Financial Planners May Not Have Your Best Interests in Mind

There is a major battle going on in the financial services industry, and your welfare is at stake.

At war is the Government of Canada, represented by the Canadian Securities Administrators (CSA) and the entire financial services industry including investment firms, mutual fund companies, banks, insurance companies and just about everyone else who handles your money.

What's the war over? Whether or not the person you're trusting to invest your money is legally required to act in your best interest. Right now, they only have to make sure the investments they're selling you are "suitable."

Just to be fair, no shots have been fired and no one has lost his or her life. As a matter of fact, all the CSA has done so far is asked for people's (organizations') opinions, but wow, has this ever stirred up the industry. Every major financial organization has taken up the battle cry: from Mutual Fund Dealers Association, The Financial Advisors Association of Canada, and Investors Group, to TD Bank.

The industry has further balked at the idea of being held legally accountable by asking to study further into the matter, asking people to sign a petition against it, asking them to spread the word against it, and finally, asking people to contact their local provincial advocacy committee to tell them "NO." On the other hand, there are groups like the Canadian Foundation for Advancement of Investors Rights (FAIR Canada) and The Investor Advisory Panel (IAP) who want it.

I would like to see legislation for fiduciary duty and I'll tell you why. The financial services industry has become extremely complex. The vast majority of Canadians are totally dependent on financial advice givers. It's because of this dependency that those giving advice should be held to a higher standard.

My stance (as described in my book The Financial Navigator: Managing Your Success) is that if you're going to give people the best possible advice, you can't be restricted by a product line. In other words, if you're selling mutual funds and the person you're talking to shouldn't own mutual funds, then don't sell them. You shouldn't be allowed to hide behind a rule that says, "what I sold you was suitable." Suitable in what context? The only explanation could be "suitable" in the context of your product line.

One of the arguments against "in your best interest" legislation is that it could increase costs for the investor. In Royal Banks' response letter to CSA's Consultation Paper, they caution, [it]...may lead to unintended
negative consequences from retail investors perspective including increased service pricing to offset increased registrant's liability and supervision obligations...

Why is that? I think the industry makes enough money to cover off any additional costs. When you look at what the industry spends on advertising they could easily pay for any additional administrative costs.

I guess it shouldn't surprise me that the industry is generally against it, whereas the people (and organizations) that represent the investors want it. Too many people today don't want to take responsibility. They want to earn a living, many want to make a fortune, but at whose expense?

I have no problem if someone wants to go out and buy a $150,000 car. That's their right and I'm happy for them. What I object to, is when someone asks an advisor they trust to help them buy a $150,000 car and they're sold a $60,000 car and charged $150,000 by that "trusted" advisor. That's just wrong.

In my opinion, it's too easy for people to get into the financial services industry, call themselves an advisor and start selling financial products. People can be trained in weeks to sell certain products. Right now, there's not much investors can do if what they bought was considered "suitable." Personally I don't think that's "acceptable."

http://www.huffingtonpost.ca/tim-paziuk/financial-planning-canada_b_3245089.html