NOVEMBER 2013

WEALTHCARE WAY™ JOURNAL

from success to significance

The Other Millionaire, Part II ... P 14

A Simple "FIX" to Your Financial Issues ... P 17

Caveat Emptor for 401(k) Plan Sponsors

Page 7

An Interesting Week

David B. Loeper, CIMA®, CIMC®
Publisher, Editor-in-Chief

This last week was an interesting week. It started with our two day annual meeting of Wealthcare Advisors in our home office in Richmond. Nearly all the advisors we work with from around the country attended ranging from independent investment advisors to those who have fully joined us to form their own Wealthcare practices. I've been in the industry for a long time, and I have attended a lot of advisor conferences, but this one was like no other I have ever attended. There were a lot of differences.

As you might imagine if you have been reading this publication at all, there was an obvious client centric theme among all the advisors. But it was still different than other industry meetings I've attended that hold themselves out as champions of a fiduciary standard and as client advocates. The difference was in the sincerity of their messages, evidenced by specific examples of helping people make the most of their lives instead of well sounding bromides proclaiming to do what is right yet demonstrating little tangible evidence, as I have experienced at so many other meetings.

There was a confidence and comfort their clients felt, that is, after all, what our process is designed to do, but that confidence and comfort was also apparent in the advisor's own feelings about his or her career. I have never been in a room filled with so many happy advisors. Some have only worked with us for just a few months, having transitioned their clients to our process just recently. Transitions are stressful for advisors, but even those who have just gone through it were happy and content. In fact, you could almost feel this sense of relief among the whole crowd that they finally can deliver their value to clients with confidence and that clients perceive and appreciate that value. Comments like, "I wish I would have done this a long time ago" and "I never knew my career could be so fulfilling" were the norm and were without exception.

Anguish?

Back in the day when I was with a major brokerage firm, our advisors were never this uniformly happy and content (nor were many of their clients). Management almost dreaded such meetings as invariably any home office executive was sure to get an earful about whatever the latest problems were in meetings, at breaks, cocktail hour and dinner. Departments that had products "blow up" would have sessions explaining why they were fooled, why the markets misbehaved, or excuse themselves for being early, late or their style being out of favor. There was very little appreciation for anything that came from the home office.

Instead, our Wealthcare advisors appreciated the value of our trading, operations and planning

teams. Over and over again I heard advisors say things like, "The people on that team really care about helping people and will do whatever it takes to do so" and "Everyone knows it is their job to help us help our clients and they all really care." I'd like to take some credit for creating that culture, but it is really the people we work with that created it. It is truly an honor to work with them all and is very rewarding for me to see how proud and noble everyone feels. That feeling has been earned by everyone based on their actions.

Peace of Mind

At the end of the week I had an interesting conversation with an executive from a leading advisor CRM/coaching firm. They have been looking for a service like ours that could help their advisor clients improve their practices. They are excellent at practice, time and resource management. Yet they stop short of prescribing a specific advisory value proposition and service/support value model. He described the problem many advisors face in their practices, that is very simply "providing peace of mind" and how obvious it was that Wealthcare delivers that. He had researched what we were doing and one of our top advisors is a client of his firm, so he has seen how our process delivers not only peace of mind to clients, but also to advisors.

I shared with him my frustration on getting advisors to let go of the things they do that cause them anguish. He sees a lot of the same problems we see in advisory practices. Many advisors do not have a consistent value proposition. To one client they are a muni bond ladder manager, to another they are an insurance salesman, to another they are a manager of money managers and to others they are a stock picker or a financial planner. We both agreed this is no way to run a real, scalable, business. You can make a fine living for sure, partly because the definition of a client to such a practitioner is so broad… basically someone who is breathing, has some money and wants a product or service you have on your shelf. There is no room in such a disjointed practice though for any specialization. It is unlikely you can afford to employ a team of dedicated planners that focus on designing life relative, goals based advice, to ferret out the opportunity for one more goal being met or moved sooner and then seeing the appreciation in your client's eyes for making one of their dreams come true. It is unlikely you can afford a dedicated trading team to uncover tax loss harvesting opportunities across the entire household's accounts while keeping the overall combined portfolio in balance with the target allocation but without wash sale concerns, plus vetting the best alternatives in their employer's 401(k). A practice with a consistent value proposition, like Wealthcare, will not appeal to the gambling stock pickers or option writers. It won't appeal to a person who is willing to sacrifice their life to appease an emotion exploited by a salesman. There are some clients who are not good fits for that consistent business model that the jack of all trades advisor can at least temporarily accommodate. But they are not typically long term clients anyway, and the value of the advisor is not very easily perceived if value even exists.

