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Before the Advice, Check Out the Adviser

When Elaine and Merlin Toffel, a retired couple in their 70s, needed help with their investments, they went to their local U.S. Bank branch. The tellers knew them by their first names. They were comfortable there.

So when a teller suggested that they meet with the bank's investment brokers, the Toffels made an appointment. After discussions and an evaluation, the bank sold them variable annuities, in which they invested more than \$650,000. The annuities promised to generate lifetime income payments.

What she says they didn't fully understand was that the variable annuities came with a hefty annual charge: about 4 percent of the amount invested. That's more than \$26,000, annually — enough to buy a new Honda sedan every year. What's more, if they needed to tap the money right away, there would be a 7 percent surrender charge, or more than \$45,000.

Brokers, like those at the Toffels' bank, are technically known as registered representatives. They are required only to recommend "suitable" investments based on an investor's personal situation — their age, investment goals, time horizon and appetite for risk, among other things. "Suitable" may sound like an adequate standard, but there's a hitch: It can mean that a broker isn't required to put a customer's interests before his own.

At the largest brokerage firms — Merrill, Wells Fargo, UBS and Morgan Stanley — there are incentives to bring in new money.

REGISTERED INVESTMENT ADVISERS

Required to put customers' interests ahead of their own — that is, they are required to act as fiduciaries. Advisers and their firms generally register with the Securities and Exchange Commission or a state securities regulator.

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Suitable or Legally Obligated To Place Your Best Interests Before Any Other Party? Whether it is your attorney, your surgeon or your financial adviser, be sure that the professional you are working with is a Registered Investment Adviser (RIA) that is legally obligated to place your interests before any other party. Like a surgeon or an attorney, RIAs are compensated with fees – not commissions.

The 800 Pound Gorillas. Even if they are registered as RIAs, the largest brokerage firms that are publicly traded companies (800 pound gorillas) have a clear conflict of interest between their clients and their shareholders. Rarely if ever will the largest brokerage firms volunteer to you that the shareholders that own the company will always force the company to place their interests over the clients' interests.

Litmus Test. A good litmus test for annuities or any other investment is to simply require the financial adviser to state in writing that they will not receive a commission for providing the product. RIA's can offer low cost, no-load annuities that do not have commissions or surrender charges.

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