to-twelve months, most agents would leave the business before ever having a chance to succeed (they couldn't afford to be a start-up insurance salesperson).

Health insurance is the one I find more interesting. I've had a number of calls in the last year from career agents who've read my e-newsletters and called me to see if there was a way they could work with me in some capacity. Some want my marketing tools for free, some want me to help them with case design, some want to use me as a resource to answer tax, asset protection, or product questions, etc.

In order to work with me in any capacity that does not involve an advisor taking an educational course through The Wealth Preservation Institute (any advisor who takes my course can always contact me for questions or help), advisors must be willing to work with the IMO I work with (meaning they have to be willing to place some amount of their fixed life and/or annuity sales through the IMO I work with).

I've had a number of agents tell me that they would really like my help to provide the "best" advice to their clients; but because they have a health problem and can't afford insurance, they have to stay as a W-2 employee with the captive company so

they can maintain their health insurance. They say this even though they know the insurance company's products are not very good.

The bi-product of this is that the clients of these career agents are going to be sold inferior products which I find offensive. You might find this story hard to believe; it's a sad reality in the insurance industry.

What's ironic is that, if career agents had any decent sales each year, they would make 20-30% more money in commissions than they do being a career agent. Because of the benefits provided career agents, the commission payout on products sold is much lower than a truly independent agent.

The bottom line is that I recommend you stay away from both mentally captive agents, contractually captive agents, and career agents. The chance of you receiving the "best" advice from them is slim to none.

SECURITIES LICENSED ADVISORS

I have a very long chapter in my Bad Advisors book on bad securities licensed advisors. I'll try to include in this chapter the most important points in the most succinct manner possible.

Before talking about these types of advisors, I need to put forth some definitions to lay the groundwork.

DEFINITIONS

What is a Broker Dealer (BD)?

A BD is a company that is in the business of buying and selling securities.

What is a security?—stocks and mutual funds are the classic examples of securities that most people will be familiar with.

BDs must register with the Securities and Exchange Commission (SEC) as well as FINRA (Financial Industry Regulatory Authority).

What is a stock broker?—a general definition is an individual who sells securities to the general consumer (the "client").

In order for stockbrokers to sell a stock, mutual fund, or other type of security, they need a securities license. The following are the most common types of licenses and what it allows an advisor to sell to clients:

-Series 6 License—this license allows advisors to sell a limited menu of securities such as mutual funds, variable life insurance, and variable annuities.

-Series 7—this license allows advisors to sell individual stocks, bonds, options, etc. In order to conduct business, an advisor must also obtain either a Series 63 or 66.

-Series 63—this license is required by each state and authorizes licensees to transact business within the state.

-Series 65—this is a “fee-only” license. You can think of a Series 65 as an equivalent license to a Series 7 except that with a Series 65 the advisor cannot earn “commissions.”

-Series 66—this license is simply the name of one that combines both the Series 65 and 63.

COMMISSIONS AND FEES

These are just what you’d think they are. If an advisor sells a mutual fund that is “loaded” correctly, the advisor can make an up-front commission on its sale to clients. This is in addition to a money management fee generated and paid to the securities licensed advisor typically on an annual basis.

Here are some typical commissions that can be generated by securities licensed advisors when they sell certain products:

-Sales Charge (Load) on Purchases—this is a fee that investors pay when buying an investment that reduces the amount available to invest. An example is a 5% fee when an advisor places money in a particular type of mutual fund. If the investment was \$10,000, the commission to the advisor would be \$500 (leaving \$9,500 as the investible amount for the client).

-Deferred Sales Charge (Load)—this is a fee that investors pay when they redeem fund shares (that is, sell their shares back to the fund) (also known as “back-end” sales load). The most

common type of back-end sales load is the "Contingent Deferred Sales Load," also referred to as a "CDSC" or "CDSL."

For example, a CDSL might be 5% if an investor holds his or her shares for one year, 4% if the investor holds his or her shares for two years, and so on until the load goes away completely. The rate at which this fee will decline will be disclosed in the fund's prospectus.

A fund or class with a CDSL typically will also have an annual 12b-1 fee.

-12b-1 Fee—this is a fee paid by a fund out of fund assets to cover distribution expenses and sometimes shareholder service expenses. "Distribution fees" include fees paid to compensate brokers and others who sell fund shares.

The SEC does not limit the size of 12b-1 fees that funds may pay; but under FINRA rules, 12b-1 fees that are used to pay marketing and distribution expenses (as opposed to shareholder service expenses) cannot exceed 0.75 percent of a fund's average net assets per year.