Such "do anything for a buck" practices cause a lot of personal anguish for the advisor. **You cannot control your schedule when everything you have done is basically a problem waiting to happen**. How many times have you set an expectation for a client that wasn't realized? The mutual fund or money manager that underperformed? The insurance illustration where you

are relieved you showed guaranteed rates in addition to illustrated rates so you can cover yourself for the recent rate adjustment? The asset allocation model that over weighted value stocks, small cap, or foreign securities that have underperformed for several years? The cash alternative that had higher yields that lost principal or was the subject of lawsuits? The "hedge" to market losses that did little if any hedging when you needed it? The timing call that was too early or late? Go back and look at your book. How many problems are waiting in there for you?

Freedom and Peace of Mind

One of our top advisors who has been in the industry for over 30 years says that his entire career he felt as though he was "white knuckling it" until he found Wealthcare. I'm suspect that there is a lot of subconscious (if not conscious) stress for many advisors because of these valid worries in how they run their practices. Disappointing people causes anguish for all but the worst psychopaths yet many advisors set expectations with clients (although always disclosed as not a guarantee) that invariably will not be met. That is no way to achieve peace of mind for your clients, or yourself. With Wealthcare, we do not set any expectation with a client we cannot confidently deliver. Can you get a sense of how freeing that is? Might that be the attitude difference between the advisor conferences I attended while in the brokerage industry versus our recent Wealthcare Advisor conference?

A Simple Answer?

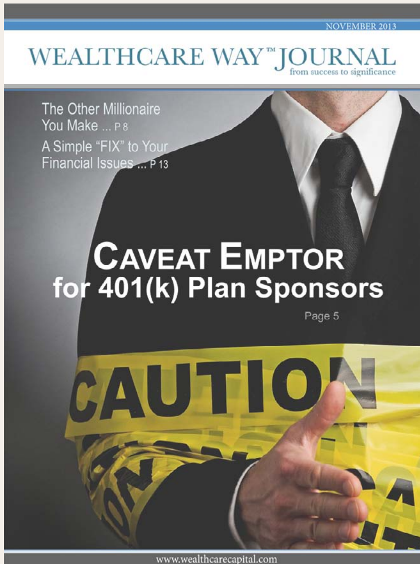
That CRM executive saw these same symptoms in many practices he coaches, and he was amazed that we didn't have a line of advisors a mile long waiting to join us. He described us as a win/win/win (which to me is the only form of an ethical business relationship). Typically, clients will save massive amounts of fees and taxes, advisors will make as much or more money with less work and hassles, and we make a profit delivering it. More importantly, we all have peace of mind. Everyone feels pride and no one sets expectations that cannot be confidently delivered. I asked the CRM executive how do we get advisors to make that step to better both their clients' and their own lives? I shared with him that it is a challenge we have yet to overcome at the scale that we should be.

He said, "You just need to show them how to make the transition."

I said, "You really think it is that simple? I mean it isn't hard to do and we have done it dozens of times."

If that is the barrier preventing you from freeing yourself from the anguish of your current business, let us show you how simple it can be. That freedom from anguish is that sense of relief that resonated throughout our advisor conference. You can get there and we can help. It won't be free from effort, but it is an effort that will pay both you and your clients rewards you can only imagine today. Join us in delivering peace of mind and defy the common®.

TABLE OF CONTENTS



EDITORIAL NOTE:

To better understand the nature and scope of the advisory services and business practices of Wealthcare Capital Management, Inc., please review our SEC Form ADV Part 2a, which is available here: http://www.wealthcarecapital.com/ruminations/WCMADV2a.pdf. Past performance is not a guide to future returns. Before acting on any analysis, advice or recommendation in the content of this publication, you should seek the personalized advice of legal, tax or investment professionals. By selecting the links in this magazine, you may be redirected to third party websites not under the supervision of Wealthcare who may have different privacy policies than Wealthcare.

From the Publisher 2

Caveat Emptor for 401(k) Plan Sponsors 7

Mark Twain said, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." Twain didn't have a 401k, but his words reflect the understanding most 401k plan sponsors have of their fiduciary responsibility.

Fiduciaries: The Other 401(k) Scandal 11

A new 401(k) scandal has emerged, compounding the widely publicized excessive fee disgrace. Win or lose, fund companies get paid and they're paid more to manage risky products so they are incented to take risk in TDFs, especially near the target date when account balances are their highest. Here are some of the reasons why zero risk at target date is imperative.

The Other Millionaire: Part II 14

The Other Millionaire: Part I prompted some questions about our motives behind exposing the impacts of financial services fees. Author and publisher, David Loeper, responds.

ClientWise: A Simple Fix to Your Financial Issues 17

Fidelity Investments conducted research and found that 70% of women fire their financial advisor within 12 months of becoming a widow. The primary reason they fired their advisor? The advisor was condescending and/or incommunicative. Is this you?

