Letter to the Editor

Rick Kearney indicated that you might want some practical feedback from a practicing Financial Planner on your first issue

As an academic journal it may be fine, but from a practical standpoint, I did not find it very helpful. I have been in my business for 10 years and the financial field for 15 years. I hold an MBA, a CLU, a ChFC, and numerous securities licenses including two principal's licenses. I am a member of the IAFP's Registry, and serve on its National Advisory Council. My firm is also a Registered Investment Advisor with both the SEC and the State Of Florida. All that to say that I have worked at my profession and have to deal with the practical realities, but do not presume to criticize your efforts in any regard except in that slanted respect. I have no idea of who your target audience is—only that Rick said my viewpoint might be helpful to you. In that regard you are welcome to it for what it is worth.

My world is one of constantly shifting laws (10 major tax acts in the last 15 years), perennially evolving financial products, volatile economic conditions, abysmally basic levels of consumer sophistication, and shrinking compensation patterns. The level of consumer sophistication is a major source of liability in my business. All the product fields are highly regulated even if enforcement and thoroughness of fee-only-delivery of advice is not. In any case, the expectations of the client are often more than can be reasonably delivered. A major concern is to convince the client that while an advisor can help quantify and analyze a risk for them, he cannot accept the investment risk for the client. Law suits are rampant and the cost of defending them can bankrupt a completely honest and diligent practitioner even if he wins.

Yet, the client does not want generalities and abstractions. He wants practical, specific direction. Unfortunately, he often bases subsequent evaluations on sudden, unforeseen current economic changes, peer pressures or contradictory input from a neighbor, financial vendor or competitor.

But, back to your Journal. The first article on the "Game of Life" is not viewed as a game by the consumer as indicated above. Comments such as "clearly the family wants return after taxes" ignore the fact that the majority do not recognize the distinction, and for many of them in the minimum bracket, total return may more often determine product selection. My comments above dictate the futile nature of the first article to me.

The pension article would be straight forward, except that it ignores a number of realities. First, investment choices are frequently uninformed or simply do not do well due to changing parameters. Stocks of any kind that have losses cannot be deducted inside a plan. That tends to argue for "safer" and the more income-oriented assets of the overall portfolio to be placed in the shelter. Since there is not significant distinction between ordinary income and capital gains at this time, it is a stretch to assume the capital gains exclusion will come back in light of deficit problems. It is obvious to anyone that the sheltered nature of gains and current favorable treatment of retirement distributions make sheltered plans the vehicle of choice. There are also less obvious benefits, such as the creditor protection characteristics and ability to purchase permanent life insurance with before-tax dollars. The early distribution penalty is a real deterrent for those who may not yet be otherwise financially secure. The individual risk profile is a key determinant in any investment decision. I do not necessarily agree that it is in every individual employee's best interest to make individual decisions. It increases transaction and administrative costs. In addition, the level of financial sophistication and who contributed the money are also important.

The next two articles seemed to have no conclusion or hypothesis of any consequence. The conclusion of the check writing article that consumers will always respond to pricing, is certainly not a surprise to anyone.

The disability article was very thorough and well-researched. The question posed failed to recognize that the individual disability product is principally a white collar, largely professional, occupation-oriented product. Evaluation of claims and costs must be largely experienced rated on a historical basis. In fact, a couple of large, older carriers dominate this market because of their specialization and disability claims base.

It is easy to refer to optimal product allocations, but the reason those selections are not made by formula on a daily basis is that the "optimum" is different for every individual, and what is optimal today is never optimal tomorrow. The variables are always too varied.

I am afraid I always lean to the specific and transferable ideas that can be explained as simply as possible to my clients. Good luck with your Journal.

Best Regards,
Michael M. Cain