



## **EIGHT THINGS YOUR BROKER WON'T TELL YOU**

**AN INTRODUCTION  
TO SMART INVESTING**

### **THE CONVENTIONAL WISDOM**

If you are an average investor, you probably subscribe to Wall Street's Conventional Wisdom. The product of decades of carefully planned marketing, the Conventional Wisdom holds that investing is a specialized science requiring special analytical skills and training. If you try to steer your own investment course, you are the proverbial "Bull in the China Shop" -- you can be sure it will turn out badly.

Rather, according to the Conventional Wisdom, you should turn your investments over to a professional stockbroker, or "financial advisor" who, like a trusted family member, will place your interests above his own and those of his brokerage firm. This financial advisor has sophisticated tools that allow him to pick undervalued stocks or time the market. His firm has an team of analysts who likewise can pick out undervalued stocks or tell you when to get in or out of the market. Relying on these professionals is the only way to succeed.

The truth about investing is very different. Here are Eight Things Your Broker Won't Tell You:

## 1. NEITHER YOUR BROKER NOR HIS FIRM'S ANALYSTS CAN SUCCESSFULLY PICK UNDERVALUED STOCKS

In 2002, a five-year old girl who chose stocks randomly from pieces of paper outperformed a top financial analyst by more than 50%. That same year, the cumulative returns on all stocks rated "sell" or "hold" by Wall Street analysts outperformed all of the stocks rated "buy." That same year, as in every year, 80% of all managed stock mutual funds underperformed the Standard & Poors 500 Index. These are the secrets you aren't supposed to know: First, that any short-term price movements in the stock market are based on random forces that are impossible to predict, and second, that in order to add value to your investment portfolio, the active manager has to make the market average return, plus his cost. Year in and year out, fewer than 20% or more of active manager meet this benchmark. And over a number of years, the number dwindles to about 5%.

Famed mutual fund manager Peter Lynch said it best: "Most individual investors would be better off in an index mutual fund."

## 2. YOUR BROKER IS NOT GOOD AT EVALUATING OR REPORTING YOUR RISK

Ask any 10 brokers to explain the risk inherent in a given portfolio, and 9 of them wouldn't know how to measure or explain the risk. Brokerage firms are not good at asking the right questions to gauge an individual's tolerance for risk, nor do they adequately disclose risk on monthly statements.

### 3. YOU WOULD BE BETTER OFF NOT TRYING TO TIME THE MARKET

The best approach to investing is the long-term one. The so-called experts are no better at picking overall market trends than they are individual stocks. If you trade in and out of the market you'll be saddled with fees that chip away at your returns, and you'll potentially miss out on gains that long-term investors enjoy with much less effort.

### 4. YOU ARE PAYING TOO MUCH IN COMMISSIONS AND MUTUAL FUND EXPENSES

Your typical broker wants you to trade stocks and bonds, not hold them. The problem is, this active management style generates fees, which are costs to you that eat away at your investment returns. The same is true of mutual funds, which charge high fees in the form of expense ratios -- 1.5% of funds managed, on average.

### 5. YOUR BROKER REFUSES TO ACT IN YOUR BEST INTEREST

Unlike the broker in the television commercial who attends your son's soccer games and toasts your daughter's wedding, real brokers have fought hard to preserve their status as salesmen rather than professionals. In 2005, the brokerage firm trade association lobbied hard and eventually won the right to act in their own best interests instead of yours. The good news is, you can eliminate the need for a broker in most cases, and in cases where professional advice is necessary, you can find conflict-free advice. See numbers 7 & 8 below.

## 6. YOUR BROKER ALWAYS HAS CONFLICTS OF INTEREST

In 2003, all major brokerage firms were caught recommending that their clients buy stocks solely because the issuing companies brought banking income to the firm. Privately, the analysts knew the stocks were "dogs" or were "going to zero," but publicly they told you and me to buy, buy, buy! These types of conflicts still exist in the forms of proprietary products, such as mutual funds and variable annuities, that have no value to you but add plenty to the brokerage firm's bottom line.

## 7. YOU CAN IMPLEMENT A SOUND INVESTMENT PLAN YOURSELF AT LOW COST

In approximately ninety minutes, you can determine what kind of portfolio is right for you. Then, you can purchase a low-cost index based portfolio through one of three well-respected mutual fund companies. Or you can assemble a portfolio through low-cost Exchange Traded Funds (ETFs). Visit our website for more information.

## 8. IF YOU NEED PROFESSIONAL HELP, THERE ARE LOW-COST, CONFLICT-FREE ADVISORS AVAILABLE.

There are times when professional advice is essential. Fortunately, there are conflict-free advisors who are willing to pledge to put your interests first. You can find one in your area at [www.napfa.org](http://www.napfa.org). If you still want to deal with a traditional broker, you will find a list of ways to minimize conflicts on our website.

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