



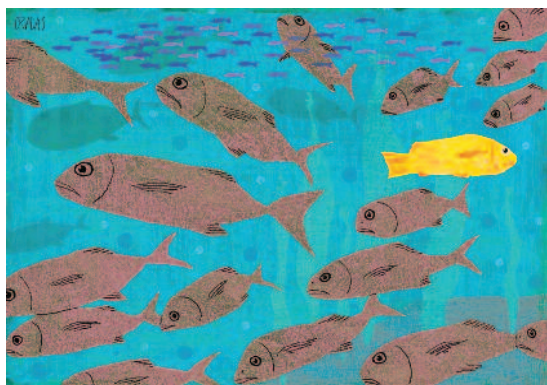
EXPERT ADVICE



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SHOULD YOU BEWARE BRAND NAMES?

When it comes to investing, a brand-name firm is a double-edged sword.



In the world of finance, brand names are big companies that are supposed to be safe, conservative choices. But they may actually increase the risk that you won't achieve your financial goals. You've all seen the ads that define the brands—the ones with a famous actor with a somber mien, or the ones featuring an instantly recognizable logo and color scheme. It takes at least \$100 million to fund the advertising that defines such a recognizable brand. Only big, longstanding companies can afford that expense. The message of those campaigns? Big is better. Is that true? The answer is yes—but not always.

Size can be an asset. Wall Street companies have massive research resources and clout they can use, for example, to negotiate client discounts for third-party services. The clients of smaller firms with more limited assets will have to pay higher fees for the same services.

But size has its drawbacks.

Brand-name firms are likely to have thousands of sales representatives whose skill at attracting new customers doesn't always translate to investment acumen. In fact, company goals for revenue and profit usually compete with your ambitions. Brand-name Wall Street firms have paid billions of dollars in fines and restitution because they have repeatedly cheated investors to benefit themselves.

Those big firms also helped create investment bubbles—such as the subprime mortgage blowup and the dotcom bubble—that produced billions of dollars of profit for them but trillions of dollars of losses for investors.

Why do investment firms sometimes act contrary to investors' interests?

Wall Street's brand-name firms have lost the culture of privately owned firms in which employees have a stake in the firm's long-term success. Now they're public companies with shareholders who demand rising stock prices. They have

directors who pressure executives for short-term profit that drives share prices. They have greedy executives who want to maximize cash bonuses. Somewhere down the list of priorities comes the lowly investor.

Here are several examples of how big companies use brand names to manipulate investors:

- They view advisors as a distribution system for their financial products.
- They produce low-quality products that generate big fees—sometimes even shorting the same products they are peddling to clients.
- They pressure advisors to sell the products that generate the highest revenues for the firm.
- They continue to employ advisors with numerous client complaints on their compliance records if those advisors generate profit for the firm.
- They talk about transparency, but fight disclosure that documents advisor quality and potential conflicts of interest.

How can you minimize the impact of these practices? These five rules will help:

- Don't assume advisors are competent because they work for brand-name companies. Make them prove they are expert and trustworthy.

- Pay more attention to advisor qualifications than the company name on the advisor's business card. Your investment success will be determined by the quality of investment advice you receive and not by a company name.

- Make advisors document any claims they make for their investment results.

- Be extra cautious when advisors recommend products that are produced by the companies that employ them. Advisors should compare proprietary products to third party products so you get the highest performance for the lowest risk and expenses.

- Be extra cautious whenever advisors limit your choices to particular products or groups of products—a specific mutual fund family, for example. Any restrictions on your choices should be viewed as a negative.

There are signs of change.

Many Wall Street firms are beginning to allow their advisors to run their businesses more like independent professionals with unlimited access to third-party service providers, a major departure from past practices that limited "advice" to company products. That's a start. Whether further changes will come depends on the investment decisions you make. [Feedback?](mailto:Feedback@worth.com) Write letters@worth.com.