What about "No-Load" Funds?

With all this talk about fees on "loaded" mutual funds, I'm sure that many of you are thinking that it is best to use "no-load" funds.

Some funds call themselves "no-load." As the name implies, this means that the fund does not charge any type of sales load. Not every type of shareholder fee is a "sales load," and a "no-load" fund may charge fees that are not "sales loads."

For example, a "no-load" fund is permitted to charge purchase fees, redemption fees, exchange fees, and account fees, none of which is considered to be a "sales load." In addition, under FINRA rules, a fund is permitted to pay its annual operating expenses and still call itself "no-load" unless the combined amount of the fund's 12b-1 fees or separate shareholder service fees exceeds 0.25% of the fund's average annual net assets.

More Fees—

Don't forget about the fees that can and usually are added on to either a "loaded" or "no-load" mutual fund.

-Management Fees—management fees are fees that are paid out of fund assets to the fund's investment advisor (or its affiliates) for managing the fund's investment portfolio and administrative fees payable to the investment advisor (small accounts usually pay a 1% annual fee for management services. The percentage typically decreases with the size of the account).

-Total Annual Fund Operating Expenses—this fee is the total of a fund's annual fund operating expenses expressed as a percentage of the fund's average net assets (like a 1.2% annual expense that is on top any other expense).

A "good advisor" will go out of his/her way to detail every fee you are paying to invest money with him/her. A "bad advisor" will not.

BROKER DEALERS

Have you heard of LPL Financial, Merrill Lynch, A.G. Edwards, Raymond James Financial Services, Inc., AXA Advisors LLC, Northwestern Mutual, Wells Fargo, Waterstone Financial Group, or Ameriprise? These are all Broker Dealers (BDs).

WHAT DOES A BD DO?

Depending on whom you ask, you'll get different answers. If you ask me, most BDs do very little except prevent securities licensed advisors from providing their clients the "best" unbiased advice possible and from telling their clients the whole truth.

Technically speaking, however, in addition to being the clearing company that allows stockbrokers to sell stocks, mutual funds, etc., a BD is supposed to function in an oversight capacity.

What do I mean when I say oversight? I mean the BD is supposed to make sure that the advisors it licenses are "doing the right thing" for their clients (this is ironic since in my opinion many BDs do just the opposite).

BD LIABILITY

BDs are liable for the acts of their licensed advisors. Therefore, if their advisors sell clients “unsuitable” investments that cause clients harm, when the lawsuits come down, the BD is ultimately liable.

The BD might not have done anything wrong (meaning that no oversight could have prevented the harm); but, yet, the BD is still liable.

Because of this ultimate liability and the fact that lawsuits against securities licensed advisors spiked significantly after the last stock market crash (-59% from the highs of 2007 to the lows of 2008), do you think that BDs are giving more or less oversight to their advisors? The answer is not only more oversight but much more oversight. Oversight comes from a BD’s compliance department.

SELLING THROUGH A BD

If advisors have a Series 7 license, they must sell their securities through a BD. Registered Investment Advisors (RIAs) do not have to sell securities through a BD as long as they have a Series 65 or 63 license or a Series 66 license that is the combo of 65 and 63.

WHAT IS A REGISTERED INVESTMENT ADVISOR (RIA)?

An RIA is a licensed professional that registers with the Securities and Exchange Commission (SEC) and any states in which he or she operates. Most RIAs are partnerships or corporations, but individuals can also register as RIAs.

RIAs give investment advice to clients but are paid much like mutual fund managers. RIAs usually earn their revenue through a management fee comprised of a percentage of assets held for a client. RIAs do not make money from securities commissions like a typical advisor selling/clearing sales through a BD.

Fees fluctuate, but the average is around 1%. Generally, the more assets a client has, the lower the fee he or she can negotiate - sometimes as little as 0.35%. This serves to align the “best”

interests of the client with those of the RIA as the advisor cannot make any more money on the account unless the client increases his or her asset base (vs. a transactional salesperson who makes money on the sale of securities (the more turnover a portfolio has, the more money a commission-based advisor can make)).

RIAs are typically the types of advisors who would use the tactically managed low maximum drawdown strategies I talk about in Chapter 5.

RIA COMPLIANCE/OVERSIGHT

Unlike non-RIAs who have to deal with the nightmare of a BD compliance department, RIAs only have to worry about the state regulators and the Securities and Exchange Commission (SEC).

