New rules to protect investors

Most people work hard for their money, very hard, and when they seek an adviser they place a lot of trust in that person. Unfortunately, a new study by several college professors called "The Market for Financial Adviser Misconduct" found that seven percent of financial advisers have been disciplined for misconduct.

David Vomund
Market Pulse

The figure is far worse at several well-known brokerage houses where more than 14 percent of their advisers have been disciplined for misconduct ranging from putting clients in unsuitable investments to trading accounts without permission.

It gets worse. Only about half of the advisers with citations are fired, and 44 percent of those are hired by another firm within a year. The misconduct is not limited to advisers at big firms. It's prevalent at independent firms, too.

The Obama administration is getting involved, pushing for legislation that would place all advisers under the fiduciary rule. That means advisers must act in the best interest of their clients (instead of their own best interest).

If this legislation passes, we'll see a big change in the industry (at least for retirement accounts). One change: advisers would have to choose the least expensive mutual fund class for retail investors. Say good-bye to load and 12-1 fees that reward advisers with fat commissions.

Having to act as a fiduciary would also be a big blow to the variable annuity industry. Annuity issuers might need to shift from paying sellers upfront commissions, which can be as much as 8 percent, to a model based on investors paying lower and ongoing fees.

Trust me, if brokers don't receive a commission for selling annuities then annuities won't be sold.

I have posted an article from Bloomberg with links to the misconduct study on my Vomund Investment Management Facebook page and on my @ETFportfolios Twitter page. You can see how your adviser's firm is rated. You can also check individual adviser records on the brokercheck.finra.org website.

The study shows that an unacceptably high percentage of advisers have been cited for misconduct. We are (finally) seeing an industry change where commissions are being phased out in favor of asset-based fees.

Commissions create a conflict of interest. Some say that conflict should be fully disclosed. Wrong. I say it shouldn't exist.

David Vomund is an Incline Village-based fee-only money manager. Information is found at www.VomundInvestments.com or by calling 775-832-8555. *Clients hold the positions mentioned in this article. Past performance does not guarantee future results. Consult your financial adviser before purchasing any security.*