Myths ... Busted 19

Do you believe that track records can often be noting other than a misleading sales pitch to advisors, and in the end, to their clients? If so, why? If not, why not?

Reflections: Becoming a Helping Profession 20

Our industry desperately needs to be re-calibrated. George Bernard Shaw once said, "all professions are conspiracies against the [public]" and unfortunately, in many cases, Wall Street has become just that. Do you agree?

WEALTHCARE WAY™ JOURNAL

PUBLISHER/EDITOR-IN-CHIEF

David B. Loeper
dloeper@wealthcarecapital.com

EDITOR
Sydney LeBlanc
sydney@financialwriter360.com

CONTRIBUTORS
Perry Chesney
Mark D. Mensack
Ronald Surz
Russ Thornton

SUBSCRIPTIONS
subscribe@wealthcarecapital.com

PRODUCTION
Lyn Fisher
lyn@high5communications.com

Wealthcare Capital Management Inc.
600 East Main Street, Ste. 1240
Richmond, VA 23219
Tel: 804.644.4711

Subscribe to the Wealthcare Way™ Journal.

Wealthcare Way™

SOCIAL CORNER

By Mark D. Mensack

Mark Twain said, “It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.” Twain didn’t have a 401k, but his words reflect the understanding most 401k plan sponsors have of their fiduciary responsibility.

Recently I had the opportunity to meet with a cantankerous CEO who exclaimed, “we have people handling all this fiduciary stuff… they told me we’re bullet-proof!” I’m not looking forward to highlighting the mouse-print in his service providers’ contracts indicating “that just ain’t so.” Unbeknownst to him, he is in breach of his fiduciary duty for allowing his plan participants to pay more than $100,000 in excessive fees. He also admitted that he chose his current 401k service provider because that service provider would refer business to his company. He was unaware that a fiduciary receiving consideration in connection with plan assets is known as self-dealing. Under the Employee Retirement Income Security Act (ERISA) self dealing is a prohibited transaction for which this CEO could face significant fines and penalties — so much for bullet-proof, let the buyer beware!

Why are we talking about fiduciary responsibility now? It’s only been since the Enron & WorldCom debacle’s that the Department of Labor has been stepping up its efforts to enforce the fiduciary requirements of ERISA, and the rate of fiduciary breach lawsuits has been increasing significant-

ly over the past few years. Unfortunately, most plan sponsors are unaware of their fiduciary duties, or in many cases that they are fiduciaries. While a CEO might be the named fiduciary, many other employees are usually functional fiduciaries. Anyone within a company who has any responsibility or influence regarding their 401k is probably a fiduciary – and fiduciary responsibility carries potential personal liability!

A large part of fulfilling one's fiduciary responsibility, and the focus of many of the current fiduciary breach lawsuits, involves the reasonableness of the fees and compensation paid to 401k service providers. This can be a challenging task since much of the fees and compensation are not easily identified hard dollar line item on an invoice. Furthermore, these fees and compensation are often hidden or hard to find within contracts and prospectuses which can amount to hundreds of pages.

What's the big deal about fees? Ben Franklin's old adage, "A penny saved is a penny earned" applies here, and those pennies really add up. According to the Department of Labor a 1% difference in fees and expenses over an average 35 year working career could reduce a participant's account balance at retirement by 28%!

While ERISA requires plan sponsors who do not have the fiduciary knowledge to seek the assistance of independent experts, most plan sponsors, including the cantankerous CEO, unknowingly seek expertise from non-fiduciary service providers. Many plan sponsors believe that the person who sold them their plan has an obligation to fulfill these responsibilities, but this is rarely the case.

This misperception is not surprising given a 2010 survey by ORC/Infogroup which found that 76% of US investors wrongly believed that "financial advisors" are held to a fiduciary standard. In fact, financial advisors and most 401k service providers have no fiduciary obligation, usually deny any fiduciary status in the fine print of their contracts, and aren't even obligated to put their client's interest ahead of their own. In other words, let the buyer beware!

Given the Department of Labor's increasing focus, the Plaintiff's Bar sensing blood in the water, and the fact that there is no corporate veil of protection for a fiduciary breach, this misperception could prove costly for plan sponsors. Never has the phrase Caveat Emptor been of greater importance! There are many fiduciary traps about which plan sponsors ought to be aware, but here are just two that I find often; Mouse-print & Name-dropping.

Buyers Ought to Beware the Mouse-Print!

Mouse-print is the smaller print rarely found on the first page of a marketing piece which is often times quite different than the "large print" found on the first page. For example, the CEO mentioned above held up his "fiduciary warranty" certificate, complete with gold seal, as evidence of why he was "bullet-proof."

