Reasons Not to Invest with Financial Advisors at a Brand Name Firm

By Jack Waymire / August 18, 2014

Too many investors select financial advisors from brand firms because they believe it is a safer decision. But, are they really safer based on misleading TV commercials? The number of investors who believe they are safer is dropping. Why? Hundreds of headlines have documented brand name firms paying major fines for cheating, defrauding, or scamming their clients. You should join the exodus and consider a superior alternative.

1. Brand Names

It takes hundreds of millions of dollars to create a brand name in America. It can also take years to develop increased brand name awareness. Perhaps 100 financial services firms, out of thousands, have spent the time and money to establish the brand. Why create a brand? They know a significant percentage of investors believe they are safer investing with firms that have recognizable names.

2. Layers of Parties

The brand name firms are usually public companies that have layers of people who benefit from their production of revenue and profit: Shareholders, Directors, Executives, Management, and Financial Advisors. Every layer has to be compensated one way (rising share prices) or another (income and bonuses). Their compensation is derived from the revenue that is produced from your assets.

3. Proprietary Products

Big firms produce their own financial products because they make more money. They also like to control product features, for example the way Goldman Sachs controlled the pools of toxic mortgages it packaged and sold as safe investments. Convincing you to buy proprietary products is an anti-investor business practice.

4. Sales Management

National, regional, and branch managers are tasked with meeting company goals for revenue and profit. They make a lot of money if they achieve their goals. Consequently, they pressure advisors to sell the products that make their firms the most money and produce the biggest bonuses for themselves. This pressure can produce adverse consequences for the clients of these firms.

5. It's Your Money

You should be asking yourself if any of these brand name characteristics benefit you. The answer is absolutely not. The reality is the brand name firms have a lot of overhead and a lot of mouths to feed. This creates so much pressure that executives, managers, and financial advisors are willing to cheat their clients to meet their production goals.

You have seen the headlines. The biggest brand names in the financial services industry have paid billions of dollars of fines for defrauding their clients. Are you safer? I don't think so.

Superior Alternative

Are there some high quality advisors at the brand name firms? Sure there are, but they are outnumbered 10:1 by low quality advisors. How are you supposed to tell the difference when there are no fiduciary standards and no mandatory disclosure requirements?

There is a superior alternative that does not have all of the layers and conflicts that compete with your interests. There are thousands of independently owned Registered Investment Advisory (RIAs) that provide superior services for lower overall expenses. The owners of the firms reside in your communities, not thousands of miles away in New York City. And, the firms are financial fiduciaries who are required to put your interests ahead of their own.

A high percentage of the principals in these firms came from the brand name firms. They say they left so they could do what is best for their clients. They grew tired of the constant pressure from management to sell the products that made their predecessor firms the most money.