

Future Tense for Financial Advisors

by Bob Veres
January 1, 2013

To celebrate the new year, the magazine let me take an extended trip into the future so that we could provide a more accurate view of what's ahead for the profession. I materialize into a chilly afternoon street scene in Chicago in 2032, with the road full of commuters in robocars, reading the day's news while their cars navigate the busy traffic. An empty car pulls beside me and opens its side door - a clear invitation.

"Where can I take you today?" a mellow voice from the dashboard asks as I settle into the seat.

"I want to talk to a financial planner," I say.

"I have 637 financial planners in my address book," the voice replies. "Please give me additional criteria."

"Fiduciary," I say.

"That category includes all 637."

"Compensated only by fees."

"That does not eliminate any."

"Wow," I say, taking notes.

"That is not a criterion I recognize."

"Sorry. What do you suggest?"

"You could choose a planner who works for BAMMSSBNS or GDBUBSCS," the car offers helpfully, swerving around a pedestrian and narrowly avoiding an oncoming truck.

"I'm sorry. I don't recognize those."

"Bank of America Merrill Morgan Stanley Smith Barney Nomura Securities, or Goldman Deutsche Bank UBS Credit Suisse," the car says with what seems to be exaggerated patience. I have the uncomfortable impression that its cybercircuits think it picked up an idiot.

"Are there any other choices?" I ask timidly.

"No."

"Let's restrict it to a BAMM-whatever financial planner who has not been sanctioned by any regulatory authorities or lost an arbitration case."

Instantly, the car zooms out of the slow lane, takes a ramp and whizzes alongside Lake Michigan.

"Wait! Don't you need any more criteria?"

"You have specified the financial planner for whom you were looking."

"Just one?"

MEET THE PLANNER OF THE FUTURE

The car makes an abrupt left and skids to a halt in front of a large lake-front office building. "You'll find him in Suite 1745. The elevators are just past the virtual security guard."

"I'm here to talk with a financial planner," I tell the receptionist.

"Certainly," she says cheerfully, handing me an iPad that weighs no more than this piece of paper. I sign a lengthy contract that requires me to resolve any disputes with an arbitrator of my planner's choosing and disclaim all responsibility for bad investment outcomes. It also includes a terrifying list of conflicts of interest. As I hand back the tablet, my planner emerges from the hallway.

"Joe!"

"Bob!"

The planner's face shows every hour of the 20 years since I had last seen him, but he was not hard to recognize. "Bob, what are you doing here?" he asks.

"It's an undercover assignment," I say quickly as we walk into his office. "Listen, I have a lot of questions and not a lot of time. The last time I saw you, you were one of the most idealistic, client-centered planners I knew. You were a champion of the fiduciary standard. How is it you're working for a big brokerage firm?"

Joe slumps in his chair and motions to me to sit. "It's the only way to get a license these days," he says. "Ever since FINRA took over RIA regulation, it's been a long, slow push until finally you can't practice anymore as an independent advisor. Trust me, I held out as long as I could."

"By law?!"

"For a while they just tightened the compliance screws, so it was impossible to do any work unless you were connected to a big compliance department. So I affiliated with an independent broker-dealer who told me I could do what I wanted; no sales requirement. I figured since they had supported FINRA regulation, they'd be around for a while.

"Boy, was I wrong," he continues. "They were the first targets. FINRA decided that all their reps would have to be employees of the firm - to protect the public, you understand, by having closer supervision. The last independent B-D sold out to the brokerage firms five years ago."

"But the car said you were a fiduciary," I protest.

"Everybody is a fiduciary these days," Joe says. "But all that means is that people in the home office monitor everything we do and fill out the right paperwork. And, oh boy, do we disclose. Did you read the contract?"

I shudder. "Yes."

"But what does disclosure matter if you can't get access to financial advice any other way?" Joe asks. "They say we're not a monopoly because there's more than one firm. Actually there are two now, since the last round of scandals and bailouts."

"What were the scandals about?"

"Same as the one before and the one before that - making crazy bets on derivatives that nobody understood, and selling packaged junk at a huge markup to their customers. I refused to get involved in it, and my bosses complained I wasn't a team player. But ultimately it didn't matter; the markets tanked each time, taking my clients down with them."

"Let me guess; the only response from Washington was to demand that FINRA impose more paperwork."

"I guess some things never change," Joe says.

"So you sell investments for a living?" I ask.

"Technically, I'm a fee-only financial planner," Joe responds wearily. "I'm paid a salary for the work I do. But at the end of the year, they tote up everything I recommended to my clients, everything they bought, and I get a bonus that bears a suspicious resemblance to what I would have made if there were commissions involved."

"And nobody has caught on?"

"Everybody has caught on. But where else are consumers going to go for help? What's Congress going to do, when there isn't any paper trail between my production levels and the year-end bonus? And why would they look into it, when my firm buys their reelection every few years?"

I stood up. "I hate to see you this way," I say.

"I hate to be this way," he replies. "Look, I know you must have come from the past or something, so ... let me give you a tip. Maybe it will help your portfolio survive the Great Brokerage Scandal of 2014 or the Bailout of 2019 or the ... anyway, buy stock in cat food companies."

"Cat food?" I say. "Are there a lot more cats?"

"Those companies suddenly pick up a new customer base, and the earnings go through the roof. They make a huge business selling to retirees who took the advice of their brokers after brokers became the only game in town," he says. "Just don't tell anybody you heard it from me."

BACK TO REALITY

When I arrive back home in the present, I go to visit Joe in his office. He looks so young and cheerful it almost breaks my heart.

"How's business?" I ask.

"It couldn't be better," he says. "Some days I wake up and can't believe my luck. I work in a profession where my only job is to help people get ahead in their lives. Every week, it seems, somebody comes in who was screwed over by one of the brokerage firms, and now they know to ask for real unconflicted advice. I wonder sometimes how the brokers stay in business, but I figure sooner or later they'll catch on to what the public really wants, and start to give it to them. Meanwhile, they're just creating more and more business for little firms like mine."

"I guess that should have told us everything we needed to know," I say.

"Come again?"

I stand up. "I just stopped by to say good luck as you move forward in your career," I say.

"Who needs luck?" Joe says cheerfully as we walk back to the lobby. "For fiduciary, client-centered advisors," he says, "the future couldn't be brighter."