

## Simple Ideas for Your Financial Well-Being

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If you want serious advice, pay for it. You will find plenty of financial advisors who will be willing to offer financial advice for "free." Such advisors are compensated by commissions paid by product sellers like mutual funds and insurance companies. While it may not always be the case, advice compensated by commissions can be biased by sales talk.

Transparency is important. If your advisor is compensated by commissions and is transparent about his or her compensation from product sellers, that's a positive sign. Remember to ask about an advisor's cash compensation (commissions) and in-kind compensation (gifts, holidays, equipment discounts, and conferences). You will need to judge your advisor's level of transparency if you opt to compensate him with commissions.

Sharing profits on your investments with your advisor does not guarantee an alignment of your goals. It may motivate the advisor to increase the risk of your investments in order to increase your returns. If the advisor is successful, that's great. But if the risk materializes, you will be left with losses. Are you comfortable with that situation? Your advisor isn't sharing the losses, right?

A well-performing investment and a well performing investor are not the same thing. The investor is seeking to make money from an investment, but he also wants that investment to be significant enough to make some difference in his overall situation, and he wants the results to be repeatable. When stock markets are doing well, many investments do well. The right questions to ask are: In the last 10 years, how many times has the investment returned above average? How much money was invested by that person in that investment in those years? In other words, what matters to you are investments that can predictably and consistently add to your wealth. Anything else is a directionless gamble.

Doing what everybody is doing does not insulate you from the consequences of your decision. If everybody is wrong, everybody will suffer. Multiplicity of errors does not make a wrong thing right.

Your common sense is your best advisor. Small children often ask the best questions, and taking a child's commonsense approach to investing can pay dividends. Ask yourself these questions: Where do I want to go? What are the various ways to get there? How will I choose the best way? What should I look for in your advisor? How is my advisor paid for his or her service to me?

A portfolio manager and a personal financial advisor are not one and the same. What's the difference? To draw an analogy, it's the difference between a furniture maker and an architect, the difference between a pharmaceutical company and a doctor, the difference between a software programmer and a systems analyst and—to stretch the line a bit—the difference between a cook and your mother. A portfolio manager or mutual fund manager is an expert in an asset class, such as equity, debt, commodities, art, property, etc. A personal financial planner or advisor creates solutions specific to your financial situation, which will probably include selecting investments or portfolio managers that he believes will perform well. (Reprinted from NAPFA Planning Perspective)

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What is the most important factor in choosing a mutual fund?

If you are talking about selecting a mutual fund for a particular asset class, my advice is to "focus on expenses". But, let me defer to Morningstar. Their analysis shows that expenses are the best predictor of a fund's future performance. As an example, the 20% of funds that have the lowest expenses beat their average fund 59% of the time. If you combine the fund's expenses with the Morningstar 5-star rating; they beat their index 66% of the time. Using the same criteria, international funds beat the average 53% of the time, and taxable bond funds, 71%. The key point is that expenses are the only thing that is guaranteed about investing; that is "the higher the expenses, the lower your return".