A number of 401k service providers offer some sort of "fiduciary warranty." I've met several plan sponsors who were confident that they were fulfilling their fiduciary duties because their advisor said XYX Company would protect them in the event of a fiduciary breach lawsuit. Any reasonable person reading the large-print in a fiduciary warranty marketing piece would probably come to a similar conclusion when they read:

"This unprecedented program offers plan sponsors and fiduciaries greater confidence, security and

peace of mind by providing specific assurance for their fund selection. We're so confident, we promise to restore any losses to the plan and pay litigation costs related to the suitability of our investment process and Fund lineup for 401(k) plans.

We recognize that fund selection and monitoring is an important part of the due diligence process for plan fiduciaries, and we are confident that our investment selection and monitoring process meets the highest standards. We are willing to put our name behind the Funds selected from our investment lineup and promise that our Funds…." [1]

A reasonable person would most likely be even more confident when, in a separate document referenced in the marketing piece, they start to read the mouse-print that states their fiduciary warranty: *Will satisfy the prudence requirement of section 404(a)(1)(B) of ERISA that the investment options be selected according to prevailing investment industry practices and generally accepted investment theories (the "prudence requirement"), …"*

A reasonable person might even review ERISA 404(a)(1)(B) which "requires that a fiduciary shall discharge his duties with respect to a plan with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

The reasonable person intuitively would think that the reasonableness of fees is an inherent part of prudence, right? And besides, the large print stated, "*…we are committed to helping you meet the highest fiduciary standards in the investment selection and monitoring process and commit to restore losses and pay litigation costs in the event that legal action is brought against qualifying plans. Now that's security for your plan!"*

So what is a reasonable person likely to infer from his fiduciary warranty at this point? A big name company is providing me with greater confidence, security and peace of mind in the selection and monitoring of my 401k fund menu. They are putting their big name behind their funds, their funds are prudent under ERISA, and they're even putting their money where their mouth is! Maybe it's not unreasonable to believe he's bullet-proof?

Unfortunately, "that just ain't so." Deeper in the mouse-print we find a caveat (as in caveat emptor) that contradicts everything the reasonable person read so far; the Fiduciary Warranty does not *"extend to claims that any expenses paid directly or indirectly by the Plan are reasonable."* Sadly, these fiduciary warranties are usually offered in group annuity 401k products which a recent Forbes article described as "Retirement Plans from Hell."[2] This type of 401k product typically has the highest expenses which are often hard to find in hundreds of pages of disclosure. So much for bullet-proof, let the buyer beware!

Buyers ought to beware name-dropping!

Name-dropping is akin to mouse-print, but involves a well-known brand. For example, when asked about their 401k fees, several plan sponsors have responded with "we have Vanguard funds" implying that they pay little in fees.

Vanguard has a well-respected reputation for low-cost, quality mutual funds, and generally,

1 Although the language found in the various marketing pieces of most fiduciary warranties is similar, the italicized portions above are all quoted from the marketing material and fiduciary warranty certificate of one service provider. An example of the caveat can be found at: http://www.docstoc.com/docs/70935394/Fiduciary-Warranty-Certificate

2 Forbes, Scott Wooley, 07/13/09

expenses aren't an issue with Vanguard funds or a Vanguard 401k product. However, in some 401k products you might find, for example, the "XYZ/Vanguard S&P 500 fund." While the average participant might think he has invested in the Vanguard S&P 500 mutual fund, in the mouse-print he might discover he has actually invested in a "sub-advised account" or "collective investment trust" and not the well-respected named fund he thought.

Collective Investment Trusts or CITs are typically private label versions of publically available mutual funds. CITs are often utilized by large plans and, ideally, are cheaper than the publically available version. The Vanguard S&P 500 fund (VFINX) has an expense ratio of 0.18%. However, in one plan I've reviewed, the expense ratio of the "XYZ/Vanguard S&P 500 fund" was 0.53% - almost 200% over retail. On top of this the participants were paying an additional 0.50% wrap fee making the total cost nearly 500% over retail.

Sub-advised accounts are similar but often found in group annuity 401k products like the one mentioned above. The Vanguard 2030 fund (VTHRX) has an expense ratio of 0.19%. In a recent review of a group annuity 401k, I found the "XYZ/Vanguard 2030 fund" with an expense ratio of 0.94%. Additionally there were two separate wrap fees of 0.37% and 0.25% for a total expense of 1.56% to the participant. That's 721% over retail and this plan sponsor had a fiduciary warranty![3]

In the examples above, both plans had assets of approximately $8,000,000. The plan fiduciaries heard "Vanguard," and didn't pay attention to the mouse-print so they mistakenly thought they had chosen low-cost mutual funds. While there might be some situations where these fees are deemed reasonable relative to the services being provided, it's challenging to make that argument here where neither plan sponsor was aware of these fees.