PROTECTING THE BD, NOT THE CLIENT

It is my opinion that many BDs are more interested in protecting themselves from lawsuits than helping their licensed advisors provide the “best” advice to their clients.

How do many BDs protect themselves from lawsuits? They limit the type of advice and products that can be sold to clients.

Think about that for a minute. Would you want to work with an advisor who is forbidden from giving certain financial advice or offering certain financial or insurance products even if the advice or financial instrument is in your “best” interest?

Or would you rather work with an advisor who does not have limits on the type of advice he/she can give to you and can bring to the table all of the viable financial instruments or products for you to use to protect and grow your wealth?

The previous questions are really rhetorical because everyone will answer them the same way (that it is always better to work with an advisor who does not have restrictions on the advice given or the financial instruments or products available).

Why do BDs limit the advice an advisor can give or the products they can sell? Again, the answer is simple. BDs are looking to avoid lawsuits.

WHAT TYPE OF ADVICE AND PRODUCTS ARE OFF LIMITS?

It will depend on the BD. Each one has its own list of areas of advice and products that the BD does not want an advisor to discuss or sell. However, the following is a brief list of the ones I find the most offensive.

-Life Settlements—what is a life settlement (LS)? It's when a person who owns a life insurance policy no longer needs or wants the policy and decides to sell it for cash.

-Reverse Mortgages (RM)—a reverse mortgage is a special and different kind of loan that is easy to obtain if you are at least 62 years of age and own your own home, condo (PUD), or co-op (only in New York). There is no credit or financial underwriting with an RM. You simply need a house with equity (which means it is very easy to qualify for).

-Fixed Indexed Annuities (FIAs)—this is one reason I rail against Series 7 licensed advisors who sell through a BD.

As you read in Chapter 8, FIAs have the following benefits:

1) Money NEVER goes backwards when the stock market goes negative.

2) Growth in an FIA grows with the stock market up to a cap.

3) Gains are locked in annually and can never be lost.

4) Many products have guaranteed income riders that will guarantee a rate of return on an accumulation value (not walk-away value) in the accumulation phase coupled with a guaranteed income for life that can't be outlived.

5) Some products have a free, long-term care benefit.

MANY BDs FORBID THEIR ADVISORS FROM SELLING OR EVEN DISCUSSING FIAs WITH CLIENTS

As I've stated several times, many BDs are NOT about putting the client first. Most of them are about 1) gathering assets under management, and 2) avoiding lawsuits.

Would it outrage you to know that certain BDs have formal policies that FORBID their advisors from selling FIAs? It should.

The policy will vary from BD to BD, but the policy is basically that their advisors can't discuss or sell FIAs to clients.

Which BDs don't allow their advisors to sell FIAs? Here are a few (there are many others that are not listed below):

- Mass Mutual
- Northwestern Mutual
- State Farm
- Met Life
- New York Life

Look at the following quote from a Mass Mutual agent when I asked him if he could sell FIAs to clients.

“To answer your question, we are licensed to sell FIAs but we are not allowed to sell them under our agent's contract. Mass does not have an FIA in its product line, and we would be terminated if we sell the product. Even our outside brokerage operation will not allow us to sell any indexed products. Hope this helps.”

If the above quote doesn't send chills up your spine, I don't know what will. The advisor is confirming that, if he sells an FIA product or any indexed product (including equity indexed life insurance which you will read about in a few pages), he would be terminated from his contract with Mass Mutual.

LACK OF DISCLOSURE IS WORSE THAN NOT BEING ABLE TO SELL FIAs

It's outrageous enough that many advisors are forbidden from selling FIAs. What's equally or even more outrageous is that these same advisors do not disclose to their clients that they are forbidden from selling them.

Think about some CFP[®] coming into your living room and selling themselves as the financial planner that can help you accomplish all of your retirement-planning goals.

Then think about the fact that this advisor can't offer you a product that can't go backwards when the market goes negative, locks in the gains annually, and can offer a guaranteed return coupled with a guaranteed income for life.

If the advisor started out the conversation stating that these products existed but that he/she couldn't offer them to you, what would you say? You'd probably just show him/her the door, and then you'd go out to look for a "good" advisor who could really give you advice in your best interest.

RETIREMENT LIFE™

In my Bad Advisors book, I have a whole section about Series 7 licensed advisors either not being aware of the protective wealth-building features of Retirement Life™ (tax-free growth, no negative returns, locking in gains annually, tax-free withdrawals) or being aware of them and being forbidden from offering them by the BD they work with. It's similar to my discussion about FIAs you just read.

