

Evaluation of Advice Source



9802 FM 1960 W., Suite 180
Humble, TX 77338
Phone: (281) 973-9290
Fax: (281) 973-9602
Email: info@preceptwm.com

November 1, 2014

Authored by: Kyle A. Sadler, AIF®

This report is not to be viewed or utilized as a recommendation or advice. Rules and regulations are subject to change and the reader should contact a qualified financial or tax professional for advice prior to implementation of the ideas in this report or any others. Associates of Precept Wealth Management only provide recommendations or advice to individuals subsequent meeting and gathering information regarding suitability.

Registered Representative, Securities offered through Cambridge Investment Research, Inc., a Broker/Dealer, Member FINRA/SIPC. Cambridge and Precept Wealth Management are not affiliated.

Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor.

Joe Kennedy, father of John F. Kennedy, once stated that he knew the stock market crash was upon the nation when the shoe-shine boy was giving stock tips.

Over the years investors' resources have drastically increased to the point of information overload. This information overload has caused mass confusion in selecting investments, suitability and savings needs. With the advent of the internet, an individual can search a topic for a simple solution and find a plethora of contradictory ideas, but no solution of any kind. Due to the ease of posting information, investors are left not knowing which sources are reliable and which sources provide erroneous, outdated or just plain wrong information. Investors must be mindful of the substance and the origin of advice in order to have a sound basis for financial decisions. Too often people forget that everyone has an opinion, but not all opinions are valuable or based on sound facts. The internet is crammed full of information, but choosing the right information to act on is and always will be the investor's dilemma.

Another common resource for information is the television. Investors must realize that some of the individuals appearing before the camera are hired as entertainers and maintain their jobs based on ratings. Ratings are not based on content, or knowledge, or experience in the financial industry. Ratings sometimes only based on the entertainment value the "celebrity" provides for the network. If an investor were to walk into a financial advisor's office and the advisor hit a gong and jumped on a table yelling, that investor would most likely leave that office immediately. Yet, some investors will follow the advice of someone who does just that on television for no other reason than because it was on TV. TV's influence on the investment world has no better example than the Facebook IPO debacle. Most of the TV financial "gurus" and reporters hyped and speculated about the coming IPO for weeks. Then came the technical sales glitches and the allegations of improper inside information distribution and the same gurus saying "Don't buy this stock." Most of the investing public didn't know that the majority of the shares sold in the IPO were from early investors. Watching the TV financial programs is what a prudent investor would

call due diligence. TV is for entertainment, not serious investment advice.

The print media has its share of gurus also. In my hometown newspaper, there is a writer who prior to writing a column in the financial section of the newspaper was writing obituaries. After creating notoriety through his columns, he opened a financial advising/asset management firm. It can be said that through his research for his column, he has developed a knowledge of the industry. However, not all writers are motivated to gain or maintain the knowledge to sustain a "back page columnist" status or turn professional in the area they write about.

Always remember that most of the individuals on radio, print, and television are not licensed, nor are they regulated by governing boards of the financial industry. As with any individual providing advice that is unlicensed, proceed with caution.

Within the investment industry some wish to license all individuals that provide any financial product. Financial products may include, but are not limited to, insurance based products and CDs. Often, the person accommodating the sale of these products are looked to for their recommendation or advice. By example, this would include the bank teller advising a customer, "Have you seen what the stock market has been doing to investments, you should roll over your 401k into a CD and wait for the market to cool off." What is not being realized is that an unlicensed supplier of a financial instrument just provided the financial advice of a potentially buy high sell low strategy. Although that non-licensed professional may know the individual in passing, has the non-licensed individual prepared in-depth needs analysis and created a sound financial strategy. The real question to ask is; "How much personal and financial information was gathered during that 5 minute transaction which lead to the advice of that particular product sold?" The answer is in the majority of cases a very minimal. However, we must also realize that there may be a personal incentive attached to the advice such as a promise of an award, a reward, commission or even a quota to maintain employment for selling a non-suitable product to a un/under-educated individual.

