MoneyMATTERS

Who Are You Listening To?

When Seeking Financial Advice, Note the Vested Interests

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Here we are, stock markets have melted, economies are swooning, and currencies have turned course. If you listen to the received wisdom of many professionals, the financial palpitations of the past months — or any other period, for that matter — have all been a surprise. The gods have been cruel without warning. Yet these financial pundits and the professional wealth managers continue to offer their advice without any reprisals. You see them on all of the business shows and in the "short takes" on the evening financial news spots. Their views are respectfully solicited as before. The interviewer hangs on their every word. Viewers hope to hear comforting news that great financial riches again lie ahead. And sure enough, the pundits rarely disappoint, offering consolation by at least reconfirming the great shibboleth that the long-term market trend is inviolable and it is upwards.

What's the problem with all this? A few things. For one, it's emblematic of deep corruption in the wealth management industry. Secondly, is how many savers with hard-earned money actually listen to the gilded tongues of these professionals. It's tragic. Though the record shows that the predictions and advice of the wealth management experts offers little or no advantage to investors, they remain in high demand … with compensation benefits way above that of the average saver to boot. In my unkinder moments, I say that allowing the wealth management industry at large to provide investment advice to clients is like allowing foxes to feed the chickens. Consider some of the evidence.

According to performance measurement consultants, the average portfolio manager does not outperform an appropriate index over longer periods of time … even after their fees are deducted. Stock market analyst almost never make "sell" recommendations. It used to be that brokerage firms would issue one sell recommendation for every ten "buys" even in down markets. Nowadays, it's gotten much worse. A recent Wall Street Journal survey suggest that only one "sell" recommendation is made for every 50 "buys." Why is this all so? It all comes down to vested interest.

My anecdotal experiences back up this statement. The highly-paid experts on a global strategy committee that I chaired for a large financial institution never once forecasted a down period for any investment asset whether a reasonable likelihood or not. Why not? They always took in mind what the marketing people and their clients wanted to hear. Another comical image comes to mind of an interview I once gave to a gaggle of financial journalists in Hong Kong. At least 25 of them were jammed into the room. Each time I said something encouraging for the then-sagging Hong Kong stock market they all nodded, furiously writing down my every word. When I said something cautious — something closer to the truth as it turned out — the pens were motionless. Sure enough, the newspaper copy carried next day made it seem to readers as if a bonanza was in the offing.

Who are you going to call the next time you need investment guidance? Here is some advice on getting advice. To begin, try to take note of what side the bread is buttered for the advisor giving you sage opinions. Will he or she get a big commission if you buy their mutual fund, for example? Do they work for a big financial institution that puts demanding sales quotas on them — "sell or die"? Is the seer divining your future prosperity in the crystal ball someone who can afford to always tell the truth? Granted, no one I know — whether corrupt or straight — can reliably predict future financial market trends. I, for one, certainly make no claims to this ability. However, that's a forgivable flaw in my view. Only forecasting the "ups" and always denying the possibility of "downs" is not a flaw. It's corruption. So should you listen to my opinion? Check out my vested interest. Here's my final advice. Seek good guidance but always take accountability for your own decisions. After all, that's your vested interest.

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If not otherwise noted, all scripture references are taken from the New International Version (NIV) of the Bible.