# 03/14/12: Are you a Client or a Muppet?

Many of you have undoubtedly heard about, or read the news story of the day: The Op Ed (resignation letter) that the Goldman Sachs employee, Greg Smith, wrote in today's New York Times. Mr. Smith had a few choice words for his employer of 12 years, and he revealed a few things which Goldman has been trying to counter on TV all day. It makes for a great news story, but it also provides us smaller advisors with some wonderful marketing ammunition!

In professional circles, we often talk about a "client-first" attitude, which is shorthand for giving your clients the same quality of financial advice as you would give your mother. It's a useful shorthand way to navigate through a financial world that is still dominated by the larger, well-known firms, beset by incentive payments, expensive rewards for sales production, under-the-table or soft dollar incentives and a host of other ways that product vendors try to buy their way into your portfolios.

"Client-first" simply means that the client's financial success and well-being comes before all other considerations. It's what you would expect from a doctor or other professional, and many of us believe that you have a right to expect the same level of care from your financial advisor. Registered Investment Advisors (Bell Tower Advisors is one) are held to a fiduciary standard which requires us to put our clients' interests ahead of our own. Yes, this is a legal requirement!

However, Wall Street firms and other sales-driven organizations are very good at hiding the real agenda behind their advice, and do a masterful job of hiding the profits they skim off the top when you take their recommendations. This is part of the reason why Mr. Smith's letter is getting so much attention. He revealed how Wall Street really works. Smith declared that he was resigning from the venerable brokerage firm--perhaps Wall Street's most highly-respected organization--because, in his view, its culture is all about putting the client's interests last. "To put the problem in the simplest terms," he writes, "the interests of the client continue to be sidelined in the way the firm operates and thinks about making money."

Pulling the curtain aside a bit further, he said that the criteria for promotion and success was not "leadership" or "doing the right thing." Instead, he said, "if you make enough money for the firm (and are not currently an ax murderer) you will be promoted into a position of influence."

How do you make money for the firm? Smith outlined a few ways. A Goldman broker or executive can rise in the ranks by

BELL TOWER
ADVISORS

"persuading your clients to invest in the stocks or other products that we are trying to get rid of because they are not seen as having a lot of potential profit." (Just what you want to buy for your retirement portfolio, or your mother's, right?) or

"get your clients--some of whom are sophisticated, and some of whom aren't--to trade whatever will bring the biggest profit to Goldman. Call me old-fashioned," said Smith, "but I don't like selling my clients a product that is wrong for them."

Pulling the curtain back still farther, Smith said that "It makes me ill how callously people talk about ripping their clients off. Over the last 12 months, I have seen five different managing directors refer to their own clients as 'Muppets,' sometimes over internal e-mail... Will people push the envelope and pitch lucrative and complicated products to clients even if they are not the simplest investments or the ones most directly aligned with the client's goals? Absolutely. Every day, in fact."

He said that the most common question he gets from junior analysts about derivative investments is: "How much money did we make off the client?" He wonders what the effect will be on that junior analyst who sits in the meeting rooms hearing senior executives talk about "Muppets," "ripping eyeballs out," and "getting paid."

You can read Mr. Smith's comments in their entirety here: http://www.nytimes.com/2012/03/14/opinion/why-i-am-leaving-goldman-sachs.html?_r=2&hp, where you will also see a nice illustration of vultures at feast. He predicts that companies--and people--who care only about making money will not be able to keep the trust of their customers.

But is this true? Chances are, most people reading this eye-opening article will be hearing about these things for the first time, and may not believe it's true about THEIR broker. Millions of people routinely trust their brokers and the big firms that buy Super Bowl advertisements, never seeing this messy view on the other side of the curtain, unknowingly chipping in their retirement dollars to the outsized Wall Street bonus pools. You find yourself wondering: who's going to tell those "Muppets"--your hard-working friends and neighbors, and maybe even you--that their broker is quietly, invisibly, cleverly putting their interests last?

My only parting comment, which I cannot help but make, is if you have any question about the honor or honesty or integrity of your current advisor, give me a call. I may not have the vast resources that they do at Goldman Sachs (or many brokerage firms for that matter), but I can compete with their culture and attitude any day of the week.

Margie