



### Are you truly Valuable, or just 'value added'?

*By Mitchell Maynard*

In the five years since I first built my software for the annuity industry, I have been troubled to see agent-advisors who don't feel a sense of fiduciary duty for their clients. Regulators tell us that the industry is plagued with sales schemes. Reading all the ads and promos and pitches lately, it can seem like the whole financial advisory industry thinks of making money for themselves first and achieving the client's goals second. Advisors who brag about how little they do for their clients are the industry icons of 'success' as long as they earn the most commission.

What a shame if the only lasting rule our industry is remembered for is 'Caveat Emptor' (let the buyer beware).

I want to assure you that there is another way to grow a successful financial advisory business: Perform a valuable service for your clients (notice I didn't say "value-added"). So often, advisors looking to be financially successful look first at sales technique and second at the actual services that they offer. It's a different state of mind. For example, if you have ever wondered why you don't receive more referral business, instead of paying a sales coach who promises to share his "secrets", choose to educate yourself and develop financial planning solutions that are so valuable, your clients can't wait to talk about you to their friends.

If you invest the time and energy in educating yourself so that you can increase your value to each client, you can grow a business; not just earn another commission from another EIA sale. **You can choose the master that you serve.** Do you want to keep feeding the sales scheme monster, or enrich the world you live in by making a positive impact on the people that so badly need your advice?

I know I am oversimplifying at this point. Even the best intentioned advisors can fall prey to sales schemes pretending to be valid financial planning techniques, or data-reporting newsletters masquerading opinion as empirical research.

**Your best protection is what we have been telling the consumer for years: Education.**

Take a financial planning CE course. Find an investment theory course online. Get a hold of some NASD Series 7 or the recent Series 65 study materials. You are a financial professional – you should be able to understand and use proper financial and investment terminology with your clients to explain key concepts. Ignore those who say otherwise. If someone uses a finance term you don't understand, shouldn't you make a note and

look it up?

Lack of education on your part can also make you vulnerable to the double-talk and emotional manipulation applied by some marketing 'gurus'. For example, would you recognize whether one of them knew more about "Technical Analysis" than "Modern Portfolio Theory"? Or if they subtly kept confusing a "Stock Index" with an "Index Mutual Fund" to make a point against EIAs, would you catch it?

I hear these pundits purport that instead of educating themselves, advisors should steer clear of anyone who uses basic finance terms. I would rather encourage you that these terms are simply placeholder words (variables) for mathematically measuring financial forces, and are not hard to learn. Again, you should know the basic terminology of your industry: it is an opportunity to express complex thoughts into a concise description. I regularly use five: Correlation Coefficient, Beta, Standard Deviation, Geometric Average, and Arithmetic Average. **Want to know more than your competitor down the street?** Find out how each of these helps you evaluate equity indexed annuity crediting methods.

If you've stayed with me this far, you may be asking yourself, "Why will my clients care?" Here's why:

If, in January, 1926, an individual invested \$1 in one-month U.S. Treasury bills and continued reinvesting the proceeds month by month until December, 1996, the original investment would have grown to \$14. If, on the other hand, an individual invested \$1 in the S&P 500 over the same 71-year period, this investment would have grown to \$1,370, a considerably larger sum. Now suppose that, each month, an individual were able to divine in advance which of these two investments would yield a higher return for the month and switched the running total of his initial \$1 investment into the higher-yielding asset. What would a \$1 investment in such a "perfect foresight" investment strategy become by December, 1996? The startling answer is **\$2,296,183,456** - more than two billion dollars.\*

We don't have the benefits of perfect foresight, but imagine what value you can create by **being even partially correct**. Now you should be asking yourself, "How can I accurately forecast?" The answer is quantitative analysis like Monte Carlo simulation. Economics Nobel-laureate William Sharpe recognized the weaknesses of using average rates of return from historical performance, and founded a company built on using Monte Carlo to forecast retirement plans for individuals because, as he puts it, advice that ignores uncertainty (risk) is extremely foolish.

To sum it all up, you as an advisor have a fiduciary duty to improve your client's financial plans. You must educate yourself. You must use forecasting as well as analysis tools to do a proper retirement plan. Simply following the pop advice mantras and sales schemes is not enough and will not stand up over time. Proper utilization of Nobel Prize winning financial and economic theory can add the value your clients so badly need and will help you grow your business through superior planning. Clients don't refer their friends to mere 'producers'.

\*This story was retold by MIT Professor Andrew Lo in Proc. Natl. Acad. Sci. USA, Vol. 96, pp 9991-9992, August 1999.



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