

Here I provide additional information on selecting an investment advisor, and list investment situations to avoid.

Picking an advisor.

My goal is to give you enough information and confidence to decide which types of assets are right for you, and to pick specific investment products. However, some of you might feel more comfortable with personal attention from a financial adviser. In this case, here is what I would do to pick an advisor.

- I would pick the adviser first, not the financial institution. In other words, I wouldn't go a specific bank, insurance company or stock brokerage firm and ask for a financial adviser. In this case, I will be assigned to a representative, and guess what? He or she will recommend the institution's products. I'd pick an adviser who is independent of financial institutions, and who will help me pick the best products among all institutions.
- I would tap my best sources for recommendations from professionals whom I trust, such as accountants or attorneys. I'd be wary of recommendations from friends, unless I know they are very knowledgeable about investments. Too often the sharks do good job of milking everybody's friends.
- I'd look for independence. I would ask a potential adviser whether he or she is independent of any institution and is free to recommend any product.
- I would make sure the adviser is qualified. Many people hang out a shingle and call themselves financial advisers. The Institute of Certified Financial Planners can get us a list of Certified Financial Planners (CFPs) in our area (see www.cfp.net). To become a CFP, an individual must satisfy requirements with respect to education, examination, experience, and ethics. These requirements don't guarantee competence, but at least the planner has experience and formal training, and is subject to ethical requirements of the organization. If an adviser brags about being licensed to sell securities or insurance, I'm not impressed. The requirements aren't very stringent.

- I would ask how the adviser gets paid for his or her efforts. Some advisers don't charge a fee, but they make money from loads and commissions from the products you buy. No surprise: we won't see any no-load funds from them. I prefer arrangements where the adviser charges a percentage of my assets under management, and is then free to recommend any investment product. This fee should be 1% or less – higher starts to get excessive. Some planners might charge several hundred dollars for an initial, simple financial plan – this is reasonable. Anything approaching \$1,000 or more starts to get excessive.
- Is the adviser clean? I would contact my state securities department or the federal Securities and Exchange Commission (SEC) in Washington DC to learn whether the planner has had customer complaints registered with either of these agencies. I can find the contact information about my state securities department through the North American Securities Administrator's Association (www.nasaa.org). I can contact the SEC at www.sec.gov. If the planner's firm is a member of the National Association of Securities Dealers (NASD), I can find out whether there are any judgments or complaints (see www.nasdr.com, or call 1-800-289-9999). It's human nature to assume the best about people, or to be too bashful to call. I would overcome these natural emotions and take a few minutes to call. If I don't, I could be very sorry later.
- I would ask for references. A good planner is glad to put me in contact with happy clients. I would ask for people who have been with them for three years or more, and call a few. I'd find out whether the planner took the time to discuss their objectives and circumstances, and explain the particular investment products. Also, I'd find out if the planner paid attention to their portfolio throughout the year, and took the time to talk with them periodically.

Here's my own personal bias, based on my experience and those of my associates. If I have less than \$1 million to invest, I won't have a professional manage an individual portfolio for me. Anything less is not enough money to attract the attention of really good professionals. I'll get a rookie or an incompetent, with the obvious result. Or, I might get somebody really good, but this person is too busy paying attention to more important clients. They might take me as a client in the hope that eventually I'll give them enough money to make it worth their time.

There is one disadvantage that individually managed portfolios have compared to mutual funds. Usually the investment management fees are not tax deductible from the investment income. With mutual funds, the expenses of operating the funds are deductible from investment income, and I'm taxed on the net income.

In my case, I've taken the time to become familiar with investment and insurance products, and I don't need an adviser. I'm very comfortable selecting no-load mutual funds. I encourage you to take the time to inform yourself, so you can do this as well.

Institutions and professionals to avoid.

Here I identify situations simply to avoid, because there are too many sharks or incompetent people. Most of the time, the following institutions and professionals are o.k. However, the industry hasn't done a good job of keeping out the sharks, so it's best just to avoid them and not worry about it.

I won't invest my money with these institutions or professionals.

