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Seasonal Musings

June 2009

Musings In This Issue

Trust

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Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning LLC (FSFP). We'll be devoting this issue to discussing the linchpin of the financial services industry and of our financial system: trust. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

Trust

Our financial system depends on trust. Whether we're aware of it or not, our economy would grind to a halt without it. We trust that pieces of paper, with little inherent value and spat out of ATMs, can be exchanged for food and clothing. Retailers trust that colorful pieces of plastic with nothing more than our names and 16 random digits ensure eventual payment. We as consumers of financial services, and providers of those services, trust a wide variety of regulators and institutions.


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often without thinking twice.

Needless to say, this blind trust has been sorely tested time and again in the past decade. Ratings agencies, auditors and Wall St. analysts have failed to give us objective opinions. Politicians and their appointed regulators have failed to effectively oversee derivatives markets and the mortgage finance industry. Wall St. executives have failed in their duties as stewards of their shareholders' stakes. Brokers and insurance salesmen have failed to disclose their conflicts of interest and the risks inherent in their recommendations. And most sadly to me, investment advisors (Madoff included and even one or two NAPFA members) have failed to uphold their fiduciary obligations to their clients.

Trust takes years to develop and only the actions of a few criminal or incompetent individuals to destroy. Somewhere in the neighborhood of 600,000 people call themselves financial advisors of some type. So it's no surprise that of this number some would be criminal or incompetent, just as there are criminal and/or incompetent lawyers, politicians, professional athletes and physicians. There are no guarantees when it comes to predicting human behavior. But how can you as a "consumer" of financial advice improve the odds that a financial professional will be working for you rather than against you?

I'm no criminal psychologist, but I would imagine that prior offenses in a financial advisor's background are an indication that you might be dealing with a repeat offender. You can check a broker's background at www.finra.org/brokercheck. From that page, you can also research Investment Advisors via their Form ADV Part 1's (including that of Five Seasons F. P.) by following the Search link which will take you to the [Investment Advisor Public Disclosure domain](#). You may find additional information about the past indiscretions of financial advisors at your state insurance or securities departments, and at the CFP Board of Standards.

The majority of Investment Advisors use unaffiliated custodial firms to house their clients' investment accounts. These custodians, Fidelity and TD Ameritrade Institutional in our case, provide an important layer of checks and balances for clients. For example, investment advisors are restricted in their ability to move funds out of client accounts without client permission. And through trade confirmations, monthly statements, online access, and asset valuations all provided by an objective third party, clients can monitor their accounts and police their financial advisors.

In fact, as I understand the case Madoff was able to dupe his investment advisory clients simply because he also controlled their custodian, allowing him to generate fictitious trade confirms and account statements. Frighteningly, this is not an isolated arrangement. There are apparently thousands of investment advisors with affiliated custodians.

At the risk of sounding like a broken record, another way for you to determine if your financial advisor might have adversarial motives is to consider their business model. Do they disclose in writing how they are compensated, who compensates them, and whether this creates conflicts of interest that might impair their advice to you or restrict the choice of solutions available to them? Registered investment advisors (RIAs) must disclose this information and much more in the aforementioned Form ADV to allow you to make an informed judgement. Brokers, registered reps, and insurance salespeople? Not so much.

And finally, can you trust that your financial advisor has the commitment, experience and training to provide you with sound advice? What does his work experience indicate about his commitment to the financial services industry? What are his requirements with respect to continuing education? Can he explain his investment philosophy and the academic rationale for it in layman's terms, and does he "eat his own cooking" in this regard? (Only about half of mutual fund managers invest in their own funds, for example.) Do the letters after his name indicate a genuine commitment of time and effort to learning, or do they come free with a box of CrackerJacks? (Many states are cracking down on the use of bogus professional designations.) After all, you as a consumer must be wary of sins of omission as well as sins of commission.

We as an industry have come to deserve your heightened scrutiny. We as a firm welcome it.

Five Seasons Financial Planning LLC is a Fee-Only investment advisory firm registered with the state of Utah. Five Seasons offers integrated wealth management, as well as investment counseling and financial planning services. To view past issues of "Seasonal Musings", click [here](#).

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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