The previous fore mentioned are just a few examples of the growing information overload that are contributing causes of investment losses for the common investor. Whether it's a celebrity on TV, a print journalist, a stock blogger or an average Joe at a cocktail party with a "great stock tip" remember that most of the individuals on radio, print, and television party guests are not licensed, nor are they regulated by governing boards of the financial industry. As with any individual providing advice that is unlicensed, proceed with caution. There is minimal to absent liability or accountability for unlicensed poor advice.

The retirement world has a dynamic landscape; adjustments should only be considered after through personalization of someone's time horizon, suitability, risk tolerance, and investment objective. Past performance may not be indicative of future returns but accurate and educational information is the quintessential element of goal attainment.

Part II

Rules for evaluation of an advisor

The bottom line is that the answer to a persons individualized needs are most likely not going to come from the internet, television, radio, newspaper, magazine or a drunk person at a cocktail party giving advice. Individualized investment should only be obtained through one source; a qualified registered professional who has been properly trained and has properly gathered all information directly pertinent to the client's account.

A qualified advisor will ask a lot of questions relevant to providing sound financial advice. These questions may seem intrusive; however, they are an essential part of making suitable and proper recommendations. A meeting with an advisor should never be one sided. Investors should be interviewing the advisor to see if they want to allow the advisor to manage the financial relationship. Get personal when interviewing an advisor. When hiring an employee, it is illegal to ask personal questions. However, when interviewing an advisor it should be a requirement. This individual is about

to know personal information that may not even be shared with family members.

Listed below are some questions to consider asking when interviewing an advisor:

- How much will it cost me to invest? How much to keep my investment held with your company? How much to withdrawal my investment?
- Please describe where you have your money. Would you mind showing me your account statements with your private information blacked-out? How do you get paid?
- How long have you been a financial advisor? What did you do before becoming a financial advisor?
- How many clients beat their benchmark or are in line with their goals?
- How have clients similar to me fared during recessions?
- May I have references from clients that may have similar circumstances such as me?
- Could you please put in writing services you will be providing and what fees I will pay?

Do not invest with an advisor based on product, invest based on advice. A true advisor will sit down with a perspective client and spend the majority of the interviewing time inquiring about their family, their occupation, their goals, and their financial environment. The remainder of the appointment should be discussing products that are customized for that individual.

When investing with any advisor, understand that an advisor has only one measurement tool when providing investment advice to achieving goals and objective: beat the indices. Need it not be forgotten, the term indices does not directly correlate to the stock market exclusively. There are many indices that are used to measure a portfolio. Low risk, for example, would be measured to the inflationary index and the bond index. In addition there are many more indices and even subsets of particular indices that are utilized in an overall measurement of the "performance to the indices." If the advisor continuously performs below the indices, fire them. If the advisor outperforms the indices, they are doing what they were hired to do. Investing is not trying to see how "fast" one can get to the destination, but getting to the destination in one piece. A truly extraordinary advisor is one that not only exceeds expectations, but one that searches and presents his or her clients with

innovative, yet reliable, methods of continually exceeding their goals, objectives and indices.

Furthermore, when evaluating an advisor, utilize the link Brokercheck at www.FINRA.org. This site provides the opportunity to view licenses the advisor holds and will also provide information regarding regulatory events that have occurred against the advisor. Information is constantly bombarding us, but no stream of data is important unless you have the key educational concepts to unlock its value.

Although this article is not the final word on the evaluation on an investor's information resources, the information and techniques discussed are made available as simple investor education points. The truest form of defense is continued education. Prior to anyone ever investing in a product, the investor should educate themselves viable and competent resources to make qualified decision.

If you have any questions or feel your advisor is not qualified enough to answer your questions, please feel free to contact Kyle A. Sadler, AIF® at 281-973-9290.

Kyle A. Sadler, AIF® is an Accredited Investment Fiduciary that utilizes a specialization in administration, design, and education of 401k plans. With over 16 years of experience in the group plan industry, he has set himself apart by going above and beyond what average advisors' education in this field.