WORKING WITH A NON-FIDUCIARY BROKER IN THE INFORMATION AGE

"Getting rich is one thing. Staying rich is quite another." - Morgan Housel, The Collaborative Fund

We are often asked a variation on the question: "what are savvy investors doing right now?" It's a difficult, if not impossible, question to answer as each investor has their own unique set of circumstances. We believe a more insightful question is, "what are savvy investors not doing right now?"

We have railed against mutual funds, alternative investments, financial salespeople, etc. Furthermore, most readers know they shouldn't try to time the market, chase speculative performance, or live beyond their means. We thought it might be helpful to take it to the next level by outlining mistakes that might not be obvious but can lead to negative unintended consequences.

In 2018, if you're working with a salesperson who openly puts their interest ahead of your own, you're asking for trouble. Brokers have made a living convincing the investing public they are trusted advisers (and the lines aren't always clear). The best way to find out if your adviser is a fiduciary is to ask them directly ... and get it in writing. Google their respective firm to see if they are a fiduciary. Check FINRA for marks against their record.

Wells Fargo's blatant lack of regard for its customers has us questioning our personal and business relationships. Wouldn't you want to know if the company you're working with is actively fleecing the American public? We like to use Violation Tracker

Nikolass Schuurmans, CFA, is the founder of Pure Portfolios

to see if corporate actions align with our values.

Action item: Work with an adviser who puts your interests first.

GET IT IN WRITING

There is an old broker saying, "The biggest liar gets the business." Since most financial advisers are compensated for bringing in assets or making transactions, they will say anything to win the business. Better yet, during a sales pitch, very little is put in writing and most of the communication is verbal. The adviser controls the information flow which you're using to make your hiring decision.

Taking people at their word without questioning motivations, incentives, or how their compensation works can lead to trouble. Get anything you deem important in writing. You can't fudge or take back the written word.

Action item: Know what fees you're paying, and that your adviser is adhering to a fiduciary standard and avoiding conflicts of interest, etc. Get it in writing.

SEEKING RISK FOR A REWARD THAT WON'T CHANGE YOUR LIFE

We recently read the sad story of an elderly couple with $16 million invested in technology stocks at the behest of an adviser. After the dot-com bubble burst, the couple was left with $3 million and a ton of regret. In the aftermath, another adviser asked if growing their investable assets from $16 million to $25 million would have changed their life. The couple said no. Clearly, allocating their entire portfolio into frothy technology stocks unnecessarily increased their risk of ruin. The large bet essentially had limited upside (wouldn't change their life if they were right) but could endanger their retirement dreams.

Action item: Ask yourself if the best possible outcome would change your life. If the answer is no, doing nothing is fine.

FORGETTING NEGATIVE OUTCOMES ARE PART OF INVESTING

To maintain perspective during good market environments, we often read market forecasts from the end of 2007, which we now know was going into the Great Recession.

Here's a headline from Barron's in December 2007:

"A Bullish Call: Wall Street's Seers Forecast More Gains for Stocks Next Year"

The risk we take allows us to enjoy positive market returns such as those of the past nine years. It also means we will likely have negative return years, which are not a bug in the system or outlier events, but rather a normal part of investing.

Action item: Negative market returns do not mean your approach is broken, or you need to "do something." Make sure your investment portfolio mirrors how you feel about risk.

YOUR INFORMATION FILTERS ARE NON-EXISTENT

It's a blessing and curse to have a world of information at our fingertips. How are you filtering information between meaningful and worthless? As investment professionals, we consume a high volume of commentary, research, and opinions. We would argue that developing a sound filter for information is a big part of making rational decisions and shaping our view of the world. If you consume financial media that elicits an emotional response or the urge to alter your long-term investment plan, using appropriate filters could save you from making poor decisions.

From our Twitter friend Josh Brown, CEO of Ritholtz Wealth Management:

"Make sure your media diet matches up with the type of information that is both interesting and helpful to you. Make sure it's being written by professional journalists or industry practitioners who actually know what they're talking about."

Action item: The best approach is to turn off the financial news. If you must, we find unfiltered blogs, offer the best source of clean information.