



Managing GOD's Money

A FINANCIAL ADVISOR

CONFLICT OF INTEREST

A conflict of interest exists—or a perceived conflict can exist—if a person has a direct or indirect personal interest in a decision being made where that decision should, or needs to be made objectively, free of bias, and in the best interests of another person.

WHO IS AN ADVISOR?

A person who gives you professional advice objectively, free of bias, and in your best interest, and who doesn't get income beyond a fee for that advice.

WHO IS A SALESPERSON?

Someone who sells you products or services. Explaining products and services' benefits is a part of the selling process; it doesn't change the sales person's role to an advisory role!

CAN I GET INDEPENDENT FINANCIAL ADVICE FROM A SALESPERSON?

Yes ... but ... the salesperson must admit the conflict of interest, you must understand it and know how to work with it.

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Often, to help sort out their financial affairs, folks ask me to recommend a *financial planner* or *advisor*—they use these titles interchangeably. But they don't know who is an advisor or planner, or what to expect from him or her¹. And today's job titles don't help! Have you noticed titles don't tell you what people do? Some car companies call their salespeople *product advisors*!

In this letter, I look at these matters to help you choose someone to give you *objective, unbiased* personal financial advice:

- ❖ What Type of Financial Advice You Can Expect to Get
- ❖ Conflicts of Interest
- ❖ Who is a Financial Advisor
- ❖ How to Choose a Financial Advisor

What Type of Financial Advice You Can Expect to Get

What can you expect from your *financial advisor*? First, don't confuse your need for counseling to fix bad *attitudes*, with a need for financial planning advice. Riddled with debt, first you need counseling that addresses your *attitude and behaviour*! You should expect to pay for this counsel!

A financial advisor can help you interpret and understand your financial affairs. As well, he can *assist you*² to do specific plans, financial statements and analyses. Here are examples:

1. **Financial plans:**
 - a) Write and explain financial and spending plans, and coach you to use them regularly and effectively.

- b) Arrange education savings plans.
 - c) Put together debt repayment alternatives and a debt repayment plan.
2. **Financial Statements:**
 - a) Figure out *cash flow* and *material worth* statements (see glossary on page 4), and show you how to interpret and use them.
3. **Taxation:** Write estimates, do and review tax returns.
4. **Investments & Retirement Plans:** Help set goals, set up a portfolio, watch and review it regularly against your goals.
5. **Retirement plans:** Write, review, and oversee these plans.
6. **Insurance:** Identify the need, different types, and possible self-insurance in some areas.
7. **Estate Planning:** Look at financial parts of a will—tax effects, setting up trusts and so on.
8. **General:** Advice that could affect changes in your financial affairs.

Your knowledge, circumstance, and time available to spend handling your financial affairs, will decide the type and frequency of help you need from a financial advisor.

Conflict of Interest

Previously, we had no difficulty identifying salespeople with their products. We knew a *stockbroker* bought and sold stocks and bonds, an *insurance agent* sold insurance, a *real estate agent* bought and sold properties, and a *mutual fund representative* sold mutual funds.

That's changed and many salespersons' titles suggest they are your *advisors*. This practice discounts an important reality. These advisors need to sell products to earn their income. So un-

¹ I will use masculine and feminine references interchangeably.

² Even if your *advisor* computes and analyses statements and summaries, you are responsible for decisions they might lead to; *he advises only!*

consciously, sometimes they sell you products you don't need and can't afford—especially when they offer good quality products! As one advisor told me, “at the end of the day, I must sell products to earn a decent living; I cannot live on fees alone!”

Too often, I see folks get advice and then buy financial products they didn't need and couldn't afford. In Canada, in February, I see people deep in debt get deeper in debt as they acted on advice to invest in their retirement savings. What enticed them? A *tax write-off!* Folks, a tax benefit should be a by-product, not a deciding feature!

