

Be good or be gone

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OVER TIME, the financial services industry has changed, moving from one way of conducting business to another, which has significantly affected the way advisors market and sell financial products. These radical changes, or paradigm shifts, have been driven by demands from the industry and from investors, which has forced advisors to grow professionally.

During the 1970s and early '80s, advisors worked for captive organizations and sold their products almost exclusively. Then the demand to lower marketing costs for financial institutions and a need for more investment choices for consumers resulted in a paradigm shift — advisors became independent and FMOs emerged to assist their marketing efforts.

SHIFT HAPPENS

There is a paradigm shift taking place, one that is changing the way organizations and advisors do business. As with shifts of the past, the demand for change is being driven from all sides.

Investors are disgusted with the lack of ethics in the industry, and regulatory agencies are showing their teeth and biting hard.

In the past two years, the Securities and Exchange Commission, National Association of Securities Dealers, and state insurance departments have levied fines for ethical misconduct totaling more than \$5 billion against thousands of brokers, agents, brokerage firms and insurance companies.

Simply put, the industry is demanding absolute honesty and competency from advisors, and the term “suitability” is becoming the buzzword. Like dinosaurs, hard-sell financial advisors are poised for extinc-

tion, to be replaced by a more educated, sophisticated and informed ethical financial advisor. Consumers demand and deserve honest information, comprehensive product knowledge and suitable recommendations before making any investment decision.

What can you do in order to determine product suitability for clients? Start by incorporating the regulations adopted by the National Association of Insurance Commissioners into your own practice even if your state does not require it. The NAIC model identifies four critical points that must be evaluated prior to making a product recommendation to a client:

1. Financial status: What is his total financial picture?
2. Tax status: What is his income tax bracket and that of his beneficiaries? What is the tax status of his investments, and the tax consequence of a sale, replacement or exchange?
3. Investment objectives: What is he really trying to accomplish with his portfolio?
4. Other relevant issues: What is his age, health, family concerns and future outlook?

So the shift is on. He who will survive and prosper in this industry will be the advisor who learns how to sell from his heart, not from his wallet.

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