

THE VETTING OF A PROPOSED FINANCIAL SPEAKER REGARDING RETIRING EMPLOYEES MANAGEMENT OF THEIR 401(k)s

DO THIS YOURSELF OR WE WILL DO IT FOR YOU

Being asked or allowed to speak with a group of employees is a huge privilege and opportunity (often referred to as a coup) for any broker or independent financial advisor. This is especially true if the group consists of soon-to-be retired employees who will be taking on responsibility for managing their 401(k)s.

Regardless of how that individual or company came to the attention of HR, it is essential that their qualifications are fully investigated...vetted. There have been documented stories of how retirees were misled, scammed and financially damaged as a result of unscrupulous speakers.

A Short History of Risks and Rewards.

The Standard & Poor 500 Index tracks the results of 500 companies and represents one of the best stock market guides. Almost every large mutual fund compares their results to this Index and beating it by just a few percentage points is often the basis for a highly successful fund. Keep the below figures in mind when you are evaluating the prospective speaker.

STANDARD & POOR 500 INDEX

The last 10 Years:

1/1/99 to 12/31/2008

6 up years, 4 down years
Best year +26.39%. Worst year -38.24%
Average Annual Return 10 years -3.04%

The last 20 Years:

1/1/1989 to 12/31/2008:

14 up years, 6 down years.
Best Year +34.11%. Worst Year -38.24%
Average Annual Return 20 years +6.08%

And it is most unlikely that the ups and downs of the stock market are going to be much different in the future than they have been.

What follows is a time tested vetting process for stockbrokers and Independent Advisors.

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Step 1. Background of Speaker

Go To the `FINRA` website. (This is the Financial Industry Regulatory Authority, a major nongovernmental regulator for securities firms.)

Go to Broker Check. (If the proposed speaker is not a broker and is from an Investment Advisory Firm, it is possible that he is not registered with FINRA. In that case the only way to get information about the speaker and his firm is to `Google` them and while this is a good thing to do it is unlikely you will learn anything important. You will have to interview him/her.)

Enter the name of the person who would like to speak to your employees. This will show his/her employment history and complaints filed against him/her.

Regardless of the reasons/rationale I suggest avoiding people who have:

- Worked as a broker for less than 10 years
- Worked primarily for small brokerage firms
- Held too many jobs
- Have had more than two complaints filed against them. (The reason for allowing 2 complaints is that inappropriate complaints are often filed. But read the complaints and see how they were resolved.)

Step 2. Interviewing Prospective Speaker - Part 1

Ask what specific information the speaker wishes to get across to the attendees and how this information is important for the employee/retiree.

- Are risks of investing discussed?
- What are the speaker's thoughts about mutual funds, individual stocks, asset allocation and diversification of stock and bond portfolios. Will these be discussed?
- Will the speaker be presenting a broad overview of investing in the financial markets or just discussing one limited area like annuities or insurance products.
- Will the speaker submit to the company the names of all employees/retirees who open accounts?

If the answers are satisfactory, continue.

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Step 3. Interviewing Prospective Speaker - Part 2

The Broker:

Ask for a description of current clients, their goals, results in last 3-5 years versus the S&P 500 Index. (Results mentioned should be documented.)

Thoughts as to how 401k monies should be invested. This should include allocations between fixed income and stocks as well as the diversification within those categories.

What kind of results are anticipated, both on the upside and downside, for five and ten year periods as well as the worst and best in any one year. If those results are realistic and acceptable, Continue.

The Independent Investment Advisor:

- Describe position and responsibilities with the Firm.
- The firm's investment results year by year for the last ten years as filed with the SEC... and their stated investment style.
- Their thoughts on the percentage allocation of stocks and bonds.
- How much money are they managing?
- How many employees do they have?
- What are their fees/commissions? (Based on the size of accounts, fees should range from 1% to as high as 2 ½%.)
- Will they set up a lower fee arrangement with your employees?
- What brokerage firm is the custodian of the accounts?

If the answers are aligned with your employees needs and objectives, the 'speaker' should stay in consideration.

Financial Advisors take over the complete management of their accounts. Your employees portfolio will be managed according to the strategy they have reported to the SEC.

Step 4.

The proposed speaker should submit in writing the agenda for the meeting. If there is a prepared script, this should be included. What pamphlets/brochures will be distributed?

An HR person should attend the meeting.

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It is my experience that Advisory Firms are superior to Individual Brokers.

At large advisory firms, the people who are involved with the research and analysis of companies spend all their time doing just that. This becomes the foundation used by the final decision makers. The sales end is handled by others. At smaller advisory firms, while the principal is often involved in soliciting new clients, he/she also makes the final investment decisions. These decisions are based on the efforts of a staff dedicated to market research and analysis. They are focused on the specific investment philosophy that the firm advocates. (For instance, if the firm does not take clients who are interested in very speculative stocks, then they spend no time or effort in this area.)

On the other hand brokers spend at least 85% of their time trying to get new clients, talking to their present clients, personally handling many details unrelated to portfolio management. The other 15% goes towards keeping themselves informed about the research the firm makes available.

Brokerage Firms' Research Departments cover as wide an array of stocks, bonds, options as possible with no focus on any particular investment strategy. All of this is presented to the brokers through conference calls that are broadcast to their offices, written reports that are distributed and through internal internet facilities. There is seldom any direct communication between a broker and the research department. (In many firms it is not even allowed.)

As a Sales Manager of a 100 man office I saw how this worked. Far too often brokers' recommendations were based on the latest Research Report/Recommendation rather than a thought out strategy for each individual client.

Brokers' earnings are dependent on the commissions they generate. They are rewarded every time a client buys or sells. No action...No income. Unfortunately, churning creates broker income. I have generally found that stockbrokers are honest hardworking people. But there are certainly brokers who are not up to that standard.

At some brokerage firms there are 'teams' that work together to take care of their clients. In some instances this is similar to an Investment Advisor.

Advisory Firms' earnings are dependent on the increase in the value of their clients' portfolios

In my 18 years as an Expert Witness in cases where clients are suing their broker/investment advisor, there was one case against an investment advisor and somewhere between 800 and 1,000 against brokers.

Given the recent Madoff situation, assets should always be domiciled at a reputable brokerage firm. This comes into play when using an Investment Advisory Firm.