



Reuters Money

Financial advisers consistently ask the wrong questions

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If you go to see a financial adviser and you are only asked two main questions — how much money will you need in retirement and what's your risk tolerance? — you should run for the hills.

Financial advisers who are shackled by conventional wisdom or just looking for numbers to plug into off-the-shelf portfolio software may be asking you the wrong questions.

You deserve a more customized approach, and can get one if you demand it.

Because it's difficult to pin down a number that represents a decent lifestyle. It's a moving target for many of us, and most of us are lousy judges of risk. Estimates can be tragically wrong.

Dan Ariely, the bestselling author and behavioral economist at Duke University, thinks many advisers are barking up the wrong tree.

In a recent Harvard Business Review piece, Ariely blasts this whole charade and the common compensation scheme of charging clients 1 percent annually to manage money.

"Frankly I think trained monkeys could do the same basic job giving answers to those two questions," Ariely writes. "Certainly algorithms can do it, probably with many fewer errors. This is not something for which we should pay 1 percent of assets under management."

In researching the difficulty of this situation, Ariely found that clients often regurgitated what advisers told them they should save for retirement, yet were often much too low on realistic estimates.

“Maybe it’s time for less monkeying around,” Ariely adds. “Financial services — and business in general — needs to embrace the complexity and difficulty inherent in our lives.”

Complexity indeed. I’d like to toss a pie at the person who posited that life gets simpler when you get older. I’m always amazed at how ridiculous the idea of “normal retirement” has become.

Many of us will have to work much later, want to continue careers or start new ones. If we’re healthy, that is. Most of us don’t have a guaranteed, defined-benefit pension so we’ll have to cobble retirement income from a 401(k) lump sum or buy an annuity.

What if you become disabled? I know plenty of friends who want to continue work and many who simply can’t. Men and women who have been stricken with strokes or other disabilities won’t be able to take a normal retirement. They may be out of the workforce much sooner than expected.

The best approach to financial planning flies under the banner of financial life planning, a comprehensive — and more dynamic — way of looking at life goals and money objectives.

Shepherded by Mitch Anthony of the Financial Life Planning Institute, financial life planning is one of the most viable alternatives we have to “plug and play” portfolios that don’t take into account life’s many curves.

If you’re working with an adviser, here are some core principles Anthony suggests you cover in financial life planning scenarios:

- Life History: Where have you been and where are you going? Do you have chronic health issues? How does your past influence your future?
- Life Transitions: You need a dynamic plan that can walk you through divorce, adult children’s needs, elder/long-term care and anything that derails your retirement plan.
- Life Principles: What’s important? Do you have to move or go back to school?
- Life Goals: Your life doesn’t stop when you leave a career. What do you want to accomplish? Where do you want to go?

Most commissioned financial representatives don't have the training to discuss your goals and principles. It's not part of their conversation because they are more interested in selling you products. But you need advice.

"Wealth managers" sound like impressive folks, but their duties aren't really well-defined unless they are registered investment advisers (preferred) and are also designated as certified financial planners (even better).

Your best relationship will likely be with a fiduciary adviser, someone who will take legal responsibility for his or her recommendations and put your interests first. They can be sued if they lead you astray or fleece you. To find a fiduciary, you can simply ask prospective advisers if they have the designation. They should also note their status in disclosures.

At present, no brokers, wealth managers or insurance agents are required to be fiduciaries, although they should be. The Securities and Exchange Commission is dithering over writing rules on fiduciaries, which the agency has said should apply to any financial adviser.

If the brokerage, banking and insurance industries don't succeed in killing the fiduciary proposal, it will help protect you in a profound way. In the interim, just asking the right questions may keep you away from trouble.

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