There has been much debate since the passage of Dodd-Frank on whether all financial service providers ought to be held to a fiduciary standard and necessarily put the interests of their clients ahead of their own. There has also been much discussion on the effectiveness of the amended fee disclosure Rule 408(b)(2).[4] Here is one thing that isn't debatable, when it comes to plan sponsors choosing a 401k service provider: "Let the buyer beware!"

3 Thanks to Joe Mensack for correcting my calculations.

4 See "Rule 408(b)(2): The New Fiduciary Paradox"

Mark Mensack is the Chief Ethics Officer of Mark D. Mensack, LLC. an independent fiduciary consulting practice. Mark, a former faculty member at the United States Military Academy where he taught philosophy and ethics, focuses on the ethical imperative of fiduciary responsibility to educate plan sponsors on their fiduciary duties. He writes the "401k Ethicist" column for the Journal of Compensation & Benefits and some of his other articles and presentations can be found at www.PrudentChampion.com

FIDUCIARIES Play a Perilous Role in the Other 401(k) Scandal: Loss-suits are Likely

By Ronald Surz

A new 401(k) scandal has emerged in the past seven years, compounding the widely publicized excessive fee disgrace. Target date funds have rapidly attracted $1 Trillion despite their iniquity. Interests are misaligned: participants bear the risk while fund companies enjoy the profits. Win or lose, fund companies get paid and they're paid more to manage risky products so they are incented to take risk in TDFs, especially near the target date when account balances are their highest. The pretext for high risk is inadequate saving. The TDF scandal is intertwined with the excessive fee scandal.

Because most assets in TDFs are there by default, their selection is employer-directed rather than participant-directed, so fiduciaries are complicit in the scandal. The scandal was exposed in 2008 when the typical 2010 fund lost 25%. The good news about 2008 is that not much was at stake, with less than $100 Billion in TDFs, which was less than 10% of 401(k) assets. But nothing of importance has changed since 2008, just some minor improvements in fees and diversification. Consequently, the next 2008 will be devastating by contrast because TDFs are now $1 Trillion representing one-fourth of 401(k) assets, and it's not a matter of if — it's a matter of when the next 2008 will occur. There will be lawsuits (loss-suits) this time because fiduciaries are not vetting their TDF selections, choosing instead to hire their bundled service providers. Fiduciaries can and should do better. Plan sponsors have an excuse of sorts — they have companies to run, so they rely on their advisors. Some of their advisors should be ashamed, and scared.

Target date fund equity allocations are all similar at 10 years or more prior to the target date. The big differences occur as the target date nears, so let's take an enlightened look at objectives and risks for TDFs *near the target date.*

Risk is the possibility of failing to achieve objectives

The typical target date fund is invested 50% in equities at the target date. The objectives are to replace pay and manage longevity risk, but you won't find these stated in prospectuses or factsheets – just in sales pitches. Importantly, no "glide path" can reasonably be expected to replace pay or manage longevity risk, so there is a high risk of failure. **The Sad Comedy of Target Date Funds** portrays the problem in a short video created in 2010 when the crisis was still being felt. The right course of action for achieving these objectives is to save enough.

The Center for Fiduciary Due Diligence recently surveyed investment advisors and found that the majority want no risk of loss for their clients nearing retirement.

The good news is that there is a universal objective that can be achieved with reasonable confidence.

The Universal Objective

Capital preservation is the universal objective of TDFs, the "perfect fit" for this "one-size-fits-all." It's the one objective that we all have in common — don't lose our money. Of course we all want to earn as much as we can but we are most fearful of loss as we near retirement. Accordingly, the presumption for target date fund design near the target date should be that participants have saved enough to support a lifestyle that is acceptable to them. Some may plan for a humble lifestyle while others see yachts in their future. It's all the same. A plan is a plan.

Protection is Key

Prior to the Pension Protection Act of 2006, the most common investment default was cash, but now the risk pendulum has swung too far for those nearing retirement. 2008 is all the proof you need.

The Center for Fiduciary Due Diligence recently surveyed investment advisors and found that the majority want no risk of loss for their clients nearing retirement. There's a disconnect between this survey and advisor selections of TDFs.

Conclusion: No Risk at the Target Date

Safety at the target date is paramount. Here are some of the reasons why zero risk at target date is imperative. By "zero risk" I mean no stocks and no bonds, just short term TIPS and T-bills.

Incontrovertible Imperatives for Zero Risk at the Target Date

There is *no fiduciary upside* to taking risk at the target date. Only downside. The next 2008 will bring class action lawsuits.

