



Is Lack of Financial Education Costing You?

A couple with a personal income in excess of \$750k per year were interested in investing in a friend's business. Because they have a good relationship with their investment advisor and trust his opinion on financial matters, they thought it was prudent to run the opportunity by him. To their shock, his response was that if they didn't trust his ability to manage their money perhaps they should look elsewhere. Taken aback, they quickly retreated for fear of upsetting their trusted advisor.

Upon further questioning – to try to help the couple see that they had perhaps just asked the right question of the wrong person – it was discovered that they had previously asked this same trusted advisor about investing in real estate. Apparently, the advisor had heard that there was good value in some South American or Caribbean country and was investigating an option and would let them know as soon as he had specifics. His view was that their local real estate market was still dropping and they would be better off to take advantage of the off-shore opportunity he would share with them.

This unfortunate couple wasn't afraid of fraud, but they should have been. They, like thousands of other high income earners, end up placing blind faith in their advisor when they need to stay informed. We don't know that there was any ill intent on the part of the advisor, but we do know that this couple make good financial planning clients, and most professional advisors would happily take them on.

As it turns out, this couple is friends with another couple who have been victims of fraud – in a very large, very sad way. A lifetime of work was sold with a business. In the year of the sale, there was a big tax hit, an opportunity was presented and due diligence was done, and unfortunately an investment was made that ended up being fraud. Not only did the money disappear, but because of the tax component, the government came looking for outstanding taxes and penalties amounting to as much as the investment itself – yikes!

I hope you're still reading because the second couple was also a high value financial planning client. They thought they were doing their due diligence by attending the educational sessions, reading the materials presented to them and meeting the principles of the company they were investing in; all common practices in the world of personal financial planning.

Now money isn't a subject people find easy to discuss, particularly when there is a risk of looking foolish. BUT high income and high net-worth clients are listening to the media and they are hungry for answers. They don't know where to go, so they ask questions of the wrong people. And, because of their growing skepticism, it's harder for financial professionals to establish and maintain trust and to maximize their potential with clients.

On top of that, you have a flood of non-industry people coming to market holding 'educational seminars' for consumers. These seminars are often finely choreographed sales pitches designed to sell additional training or to put down the entire financial planning industry. At the same time, legitimate investments and financial strategies, whether they be mainstream or off-book, are being further regulated, making it even more confusing for the general public. This makes it less likely for consumers wanting to understand money issues.

So herein lies the conundrum – *and the opportunity for financial professionals*. There is a requirement that professionals who sell financial products and services educate their clients on the products they sell – this is necessary and essential. However, educating clients and prospects on basic money management and financial decision-making has become a necessary skill required to help clients understand what financial professionals are offering. Without this knowledge, you either spin your wheels, spend more time than necessary, or simply end up with clients who purchase something they don't fully understand.

On top of this, teaching is a very different skill than managing and knowing the technical aspects of products and strategies. Foundational money management and decision-making is a very emotional, intimidating topic that is not taught as part of the financial curriculum. And, financial professionals are not compensated for the time and effort spent attempting to educate clients about these matters.

If it is assumed clients don't want to know, advisors set themselves up for a client complaint. Keeping clients blind set advisors up for a regulatory complaint. Assuming that what is provided to clients is financial education, then advisors are likely spending way too much time on non-productive activities, or simply have not fully understood what financial literacy really means. If a financial professional assumes that clients trust them because of their credentials, background, past performance, or professionalism, then they're setting themselves up for competition. Because high income, high net worth – and to everyone really – ultimately life isn't about the money, it's about values and priorities. And, if it is thought that advisors can uncover these personal and emotional aspects of their clients and prospects lives in the meetings with them – where you also find out about all their financial affairs and presenting options, managing portfolios, etc. – then it's likely a client relationship with that sort of emotional depth was never really experienced.

Client education is not the same as client advice and it's certainly not what you deliver when you present product solutions, market overviews and financial strategies. Those activities are part of offering financial advice. Understanding the difference and being able to direct clients to a neutral, unbiased, professional source to help them make competent financial decisions, not based in fear or intimidation is good for both financial professionals and consumers and good for business too. Some options to help in this area are books, home-study courses and continuing education programs at local colleges or community centers. Optionally, there is a new inexpensive service developed by a Certified Financial Planner who has specialized in financial literacy and behavioral finance. If you are a financial professional, find out how you can offer all this, and earn recurring revenue from this essential, yet otherwise non-revenue generating activity by visiting www.moneyminding.com/tracy_piercy to receive your free information. If you are a consumer, visit www.moneyminding.com/minute_manager.html to learn more.

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Financial literacy and behavioral finance expert Tracy Piercy, CFP is the founder and CEO of MoneyMinding Inc., a wealth-building system designed to positively reframe the way people think about financial success using a day-to-day educational experience that benefits both the financial industry and consumers. MoneyMinding provides financial training programs, services and tools for individuals, industry professionals and corporations.

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