Knock Knock: Be Aware of Who's Selling Investments

"Knock knock."

"Who's there?"

"Hi, I'm your neighborhood investment advisor. I'm with a big name company that recruits young people like me to sell investments door-to-door. My office is right here in your community. Would you like to buy some Municipal Bonds? How about a safe long-term growth mutual fund?"

Recently an investment advisory client called to tell me this happened to him. Has it ever happened to you? There are myriad problems with this scenario for the *vict* – er – *prospect*.

The Investment Salesperson is usually young, having joined this company primarily for the experience and income opportunity for themselves. Due to their youth and lack of experience, most have NEVER managed client money through a bear market! These young-hopefuls rarely succeed. The attrition rate is huge. The few that do survive often go out on their own seeking a more client-friendly environment. They rarely develop 20+ year relationships with their clients.

The process is focused on closing a sale. The goal is a commission. The product is usually recommended without a clear understanding of the clients' overall financial situation, personal preferences and goals. The investments they pitch usually don't serve the clients' needs. Because they are paid a commission for selling financial products, there is an incentive to sell high-commission investments and annuities. After a while, they may suggest you switch to another investment – not necessarily because it is good for you - but to generate another commission.

My client told me that the Knock-Knock guy recommended a Municipal Bond (remember they sound safe) that matures in 20 years. He told my client that he would be guaranteed to earn 4% tax free interest and guaranteed his investment back in 20 years.

My client did not really understand that:

- 20 years represents a huge loss of purchasing power due to inflation.
- Municipalities have significant, increasing financial pressures that may lead to higher default rates.
- While 4% sounds good today, interest rates may rise in the future which may cause the market value of the muni-bonds to go down.

Municipal Bonds have their place in some client scenarios. I know this was a bad recommendation for my client – because I know the investment landscape, market history and most importantly, I know my client.

My real problem is that the Knock-Knock guy was just pitching one of the investments his Regional Manager or Home Office told him would be sure to generate enough commissions to meet his quota. When a financial sales person pitches an investment product, the commission he would earn creates a conflict of interest between the prospect, the salesperson and the company. You generally should be aware of (and avoid) conflicts of interest that may work against you.

When I make an investment recommendation to an Investment Advisory Client, I have a fiduciary obligation to do everything I can to serve the clients best interest. When choosing an advisor to trust with your life savings, seek a business relationship that puts you and the advisor on the same side of the table. Always ask, “How do you get paid?”

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