There is a "risk zone" spanning the 5 years preceding and following retirement during which lifestyles are at stake. Account balances are at their highest and a participant's ability to work longer &/or save more is limited. You only get to do this once; *no do-overs.*

Most *participants withdraw* their accounts at the target date, so "target death" (i.e. "Through") funds are absurd, and built for profit.

Save and Protect

The best individual course of action is to save enough and avoid capital losses. Employers should educate employees about the importance of saving, and report on saving adequacy.

Prior to the Pension Protection Act of 2006, *default investments were cash.* Has the Act changed the risk appetite of those nearing retirement? Surveys say no.

Ignoring the past (especially 2008) and hoping it's different the next time is not an option, and it's certainly not an *enlightened view of risk management.*

The only glide path currently abiding by this mandate is the patented Safe Landing Glide Path®

Ronald J. Surz is president of PPCA Inc. and its division, Target Date Solutions. He is a pension consulting veteran, having started with A.G. Becker in the 1970's. Ron earned an MBA in Finance at the University of Chicago and an MS in Applied Mathematics at the University of Illinois, and holds a CIMA designation. He is published regularly in many financial publications. Ron's most recently co-edited book is Hedge Funds: Definitive Strategies and Techniques. Ron has served as a member on industry boards and councils such as IMCA, GIPS Executive Committee (CFA Institute), Sortino Investment Advisors Advisory Board among many others. http://www.ppca-inc.com/index.htm.

The Other MILLIONAIRE You MAKE (Part II)

By David B. Loeper, CIMA®, CIMC®

In last month's issue, we published an article called "The Other Millionaire You Make," which showed a simple example of how much financial product vendors might make on a school teacher and police officer couple earning $75,000 a year and making modest savings over their careers. The analysis was simple and straightforward, and it showed that product vendors stood to make more than a million dollars on this middle income family's retirement savings over the course of their lives based on 1.5% in excess product expense.

The article prompted some questions about our motives behind exposing the impacts of financial services fees. It was suggested that since our clients represent advisors and other financial service professionals spanning the industry, we may be disinclined to criticize common practices and run the risk of offending some of our biggest clients.

Because we are objective, honest, ethical and TRULY put end clients' interests first, we must be skeptical of product vendors' sales pitches. This requires us to avoid the temptation to blindly, and with bias, profess that all financial services are good merely because financial advisors and their firms are our clients. Many advisors come to us seeking objective and unbiased advice to protect themselves and their clients from being victimized by the product-peddling wholesalers and, sometimes, even their own firm's internal product departments.

When a large part of your business is servicing financial service firms, you could applaud them all uniformly without question…champion everything they do merely because they are your clients. But, in reading through the scandalous headlines that permeate *Investment News* every day, you can understand why uniformly applauding everything, every firm, every product vendor and every advisor does not meet OUR standard of being objective, honest and ethical.

I could ignore the reality of what is happening in the industry and merely regurgitate the market-

ing bromides that abound in brochures and ads professing: "we always put our clients' interests first." But with new scams being uncovered every day, the headlines are fairly sound evidence that would be a false and misleading statement for just about any firm. I am curious why FINRA doesn't think so.

You may be aware that I wrote a book about needless hidden expenses in retirement plans (Stop the Retirement Rip-off!). I have seen billion-dollar 457 plans with 2% excess expenses exposed to me by a narcotics detective who happened to be a CPA and CFA®.

I've seen multi-million dollar retirement plans that had product vendors skimming 2.5% a year in mostly hidden fees that neither the trustees nor participants could uncover without our assistance.

I've spoken to honest, well-educated, and experienced advisors who felt guilty for permitting themselves to be suckered into the free lunch sales pitch they bought from wholesalers, and then proceeded to sell to their clients, such as with Auction Rate Notes or numerous other products that didn't go according to plan.

Over my career, I've seen advisors burn their entire book by selling things like Petro Lewis, Precious Metals Funds, Real Estate Partnerships, Executive Life Annuities, Internet stocks, proprietary funds and managers, etc., etc., etc.

I never cease to be amazed at how many advisors don't know that they are referred to as "distribution" in the board rooms and wholesaler strategy meetings. Despite their being used as a source of "product distribution," many advisors view their product vendors positively, as partners. This happens daily, even though SOME vendors are merely crafting effective sales pitches that victimize their advisor "partners" and their clients.

"I never cease to be amazed at how many advisors don't know that they are referred to as 'distribution' in the board rooms and wholesaler strategy meetings."

When advisors were making 8.5% loads for selling Petro-Lewis back in the early '80s, do you think that I would have been popular at the Petro-Lewis annual sales recognition conference for being a skeptic of their product pitch? Of course not. The advisors at the conference were making a ton of money selling the product and credited the vendor for their "success" as their partner. I would have been publicly flogged at such an event.