This excerpt from a piece in the 13 May 2003 *Wall Street Journal* shows clearly what happened to some titles over the years. Called, “How to Pick a Financial Planner,” the article comments on the transition in financial salespersons titles' from salespeople to advisors or planners:

“Nobody agrees on which way the stock market is headed these days, but everyone wants to tell you how to invest.

Stockbrokers, insurance agents, bankers, certified public accountants and even some lawyers are vying to make money by advising where to put yours. The downturn has been as brutal for investment pros as it has been for individuals. Providing financial planning is a way for them to generate income and at the same time encourage skittish investors to wade back in. Merrill Lynch & Co.'s 14000 stock brokers are now called “financial advisors.” J. P. Morgan Chase & Co. is trying to convince affluent people who bank there to use its financial planners. And a host of others are offering everything from software services to one-on-ones...”

These comments apply to professionals who sell financial products and *try* to give independent advice about those products. Happily, most professional associations to which these folks belong have *codes of conduct* regulating objectivity, integrity, and more.

Still, many of these planners and advisors, who advise and sell products, believe they act objectively when they give advice. Many do, but to folks they advise, they don't admit the *potential conflict of interest*. That's the

problem—before starting the advisory relationship, they need to highlight the conflict or potential conflict of interest to clients!

What is a conflict of interest? *Wikipedia*, the free encyclopedia's definition includes key components you would see in many corporate conflict of interest policies:

“A conflict of interest is a situation in which someone in a position of trust, such as a lawyer, a politician, or an executive or director of a corporation, has competing professional or personal interests. Such competing interests can make it difficult to fulfill his or her duties neutrally. Even if there is no evidence of improper actions, a conflict of interest can create an appearance of impropriety that can undermine confidence in the ability of that person to act properly in his/her position.”

Let's breakdown this definition to see how it applies to financial salespeople who advise:

1. *A situation in which someone in a position of trust, such as a lawyer, a politician, or an executive or director of a corporation, has competing professional or personal interests.*
 - a. *A financial advisor is someone in a position of trust. The client sees the advisor as someone he can trust for solid, objective, unbiased advice.*
 - b. *A sales person acting as financial advisor has a competing personal interest: to earn a living, he depends on product sales for fees and commissions.*
2. *Such competing interests can make it difficult to fulfill his or her duties impartially.*
 - a. *The competing interest could make it difficult to give solid independent advice. The financial advisor might believe sincerely, the products he sells are the best, but competing products he doesn't offer, could be better for you. I have seen this happen. Still, I do not know anyone who knowingly gave bad advice. But unwittingly, the need to earn an income can affect*

objectivity!

3. *Even if there is no evidence of improper actions, a conflict of interest can create an appearance of impropriety that can undermine confidence in the ability of that person to act properly in his/her position.”*

- a. *This is the crux—the appearance!*

Please understand my concern;

YOUR ADVISOR WORKS FOR YOU

After you get advice, carry out my three-step plan:

- First, ask clarifying questions; be open, direct and honest!
- Second, ask further clarifying questions!
- Third, ask further clarifying questions until *you understand* the proposals!

Communicate your goals and values clearly and directly to your *advisor*. He should know you are a Christian, and the specific values that guide you. He should know you do not tolerate anything but transparency on your tax returns—you will pay taxes due while taking advantage of available benefits. Many folks complain about *bad decisions* from their financial advisors. They don't realize their advisor advises, does not know the future, and might give them what turns out to be *bad advice*. Your advisor presents choices, you decide! That's why you need to ask questions until you understand issues he presents to you! If you are uncomfortable with advice you get, seek a second opinion. The buck stops with you!

these folks' integrity or personalities—*who they are*—does not bother me. Rather, *what they do* bothers me. Do you see the difference? A conflict of interest exists with someone whose work fits these facts:

1. *An advisor is in a position of trust, and depends on income from product sales (from advice given).*
2. *A client depends on him for independent, unbiased advice in the client's best interest.*

Folks looking for independent financial advice face two challenges:

1. Learning to spot conflicts of interest.
2. Learning to manage this conflict when they have no alternatives, or when they choose to work with someone in a conflict of interest.