- Any stock brokerage firm that offers investments to individuals and also underwrites capital investments for corporations. It is simply too tempting for them to direct us to investments that pay them lots of money from the corporations for whom they are underwriting. Unfortunately, this excludes most of the major stock brokerage firms. In recent years, many scandals have been uncovered, where advisors recommended stocks that their firms were underwriting, and later it was exposed that the advisors thought the stocks were junk at the time.
- Anybody who won't put me into a no-load mutual fund, and always steers me to load funds. I will especially avoid anybody who makes me feel stupid for wanting a no-load fund. Slick salespeople will try to intimidate us into buying load funds or other products with high commissions.
- Anybody who charges investment management fees of much more than 1% of my portfolio. I'd rather buy no-load funds on my own. However, if I need professional advice, I'm better

paying a percent of my assets under management, compared to somebody who makes a commission each time investments are bought or sold.

- Anybody who tells me to take money out of my 401(k) plan to invest in their program, or who tells me to stop contributing to my 401(k) plan to invest in their program. My 401(k) plan is the best place for my investments – I'll use other programs *only* for savings amounts above the maximum limits in 401(k) plans. There are two exceptions. One is if I want to buy an immediate annuity with part of my 401(k) balance. The second is that it might be better for me to contribute to a Roth IRA, compared to contributions to my 401(k) plan that are not matched. However, I should never pass up the chance to receive matching contributions in my 401(k) plan. I discuss this further in Chapter 13 of *Live Long & Prosper!*
- Anybody who *guarantees* rates of return that are far higher than what I could expect from average returns on bonds, as shown in Figure 11.4 of Chapter 11 in *Live Long & Prosper!* Most likely, these are con artists. Every year I see sad stories about people whose retirement savings were wiped out by sharks who 'guarantee' very high returns. The only way to achieve high returns is to take risk. There is no such thing as a guaranteed return that far exceeds what we could expect from stocks and bonds. I'll make sure I always know what can be reasonably expected for different types of investments, so I can look for the warning flags. By the end of 2004, this warning flag is 10% per year. If anybody *guarantees* a return higher than this amount, I'll just say 'no thank you' and walk away. This is not to say that a *guarantee* of 8% or 9% is fine – these are also suspicious. 10% is just a blatant warning flag.

I'm also very wary of investment advisors who I meet in structured social situations, such as church, clubs, and charitable organizations or fundraisers. These are hunting grounds for sharks, who are good at presenting an appearance of trust in social situations. They join these organized activities for the specific purpose of finding victims – oops - I mean clients. If I meet an investment advisor in a social situation, I apply the above criteria. I also avoid anybody who cold calls me on the phone to pitch investments. Hanging up is the best use of my time.

So what's left?

No-load mutual funds. Banks and savings and loans for deposits. Insurance companies with the best annuities when I need them. Advisors who help me select no-load mutual funds. In

this last case, I'll need to pay them for their advice, but that should be a fixed fee or a percentage of my assets that they manage. If I have at least \$1,000,000, I can consider professionals who will develop an individual portfolio for a fixed fee or percentage of assets, and who use a discount broker to execute their trades. However, even here I am very wary.

It's a very good use of our time to analyze the financial institutions and their products that are best for our *rest-of-life* portfolios. I see too many people throw their hands up, and say...

'I don't understand these confusing investments. I'll just let my guy at *Big Stock Broker, Inc.* handle my investments.

Or...

'The nice man I met at church is doing a great job for me. He buys all the insurance and annuities that I need. I feel safe with him.'

At best these will result in mediocrity, and at worst they are recipes for disaster. When we openly display that we don't know what we are doing, the sharks smell blood and money - ours!

Let's wrap up.

First, a couple of caveats.

This document is intended to complement and reinforce the themes in *Live Long & Prosper!* I don't intend for it to make complete sense without reading the book.

By now, I hope you understand that there is no risk-free investment – every investment has some risk. Also, I'll repeat what's been said countless times. The past is no guarantee of future results. Having said that, the past is the only hard data we have, plus our interpretations of the past and how the future might be the same, or different. Investing is part art, and part science. So the best we can do is learn from the past, forecast what might happen in the future, and move ahead.

Most of us spend lots of time understanding and buying consumer items such as clothes, cars, and gizmos. We take the necessary time to buy a house. We become informed consumers. It's the same with investments, and these will have a greater impact on our lifestyle and well-being during our later years than the clothes, cars and gizmos.

The best financial products aren't that complicated, and can be explained easily, while the worst products are often hard to explain. If you don't understand a financial professional, go elsewhere. I've talked with a lot of sharks, and they speak fast financial gibberish. They do that purposefully, hoping to intimidate us into thinking that we are stupid and they are smart. I try for awhile to understand what they are saying, and then I just say 'see ya later!'

We need patience, persistence and the right professionals to help us, but anybody can do it. Including you!