Get Wise to Your Advisor: How to Reach Your Investment Goals Without Getting Ripped Off

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Steve Lockshin, founder of Convergent Wealth Advisors, is a respected veteran of the wealth management industry and any book he authors on the topic must therefore be considered important. He successively started or co-started several ventures, which morphed from a focus on insurance to derivatives, later to a consulting firm, and eventually to a multi-family office.

The principal thesis he offers in *Get Wise to Your Advisor: How to Reach Your Investment Goals Without Getting Ripped Off,* published by John Wiley & Sons, is that individual investors—including the wealthy and even the very wealthy—are not always best served by their advisors. He starts with an amusing analogy, asking the readers how they would feel if a surgeon appeared with advertising patches on his or her surgical blues! The point he wants to make is that quite a number of advisors, particularly but not solely within the brokerage community, are not truly independent; certain products or solutions, when purchased by the advisors' clients, will allow the advisors to make more or less money.

A second element of Lockshin's thesis is equally important: many individual investors have not thought through what their goals and objectives are, and they are notoriously unaware of what it is they don't know. Having labored for quite a while in this industry, I can vouch for the fact that it is at times particularly hard to deal with a prospect—or even a client—who is looking for something that is simply not feasible. Many honest and totally independent advisors have at one point or another been caught in the trap of having to lose a sale or a client because of the need to state the obvious: what you are asking for cannot be done. Many have worked to make education an important first step in any relationship-building effort, but they have often found themselves lumped together with advisors who do not concern themselves with being totally truthful and who often use these "educational sessions" to convey self-serving messages.

In fairness to well-meaning advisors, it is an unfortunate fact that many clients or potential clients have contracted one of the pervasive diseases of our time, "sound-byte-itis,"

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which postulates that every idea must be simple and be expressed in ten words or less. It does not matter whether the subject matter is complex or not; just keep it simple and don't bother me with useless details! Clearly, there are times when a client asks what time it is and is then promptly told how to make a watch. However, there are also times when details are not useless, but crucial; should we not be ready to study the things we need to know?

Lockshin then takes the reader through the intricacies of the asset-management advisory opportunities available to individuals. Predictably, he initially highlights the many conflicts that beset many brokers, asset managers, bank or trust department employees, and insurance salespeople. More surprising is that Lockshin offers only lukewarm support to independent registered investment advisors. The crux of his argument can be summarized in a simple dichotomy and an iconoclastic observation. Most of the advisors in the former category are held to a suitability standard that only requires them not to sell their clients products that are not suitable for them; unsuitable products might involve excessive risk or complexity, or fail to meet clients' stated goals. He notes that registered investment advisors are held to a higher standard, the fiduciary standard, which requires that the client's interests come first and that the advisor be professional and act prudently and in good faith.

The iconoclastic observation comes with the sixth duty of a fiduciary: appropriate disclosure. I have long felt—and the author implicitly agrees—that legal rules can easily be navigated: tell me what I may not do, and I will find a way around these obstacles. By contrast, legal principles impose a higher burden: the rules are not so hard and fast; navigating around principles is considerably harder than circumventing rules. This point is illustrated by Lockshin's demonstration that disclosure can be so overwhelming that even if it is not intentionally used to confuse, it certainly can eventually lead to a consumer being unable to absorb all the caveats and warnings provided. In short, even if advisors are complying with rules and regulations, they often end up with a situation that is not necessarily better for the client. Many readers will probably be reminded of the questions at times asked by airline security personnel, which often sound as if they were designed more to protect the airline than the flying public!

Lockshin then shifts gears on us, moving into the behavioral finance field, however briefly, to argue that investors are their own worst enemies. Though there is nothing objectionable in the text at that point, one cannot escape the feeling that a desire for simplicity may actually rob the reader of the full perspective of a series of insights that are much more eloquently made in Daniel Kahneman's book entitled *Thinking Fast and Slow:* Kahneman takes more than 500 pages to develop the topic, whereas Lockshin covers it in less than 26 full pages. The balance of the book comprises a practical guide on how an individual can be his or her own advisor and offers a number of extremely useful tips—from a very successful industry insider—on how to do it. The author concludes with a brief discussion of the few changes that he sees coming to the industry and encourages his readers to help speed up the pace of the industry's transformation.

In the end, one has to conclude that this is a useful and entertaining book, though one does also have the feeling that the good-humored style—which makes it so easy and enjoyable to read—may well deprive the reader of an understanding that deserves to be a bit more detailed. Lockshin is absolutely correct in his diagnosis that the industry has changed drastically—and for the worse—over the last 40 or 50 years. Fifty years ago, the bulk of the wealth in the U.S. and in many other countries as well was inherited and housed in generational transfer structures such as trusts. The role of trustees was clearly spelled out, and it is hard to disagree with the proposition that they had the needs of their clients foremost in their minds; if trustees had one weakness, it must be that they often had a more sophisticated knowledge of trust law than investments, and thus probably proved a bit too traditional in their approaches to the management of the assets.

As more self-made money flooded the industry, new classes of service providers emerged, who were considerably more up-to-date on investment matters; yet, that came with a gradually declining focus on the fiduciary nature of their obligations, if not legally, at least as a matter of principle. This short history of the industry ought to have been covered in Lockshin's book, because it would help readers understand why certain principles were abandoned while others appeared: the industry experienced a Darwinian evolution dictated both by a change in its clientele and by the increasingly

sharp focus on the bottom line, both in the corporate world and elsewhere.

One is struck that the book does not mention that the challenge associated with wealth management is broader than a simple question of hiring an investment advisor. Without even climbing into the realm of the ultra-affluent, for whom the issue can be mind-bogglingly complicated, the interactions among financial planning, insurance planning, investment planning, tax planning, estate planning, and philanthropic planning, to name a few, are all major. The ultra-affluent might add family education, risk management, the optimization of all forms of capital, and the management of a complex family office. Yet even the "merely affluent" should make sure that they understand both the dimensions of the wealth management challenges relevant to them and how the resulting interactions ought to be managed. Though one can certainly make the case that the issues the book reveals within the investment management world are edifying and deserve to be discussed, one is left with the feeling that not putting the investment management issue in the appropriate context may actually cause even more damage than hiring an investment advisor who may not be as scrupulous with respect to the interests of clients as he or she should be.

In the end, this is certainly a book well worth reading, and even someone who does not practice speed-reading can probably finish it in one sitting of no more than a few hours. Lockshin's massive experience provides ample opportunity for gems to be discovered, and his colloquial, humorous, and somewhat cynical style certainly makes for very enjoyable reading.

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