For this chapter, just stating the above should be sufficient to get my point across as to why so many Series 7 licensed advisors are "bad advisors."

Like FIAs, what's worse than not being able to sell Retirement Life™ is when a securities licensed advisor can't but doesn't disclose it to clients. It's only when full disclosure of the limits a BD places on a series 7 licensed advisor can the consumers (clients) determine if they should be working with the advisor or if it would be more prudent to find one who can actually give client first advice (the "best" advice for clients).

SUMMARY ON SERIES 7 LICENSED ADVISORS

BDs, who Series 7 licensed advisors must work through, are not interested in clients receiving the "best" advice. They are simply interested in advisors gathering as many assets under management as possible.

Because BDs place restrictions on their advisors and limit what they can talk about and offer clients, it's tough to draw any other conclusion than that they can't possibly give clients the "best" advice.

Throw in the fact that the next time I hear a Series 7 licensed advisor give full disclosure to a client explaining their contractual limitations will be the first time, and it's no wonder I come to the firm conclusion that readers should stay away from them.

FEE-ONLY ADVISORS

In short, fee-only advisors are my least favorite advisors in the entire financial services industry.

WHAT IS A FEE-ONLY ADVISOR?

I went to the World Wide Web to find a handful of different explanations from the fee-only advisors themselves.

Quote #1

*“A Fee-Only financial advisor is one who is compensated **solely** by the client with neither the advisor nor any related party receiving compensation that is contingent on the purchase or sale of a financial product. Fee-only advisors may not receive commissions, rebates, awards, finder's fees, bonuses or other forms of compensation from others as a result of a client's implementation of the advisor's planning recommendations.”*

Quote #2 (This is my favorite explanation I found on the Web).

“What is Fee-Only Financial Planning?

*Depending on the service you select, the fee is based on hourly fees, flat fees for financial plans, or asset management fees. There are **no** hidden fees or expenses, **nor** do we receive fees from third parties for the services recommended on behalf of our clients.*

Your account will be customized using index funds, Exchange Traded Funds (ETFs), and "no load" or "load waived" mutual funds which put more of your investment dollars to work.

Why is Choosing a Fee-Only Advisor Important?

*Fee-Only advice results in **objective advice** that meets your specific needs. Because we receive **no commissions of any kind**, or referral fees from accountants, attorneys, insurance professionals, or anyone else, we have no incentive to recommend a product or service unless it is in your best interest.*

Other Forms of Compensation for Other Advisors

What is a Commission Based Advisor?

A commission based advisor receives commissions from financial companies for selling investment, insurance, and other financial products to their clients. The client may not see the commission, which can be paid in several ways, such as "loads", "12(b)1 fees", or sales incentives, but it is paid.

What is a Fee-Based Advisor?

*Fee-based advisors receive **both** commissions from product sales **and fees** from clients."*

Why do I like Quote #2 as my favorite? Because it's one that has the best marketing pizzazz. Why do I find that interesting? Because my assessment of fee-only advisors is that the concept that they give clients the best advice because they are fee only is an oxymoron (a figure of speech that combines normally-contradictory terms).

Why do I use the term oxymoron? As you'll read, it's nearly impossible for a fee-only advisor to give the "best" unbiased advice to clients.

FEE ONLY IS GREAT MARKETING

When you read that fee-only advisors do not take commissions and because of this are in a position to always make recommendations that are in the client's "best" interest, it really makes sense, doesn't it?

With Series 7 licensed advisors who sell through a BD, many make a majority of their money from commissions (commissions that come from selling stocks and mutual funds). The higher the turnover in a stock/mutual fund portfolio, the more money an advisor can make.

Therefore, it seems logical that, if consumers work with fee-only advisors, the advisors surely will be able to give less-biased advice, right?

WHAT ABOUT FEE-BASED ADVISORS?

Let's divert for a bit and talk briefly about fee-based advisors vs. fee-only advisors.

As stated earlier in Quote #2, a fee-based advisor can charge fees for advice given and earn money from commissions. If you've bought into the fee-only model as the only one that aligns an advisor's interest with that of his/her clients, then you probably think that a fee-based advisor must give tainted advice because they can earn commissions.

Actually, fee-based advisors are my favorite kind of advisors. If you want advice on securities products (stocks, mutual funds, variable annuities, etc.), fee-based advisors at least have the opportunity to give clients the "best" advice (I'll explain shortly).