Who is a Financial Advisor

So, who should give you the independent financial advice you need and deserve? I want to stress again that a person's title is irrelevant! Do not rely on it! No matter his title, you and your advisor must understand and safeguard you against potential effects of the advisor's conflict of interest. Besides, for independent financial advice, do not rely solely on people or companies, if *what they do* fits one of these descriptions:

- Trade in securities, stocks and bonds, for a living (*Stockbrokers*).
- Earn a living from selling insurance (*Insurance Agents*).
- Buy and sell mutual funds for a living (*Mutual Fund Representatives*).
- Sell banks' products (*Bankers*).
- Advise about financial products they sell, and they can benefit from their advice (*Financial Advisors or Planners*).

For independent advice, consult a professional *independent* financial advisor—a *fee only* advisor. For a consultation or consultations, he charges either a fixed fee, or a fixed hourly rate. He is not in a *conflict of interest*, he sells no products—apart from consultation fees, he gets no benefit from advice he gives!

He will give advice according to his ability. He might target different markets—perhaps setting minimum net worth values for his clientele!

If you work with a fee only advisor, don't complain about his fees! You can't have it both ways: he depends on *fees only* to cover his costs and to earn an income! You must decide the value you put on independent advice!

Am I suggesting you must use an independent, fee only financial advisor? No, I suggest you need to identify

conflicts of interest and learn to manage them. As well, please note *I am not saying independent financial advisors give better quality advice. An independent financial advisor can give lousy advice, even though he is not in a conflict of interest. Conversely, someone in a conflict of interest can give excellent advice.*

Here are three cautions:

1. Know when a conflict of interest exists and learn to either walk away, or work with it in your best interest!
2. Watch out; independence doesn't mean competence!
3. Beware; advice from a *fee only* or *other advisor* though technically sound might not be in your best interest. On page 182 of my book, *Managing God's Money-The Basics*, I said, "some technically acceptable and feasible financial decisions I reject because of my Christian beliefs. ... I have many problems with leverage³, but one is relevant! It violates the *GAS Principle*⁴: It's God's money. Thou shalt not speculate! Period!"

Choosing the Financial Advisor

What if you can't find or don't wish to use an independent advisor? It doesn't matter! Follow these three preconditions to select a financial advisor, independent or other:

1. **Define** clearly why you want to see a financial advisor—your goal.
 - a. Define your goal without looking at likely solutions. You might think you need a financial plan, but you don't know what that might entail. Tell your advisor your need, he will tell you how to fill it.
2. **Accept** you are in charge, not the financial advisor—you get choices from your advisor to pray about and then decide.
3. **Know** you can do preconditions one and two with your knowledge; you do not need special financial knowledge.

After accepting these three points, before you work with a financial advisor interview him to ensure he has the qualities to perform as you expect. Follow the same procedure to choose an independent or other advisor. If the advisor is not independent, ensure you understand and can become comfortable working with conflicts of interest.

As a Christian, do you need a Christian advisor? No, provided you accept the earlier three preconditions.

Here are questions to ask as you interview a financial advisor:

1. Conflict of Interest:

a. Independence

- i. Is she independent?
- ii. Does she represent mutual funds, insurance or other companies? Which companies?
- iii. Is she in a conflict of interest, or potential conflict of interest? How does she plan to handle it?

b. Fees:⁵

- i. How will she charge you for advice you seek?
- ii. What's the deal with payment for product sales?

c. Terms: Will she set out in writing the following:

- i. Engagement terms?
- ii. Answers to questions about her relationship with and payment by organizations she represents?
- iii. Your goals, as *she understands* them?

2. Qualifications:

- a. Qualification and experience?
- b. Does she have references you can check?

