

The Wall Street scoop

Do you know the six questions you should ask every money manager?



By Steven Abernathy and Brian Luster

Wall Street's evocative dynamic landscape simultaneously encompasses our greatest hopes and our deepest fears.

"Truth is stranger than fiction," Mark Twain wrote, "because fiction is obliged to stick to possibilities; truth isn't."

Were Twain alive today, in his estimation, the daily activities of financiers like Carl Icahn, Jamie Dimon, and Steve Cohen would rival that of fictional characters like Gordon Gekko and "master of the universe" Sherman McCoy. Yet, works of fiction persist to color how the general investor tends to view Wall Street.

Is a similar misperception guiding how you navigate Wall Street's labyrinth of information?

The right questions

How can an industrious, intelligent investor, busy managing his or her own professional and personal life, avoid the common traps? The answers may surprise you (if you ask the right questions). How is it possible that so many who are close to or in the top 1 percent of earners handle their financial affairs like the other 99 percent?

Mainly this is because consumers are most familiar with the brands and institutions they know through the billions of dollars spent on global advertising, sponsorships, and marketed offerings. Were consumers offered an alternative, the big institutions would stand to lose trillions.

Yet, according to Bloomberg News, nearly \$46 trillion is privately managed. Which raises the matter of asking the right questions at the right time. Information can be of great value, particularly if it's not widely known; the fewer people who have the knowledge, the greater its potential value. Why would a savvy investor not want to investigate alternatives to the steady diet of information available to anyone with an Internet connection?

Most investors have an accountant, tax preparer, attorney, stockbroker, or other type of financial planner. When was the last time your stockbroker spoke to your accountant, lawyer, or business manager to talk about the big picture of your wealth profile? If you answered “never,” you are not alone — this is typical 99-percent behavior and it’s common even among successful chiropractors, medical doctors, and other affluent professionals.

What’s more, if a stockbroker buys a new product on a client’s behalf, and it’s not accounted for at tax time, there could be substantial tax liabilities. You see this not only in tax planning but in estate planning, business structuring, budgeting, and in buying assets. This is where an overview of everything going on financially is the best course of action.

Yet, many experienced investors continue to take an à-la-carte rather than an integrated approach to managing their wealth. Prudent advice must take into account legal, tax, and estate planning implications — or the decisions made could do as much harm as good.

Even when a qualified financial planner, personal banker, CPA, and an attorney are employed, that may not be enough. When an investor metaphorically is at the center of a circle, with all of his or her people vying for attention, with no organized integration, the consequences could be damaging.

Each person has his or her agenda and, in most cases, is trying to sell something. Nobody in such a scenario will have a clear understanding of how one investment affects another.

Responsible wealth management includes understanding the keys to preserving wealth as well as growing it.

The biggest change in financial services over the next 25 years will be a potential mass exodus away from brokerage firms where commissions and non- fiduciary relationships are standard.

Ask your professionals

Where you end up, now more than ever, is up to you.

Here are six questions you should ask of all your money managers:

Are you legally obligated to disclose all of the fees I will pay — including fees built into products I won’t see on my balance sheet? Disclosures on purchasing forms are usually in small type buried several pages into an agreement. Know what you’re purchasing and how much you are paying. For example: If you purchase a wrap account, such as a variety of mutual funds and other investments “wrapped” together, the account may be subject to an annual percentage fee.

Will you always provide the best investment at the lowest fees for my family? It’s a yes-or-no question every investor could ask, but most do not. Commissions and fees are key motivators for a salesperson, and selling what’s best for the client’s bottom line may not be best for the broker’s — this is why clear, pointed questions are a must.

What qualifies you to be a money manager? Pay close attention to the answer. Impressive-sounding titles, registrations, and certificates may not mean much. This is where further investigation is needed to assess the overall experience of the manager.

Can you produce an audited track record? A traditional broker is a salesperson; he or she will not have an audited track record as they are not a professional investor. Only professional investors with years of experience will be able to produce this.

How long have you been with your current employer? People today change jobs more than ever before. However, if a financial advisor has had too many employers, it could be a red flag. The Financial Industry Regulatory Authority and the U.S. Securities and Exchange Commission have sections on their websites to assist investors who are performing due diligence on the financial professionals they engage.

Who do you work for? If a financial advisor works only for you, he or she will sign a fiduciary oath. If a money manager working for you and your family does not sign a fiduciary oath, that person is not working for you and you should consider dissolving the relationship.

Is the person self-employed or working for a firm? Are there financial obligations to be met for the firm? Most brokers are held to a suitability standard rather than the fiduciary standard. Those held to the latter are legally obligated to offer recommendations in their clients' best interests only — even if they don't match the financial interests of the broker.

If two products are both "suitable," someone not bound to the fiduciary standard may promote the product paying the highest commission with the highest fees. In this case, the broker's first obligation is to the broker.

While following a suitability standard instead of fiduciary standard may be within the scope of the law, wouldn't it be better to work with people who are unquestioningly working to serve your interests and not selling you products to make money off transactions?

Affluent families have long bypassed brokers who don't work in their interests; they play by the set of rules that best suits them. Seeking out the circumstances most favorable to your affairs is your right. But it's up to you to separate what is truth and what is merely well-wrought fiction.

Steven Abernathy and Brian Luster co-founded the Abernathy Group II Family Office and the country's first Physician Family Office (PFO). They sell no products, receive no commissions, and are independent, governed by an advisory board composed entirely of thought-leaders. They can be contacted through abernathygroupfamilyoffice.com.

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