

America is full of people who need help making financial decisions

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At my office, we make a concerted effort to garner media coverage. There's a practical reason for this: consumer distrust of the investment industry tends to devalue advertising. Many people simply don't *believe* investment advertising. Coverage by the media is more credible and so more desirable.

But it is not always as helpful as it could be.

Several years back, I read about a local man who watched his family nest egg dwindle as the price of his employer's company stock tumbled. He had retired from the firm some 15 years earlier, after working there for nearly four decades. A substantial portion of his net worth was tied to the fortunes of that one company. He was devastated.

Not mentioned in the story was the fact that any competent financial adviser would have recommended that he diversify his portfolio because the risk of owning just one stock — any stock — is dangerously high. Those with disproportionately large holdings in a single company are at needless risk, even if the firm has a history of long-term stability.

Kansas City is full of similar workers. There are some great companies here and thousands of employees and retirees are similarly invested in non-diversified employer stock.

The textbook solution is to implement a long-term plan where portions of the stock are liquidated in a tax-advantaged manner. But the local man in that story likely never heard of that solution. Perhaps he was immobilized by loyalty to his former employer, the desire to avoid taxes on his gains or the prospect of paying for financial advice. Whatever the reason for his paralysis, he did exactly what he had always done when the stock price shuddered: nothing.

America is full of people just like these: hardworking, honest folks lacking the information and tools needed to make solid financial decisions. The media bears some responsibility for this. Using a sort of Chamber of Commerce approach, they dance on eggs not to “favor” one investment firm or bank over another. This approach might be acceptable if every firm had similar knowledge and competence but they don’t. Training, education, experience and professional judgment differ considerably from firm to firm and adviser to adviser.

Our friend needed *information*. He didn’t need a stock tip, mutual fund or municipal bond. He needed a practical solution to a very specific and complex problem.

Under the guise of being “consumer advocates” personal finance writers (who necessarily write for the masses) often support the antiquated notion that investors should “do-it-yourself.” While many people are capable of basic investment and finance decisions, suggesting that the average person tackle complex financial issues without professional help is like advising consumers to service their own cars. Given the proper training and experience, I suppose it’s an option, but how many people have the knowledge, inclination and time to perform such a complicated and potentially hazardous task?

The investment world operates in layers. There is a retail/wholesale structure. The same investment product can be offered with several different pricing schemes. Often, smaller purchases impose higher costs, while larger buyers enjoy substantial discounts. Generally, personal service and smaller increments are signs of a retail operation. Storefront stockbrokers and insurance agents tend to be very retail, working with numerous smaller clients. Lower volume and higher personal service often mean higher prices.

There’s an old saying about people who “know the cost of everything and the value of nothing.” Once, I was being interviewed for one of those ubiquitous “financial makeover” columns. The writer and I listened to a very pleasant retiree describe her financial situation. After listening intently, I suggested that she could benefit from some ongoing professional advice and gently volunteered to propose some suitable advisers in her distant city. “She doesn’t need that,” the writer shot back, “I can help her pick some good mutual funds.” The resulting column was well done but the writer’s off-handed remark opened my eyes.

Most people I talk with simply don't want to do-it-themselves. For them, the relevant issue is how to find a competent adviser who offers value and understanding. They expect a relationship that is candid and beneficial for both parties.

Professional insight can add tangible value. Specialized knowledge about IRA withdrawal strategies or investment diversification might easily save tens of thousands in taxes or provide a similar amount in tax-deferred growth. Is a few hundred (or even a few thousand) dollars a fair price for that reserve of knowledge? How much needless anxiety and deprivation might that much money save decades down the road?

It's often a mistake to endorse simplistic ideas or do-it-yourself solutions. Answers are more complex than they seem, and most people want or need genuine help.

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