In the hey-day of Legg Mason Value Trust, before its performance fell apart for the risks that would have been exposed by FundGrades, do you think advisors selling the story would have appreciated our objectivity? Obviously not, Bill Miller was their "sales partner" and we were that nasty firm exposing the risks of under-performing he was taking that were a distraction to the sales story.

These are the reasons why some – literally a handful in percentage terms of all financial advisors – support our company. We are highly

skeptical and do not earn our living for doing anything other than acting as a fiduciary to either you or your clients. If you are looking for someone to blindly endorse everything that any firm or financial product vendor does, we would not be a good fit for you. We'd rather fail with integrity than win by lying, evading or ignoring the impact to you and your clients of various products sales packaging.

As a former executive in a major brokerage firm, we often had discussions about who in what branch we would tell our spouse to trust if something happened to us. It was a very short list. If you are in a large firm and a large branch, tell me honestly that there is not a large number of advisors you work with or know who you would tell your spouse to avoid if something happened to you. There is probably only a handful of advisors you work with who you would tell your spouse to trust if something happened to you.

The original article was meant to get you to think about the weight of our responsibility in serving clients' interests and the price clients pay in their lifestyle to accumulate wealth. This doesn't mean your fees are not justified. It doesn't mean clients could, or should, do it themselves. It does not mean that ALL fees are bad. It does mean that as trusted stewards of our client's life, we need unwavering vigilance to avoid sucker bets in the form of products that are disconnected from our clients' lives. It means we have the responsibility to deliver real value for what we charge. The weight of this responsibility is too great to toss to any Harry or Sally in your office you wouldn't trust with your own assets, or some product wholesaler that has crafted a compelling sales pitch. You can defend the people you don't trust. I won't. And if you won't do business with us because we maintain that integrity, I view that as a positive, not a negative. One would have to question your motives as to why. Would you really tell your spouse that ANYONE in your office would be just fine? It makes no difference? None are better, more honest or objective than others? Are you being objective?

We can evade this, or acknowledge it. Objectively, I prefer acknowledging truth. This, with any luck and with the rediscovery of the value of ethics and integrity, is the future of financial advising.

A popular industry speaker, writer, consumer advocate and inventor, David B. Loeper is the CEO and founder of Wealthcare Capital Management, Inc. in Richmond, VA. He is author of the top-selling book Stop the 401(k) Rip-off!, three other books released by John Wiley & Sons (Stop the Retirement Rip-off, Stop the Investing Rip-off and The Four Pillars of Retirement Plans) and numerous whitepapers. He has appeared on CNBC, CNN, Fox Business and Bloomberg TV, served on the Investment Advisory Committee of the $30 billion Virginia Retirement System and was chairman of the Advisory Council for the Investment Management Consultants Association (IMCA). He earned the CIMA® designation from Wharton Business School in 1990 in conjunction with IMCA.

A Simple "FIX" to Your FINANCIAL ISSUES?

By Russ Thornton, CDFA™

As most of us already know, typically, guys want to identify problems and fix them. Many women just want to explore what's going on and how it makes them feel. They want to fix problems, too, but first they want to understand what's going on. And why.

Fidelity Investments conducted some research and found that 70% of women fire their financial advisor within 12 months of becoming a widow.[1] The primary reason they fired their advisor?

The advisor was condescending and/or incommunicative.

Maybe you've experienced this personally. I work with some ladies whose husbands are alive and well, by the way, and they tell me that when they met with their former advisor or financial planner, the "professional" barely acknowledged they were in the room. And they were not invited into the discussion about THEIR family finances.

When I hear stories like this, it makes me sad. Mostly, it just makes me mad. To you, most financial advisors act this way. While you may expect me to tell you I have the answer to this problem, I don't.

You may prefer to work with a female advisor. Or an older advisor. Or an advisor who is younger. Maybe you'd feel most comfortable with an advisor with a large, Wall Street firm. Perhaps you appreciate a professional with a smaller firm. Whatever your preference, you should be highly selective

1 http://www.fidelity.com/static/dcle/InsideFidelity/documents/2011-Fidelity-Couples-Retirement-Checklist.pdf

"What I want to be is the PERFECT advisor for a small, select group of female clients who appreciate my willingness to listen and help them truly understand their financial choices and the trade-offs among them."

(and at least a little bit skeptical) of anyone you're going to trust with your money. And your life.

You know what?

For most of these female investors, I may not be the right advisor for them. Thankfully for me — and for them, too — I'm not trying to be the "right" advisor for most of them. What I want to be is the PERFECT advisor for a small, select group of female clients who appreciate my willingness to listen and help them truly understand their financial choices and the trade-offs among them. Only then can we all work together to balance these choices with what's most important in their life and the lives of those they care about.