NO-LOAD LIFE INSURANCE AND ANNUITY PRODUCTS

What is a no-load life insurance or annuity product? It's one that doesn't pay a commission.

In theory, you'd think a product that doesn't have a commission must be better than those without, right? If an insurance company doesn't have to pay an agent to sell it, then the product must be priced better (term life insurance should be less expensive, cash value life insurance should have more cash, and annuities should have more cash and no or lower surrender charges).

There are a lot of things in life that sound good in theory but fail in the real world.

Over time, insurance companies have tried to roll out no-load or low-load insurance and annuity products. Most of them were taken off the market. Why? They must have been better products, right?

No. Most of them were inferior products compared to the ones that paid commissions. How can that be?

Insurance companies put money into research and development of products they know will sell. As you'll find out, fee-only advisors know very little about most insurance products and, therefore, don't recommend or sell many of them.

If few advisors are selling no-load products, how long do you think an insurance company will keep them on the market? Right. Not very long.

You don't have to necessarily agree with what I'm saying, but what I'm saying is the truth.

Most of the good insurance and annuity products (except potentially some variable annuities) are commission-based products because there is a huge national sales force of licensed insurance advisors to sell them.

WHAT MAKES A "BAD" FEE-ONLY ADVISOR?

Let me just get right to the heart of the issue by asking you a few simple questions.

Do fee-only planners have a built-in bias against commission-based products?

Absolutely.

If fee-only advisors can't and won't offer commission-based products, what do you think the odds are of fee-only advisors knowing if any of the commission-based products are any good?

Nearly Zero!

How do I know? Because I've talked to dozens of fee-only advisors over the last several years who have proved their ignorance of commission-based products to me.

Why would I be talking with a fee-only advisor? I have thousands of them who receive the educational e-newsletters I send through The Wealth Preservation Institute. Many of them don't like the fact that I'm a strong advocate of insurance products such as Fixed Indexed Annuities (FIAs) and Equity Indexed Universal Life (EIUL) insurance.

I receive many negative e-mails and calls from fee-only advisors who tell me I'm doing the industry a disservice by touting the virtues of commission-based products.

It's like they are trying to convert me to the cult of fee-only planning.

However, unlike fee-only advisors, my ethical duty is to provide the "best" advice to my clients and counsel others to do the same no matter what products or concepts are on the table. If I think a commission-based product is the "best," I'll recommend it. If I think a no-load product is the "best," I'll recommend it.

Fee-only advisors have basically sworn an oath that is contradictory. Their oath is always to do the "best" for their clients by NOT taking commissions. The problem with that as I've stated is that many of the best products in the market are commission-based products.

In my book, [Bad Advisors](#), I have a hilarious example of a typical phone call I have periodically with a typical fee-only advisor. I don't have space in this chapter for the discussion but it is a give and take about how much research a fee-only advisor does on commission-based products.

The fact of the matter is that there are two main reasons why fee-only advisors don't know anything about commission-based products:

- 1) They can't make money selling them. If they can't make money selling them, where is the incentive to spend countless hours each week/month/year to learn these products and keep up to date with the changes?

- 2) If you happen to run into the white whale of fee-only advisors (the one who actually does research on commission-based products), he/she still will have a hard time recommending them because, in order to be compensated for his/her work, he/she will have to charge the client a fee on top of the commission that will be paid to a licensed agent (an agent who will be needed in order for the client to purchase the product).

NO-LOSS COMMISSION-BASED PRODUCTS

As you've read in Chapter 8, two of my favorite wealth-building tools are Retirement Life™ and Fixed Indexed Annuities (FIAs). Both are commission-based products that a fee-only advisor wouldn't be caught dead recommending to a client.

Think about that for a minute. Retirement Life™ guarantees your money won't go backwards in the market, locks in gains annually, allows for tax-free growth, and tax-free money in retirement.

Think about it—FIAs guarantee your money won't go backwards in the market, locks in gains annually, and can come with a guaranteed return of between 6%-8% annually coupled with a guaranteed income for life that can't be outlived.

What would you tell a fee-only advisor if he/she wanted you to hire him/her if you knew he/she couldn't offer these products? I'd tell the advisor to get lost and get educated.

LACK OF FULL DISCLOSURE

Just like there is a huge disclosure problem with Series 7 licensed advisors who have limits put on them by BDs, there is a huge disclosure problem with fee-only advisors.

