

Business

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Act in your clients' interest, not yours

Where to begin? Surveys show that most investors don't know what a fiduciary is, let alone if their adviser is one.

They just expect the adviser to do the right thing. Most do, but not all.

This last week I found three examples of advisers acting in their own interest rather than in their client's:

One investor held a mutual fund with a six percent front-end load. That means the investor lost six percent the day the fund was purchased (the adviser made money, though).

Worse still, Morningstar gave the fund one star out of five! In today's slower moving market, a load fee can erase a year's worth of gain, maybe more.

There is never a good reason to buy a load fund and I'd avoid any adviser that tries to sell them. You can see if a fund charges a sales load at Morningstar.com.



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In another account, the adviser bought Lord Abbett Floating Rate Fund. This bond fund has a one-percent sales charge along with an outrageous 1.49 percent annual management fee.

Combine the yearly charge with the adviser's fee and the investor is paying about 2.5 percent to own a bond fund that only yields 3.8 percent!

Finally, an elderly woman was sold an annuity. I say she was "sold" an annuity because no one ever buys one.

Her family was told the annuity would provide an impressive 8.5 percent in yearly income.

What wasn't made clear was that part of that return will come from the account's principal. The reduced account may come as a surprise to those who will inherit it.

Advisers receive a hefty 5-7 percent reward to sell an annuity, so they are often included in their client's financial plan.

I don't mean to imply that most advisers are working in their own self-interest. The vast majority does great jobs.

There are some, however, that recommend vehicles that give them the highest rewards. Conflicts of interest inevitably exist when an adviser has an incentive to recommend certain securities.

Some say that conflict should be fully disclosed. I say it shouldn't happen.

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