I don't want to simply "fix" their financial issues. If that's all they want, there are plenty of advisors out there who will be happy to try. Instead, I want to empower my clients to make smart choices and find the right path for themselves.

Russ Thornton, CDFA™ is a Vice President with Wealthcare Capital Management in Atlanta, GA. His work is focused on helping widows, divorcées and other independent women align their finances with what's most important to them so they can live their best possible lives. Outside his wealth management practice, Mr. Thornton serves as a trustee for the non-profit Georgia Eye Bank. Learn more about Russ at WealthcareForWomen.com or Google+.

MYTH: A Ten-Year Track Record Proves Real Investment Skill

FACT: Track records are what happened to *other* people's money…not YOURS. Track records can often be nothing other than a misleading sales pitch to advisors, and in the end, to their clients.

Statistically, 10 years doesn't prove anything other than what already happened. It is uncertain whether the results were due to luck or skill AND whether it will continue in the future.

Since the future is uncertain, perhaps the best way to think about this is to think about a roulette wheel (an appropriate example for the gambles made on track records).

Pretend that you observe the results of 10 spins of a roulette wheel, but unlike a real roulette wheel, you don't know what numbers are on this wheel (like the future uncertainty of the future returns) or even how many numbers are on the wheel.

Could you identify what numbers are on the wheel just by looking at the result of 10 spins? Of course not, and you can't identify investment skill in 10 years, either. That's a myth.

To see more Myths vs. Facts, please visit:
http://www.wealthcarecapital.com/investorservices/investorfactsandmyths.aspx

Reflections

Becoming a Helping Profession

Perry Chesney, CIMA®, CFP®

When we introduced our video chronicling the history of the industry and our company's innovations, we received positive response. While we were creating it, it occurred to me that the industry — our industry — desperately needs to be re-calibrated. George Bernard Shaw once said, "all professions are conspiracies against the [public]" and unfortunately, in many cases, Wall Street has become just that.

It didn't necessarily start out that way, nor has it been without individuals who tried to change things for the better. To paraphrase Arthur Levitt, it's a bad system with some good people stuck in it.[1] And there are many people today who continue to work to make fundamental changes: changes in compensation arrangements, changes in oversight, changes in rules and regulations, and changes in the service delivery model. The people of Wealthcare Capital Management would be included in that group.

We believe we have developed a system that recalibrates the entire engagement model so that financial professionals can quit selling and start helping. Our model focuses on helping clients live their

1 "Sadly, the brokerage industry still has numerous flaws. That's not to say that all brokers are commission-hungry wolves on the prowl for naive investors. Some are; others are just inept. Most are honest professionals. They are good people stuck in a bad system, whose problems remain fourfold." Take on the Street: What Wall Street and Corporate America Don't Want You to Know by Arthur Levitt

lives to the fullest by giving them confidence in exceeding the goals they value without experiencing undue lifestyle sacrifice or taking unnecessary investment risk.

The Latin word "inspirare," where we get our word "inspire," means to "breathe life into." At Wealthcare, we want to breathe life into our industry, advisors' careers and clients' lives—to be part of a revolution to make the practice of providing financial advice a helping profession like medicine or teaching—and to help make Goals-Based Planning and Wealth Management a truly noble profession. Our system helps advisors do this and brings inspiration to our profession.

Our video on The History of Financial Planning and Innovations for the Future is available and we would love to hear what you think.

http://www.youtube.com /watch?v=aFmuaz3DZfo

To better understand the nature and scope of the advisory services and business practices of Wealthcare Capital Management, Inc., please review our SEC Form ADV Part 2A, which is available here <http://www.wealthcarecapital.com/ruminations/WCMADV2A.pdf>. Past performance is not a guide to future returns. Before acting on any analysis, advice or recommendation in the above content, you should seek the personalized advice of legal, tax or investment professionals. By selecting the links on this page, you may be redirected to third party websites not under the supervision of Wealthcare who may have different privacy policies than Wealthcare.

Perry L. Chesney is a Wealthcare Advisor with more than 30 years of experience in the financial services industry. As a Wealthcare Practice Advocate, he educates other advisers on the end to end Wealth Management Solution that is the Wealthcare Way™. Prior to joining Wealthcare, he served as Senior Vice President and Central Division Manager at SunTrust Investment Services and as a Private Wealth Advisor with Merrill Lynch, where he worked for over 22 years. Mr. Chesney is a frequent speaker for area financial planners and investment professionals and has done extensive speaking and teaching around the country for major financial services firms. In 2004 and 2005, he was recognized by Robb Report Worth Magazine as one of the TOP 100 Financial Advisors in America.