Do you think a fee-only advisor sits down with a new client and says, "I just want to let you know that there are these products out there that can guarantee your money will never go backwards, can lock in your gains annually never to be lost, and some can offer you a guaranteed return coupled with a guaranteed income for life you can't outlive...but, I want you to know I will never offer you these products because I belong to the cult of fee-only planning."

A fee-only planner will never give the previous disclosure to a client because, if that happened, no client would ever hire the advisor.

FEE-BASED PLANNERS

Let me discuss a little more about fee-based planners (vs. fee-only planners).

Fee-based planners are ones who can make commissions on clients but who typically use no-load mutual funds and other low-load investments for clients when dealing with typical brokerage account money.

Why do I like fee-based planners?

Because they, too, are on the side of their clients when it comes to asset-based fees vs. commissions that are made when buying and selling stocks, mutual funds, and bonds.

However, if the fee-based advisor understands the value of cash value life insurance or fixed indexed annuities, he/she can recommend either product and make money from the advice given.

Fee-based planners have an incentive to learn about commission-based products so the “best” advice can truly be given to clients (unlike fee-only advisors who have no incentive to learn about commission-based products).

SHOULD YOU NEVER USE A FEE-ONLY ADVISOR?

This is a great question. If it were me, the answer would be that I would never use a fee-only advisor. Is it because I think they are all dishonest or incapable of giving money-management advice?

No. It’s because the vast majority of them know nothing or very little about commission-based products; and even if they did know something about them, there is a disincentive to recommend them to clients.

Because of my research on FIAs and EIULs, I know mathematically that for many clients they can be two of the best tools to grow wealth in a protected manner.

It would be very difficult to think that an advisor who knows nothing about these products and, in fact, has taken an oath not to make money from these products (which is equivalent to

taking an oath not to recommend these products) can give the “best” advice to me or to anyone else.

WHAT IS A “GOOD ADVISOR”?

Hopefully, I’ve decent job of explaining why I think several types of advisors are “bad advisors” considering I have condensed my Bad Advisors book down into one chapter for this book.

While it’s certainly important to be able to identify a “bad advisor,” I figured I’d end this chapter with what it think makes a “good advisor.”

A “good advisor” has the following characteristics:

1) Professionally competent.

As you’ll find out, many advisors are not professionally competent (in layman’s terms, they really don’t know what they are doing; you just don’t know it). A competent advisor will keep up with the trends in his/her industry (laws and/or the tax code if an attorney/CPA or financial/insurance products or tools if a financial planner or insurance agent). Advisors who do not keep up with the times will quickly become less competent and, ultimately, incompetent over time.

I can’t count the number of times I’ve received calls from advisors who’ve told me they have been in the business for 20-30 years (insurance/financial business) and are calling me for information on the most basic issues or to learn about products they didn’t know about that are viable and have been in existence for over ten years.

2) The ability to make recommendations.

Too often advisors lay out options for clients and let the clients choose what to do. People hire or use professionals because they are supposed to know what they are doing (more so than the clients) and so they can recommend what they believe is “best.”

Advisors refrain from making recommendations many times because they are afraid of being wrong and do not want to take full responsibility for their recommendations. Competent

advisors will make specific recommendations and help their clients implement a course of action after it has been chosen.

3) The ability to know when help is needed and if the advisor is over his/her head.

A good advisor will not act like they know what they are doing when they don't just to make a sale. Unfortunately, this happens all the time because the client does not understand the subject matter or product being discussed and because the salesperson is good at selling himself/herself as a credible/competent advisor.

A “good advisor” will have a team of professionals or a support network (like The Wealth Preservation Institute) to lean on to help clients so the “best” advice can ultimately be given.

4) Always providing advice that is in the client's “best” interest, not the advisor's best interest.

This is really the big one (especially in the insurance and financial-services fields). What you've read in this chapter should absolutely frighten you. It should also enrage you when you find out that many advisors have no intention of doing what's in their client's “best” interest.

Being a “good advisor” is simple—all you have to do is know what you are doing and give advice that is in the client's “best” interest.

If it's so simple then it would make sense that most advisors are “good advisors,” right? I'll let you make the determination for yourself after you read this book; but it is my informed opinion that a significant portion of advisors are not “good advisors” but are, in fact, “bad advisors.”

If you would like to find a “good advisor” in your local area to work with or simply to review advice given to you by what you think is a “bad advisor,” simply e-mail me at roccy@nolongeranoption.com; and I'd be happy to refer you to a qualified advisor in your local area.