3. Clientele:

- a. Tell her about you, your goals, present need, and ask:
 - i. Is she interested in taking you as a client?
 - ii. Will she set aside time for you, or will she pass you on to an assistant?

If you are looking for investment advice, you might add these questions:

³ Simply, financial leveraging is borrowing to invest. I borrow and invest \$ 1000; it doubles, and *voila!* *The opposite can happen; then what!*

⁴ Michel A. Bell, *Managing God's Money-The Basics*, pages 25-27.

⁵ Be fair; don't go around collecting free advice on the pretext you are screening advisors! That happens! That's not right! That's not fair!

1. Specialization:

- a. Does she or her company specialize: do they deal in specific products or specific clients?

2. Education & Training:

- a. Does she or the company offer educational seminars that you could attend? Frequency? Location?

3. Company:

- a. How long in business?
- b. Does the company work in other Provinces?
- c. Size: Employees? Clients?
- d. Does the company provide internal research reports to clients?
- e. Has the company been subject to disciplinary proceedings in the past few years? What about her and others in the company, have they been subject to these proceedings?

4. Commissions:

- a. What commission rates should a client like you expect to pay?

5. Servicing Account:

- a. If you opened an account, will others be available to you?
- b. What are their experiences and qualifications?

Don't rush to decide; it's God's money, you are His steward, and you will account to Him not only for using His funds, but for whom you choose to advise you! Check references, pray, seek God's direction.

If you don't feel comfortable that an advisor will listen to you and do as you ask, don't work with him.

I know an instance when a client told an advisor she wanted her six figure funds in Guaranteed Investment Certificates only. The advisor scoffed at her and said that wasn't a smart choice! It might not be *smart*, but if that's what

you choose to do, the advisor's role is to explain the effect of that decision, compared with other alternatives. I repeat, let Jesus guide your decisions!

Shop around before your final choice. After your interview, if you decide to work with an advisor in a conflict of interest, do the following:

1. Ask him to give an example of a potential conflict and tell you how he would manage it. If you see a potential conflict and he doesn't, don't work with him, interview another person.
2. Get a list of represented products.
3. Get in writing his payment arrangements with you and financial companies.
4. Agree to separate his *advice* to you from his *product sales* to you. This can be easy if you understand that his advice is the *planning* stage—what to do. Product sales follow; it's the *doing* phase.
 - a. If you need insurance advice, agree to separate *planning*—the nature, type and amount of insurance, from *doing*—buying insurance. Receive advice, such as *term insurance, 30 years, \$250,000*; understand it, pray about it, and ask the Lord to show you how to do it. Ask your advisor for a quotation, and then check its competitiveness. Price is not the only feature.
 - b. The same principle applies to investment advice. Separate *planning* from *doing*: separate nature, portfolio type, from individual investment instruments. So, understand why you need that portfolio, that mix; likely risks and returns and so on. Then pray; seek God's direction before looking at alternatives

and agreeing to buying stocks, bonds, or mutual fund. If after getting advice⁶ you chose not to buy from this advisor, you need to pay for the advice! Be transparent, honest and fair.

In summary, as you choose an advisor for independent financial advice, keep in mind three key points. *First*, ignore titles, look at what he does. *Second*, identify and discuss potential conflicts of interest. If he is in a conflict or potential conflict of interest and won't accept it, go to another person. *Third*, let Jesus guide your choice; you will account to Him for it! In your dealings, show integrity, respect, grace—let Jesus' light shine through you.

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This letter is for personal information only. Before implementing financial decisions get professional independent financial advice. For more information visit www.managinggodsmoney.com

Glossary

Cash Flow Statement: Video at a fixed date showing movement in financial affairs over a period.

Debt Repayment Schedule: Table with loan and projected loan repayments over a period.

GAS Principle: Three key truths from the Bible about God's ownership of everything and your stewardship.

Material Worth: Still picture of financial affairs at a specific date.

⁶ Pay for *advice* not *sales presentations*. Expect a salesperson to explain product features and to present alternatives.