

RISKY BUSINESS

**CAN PERSONAL
FINANCIAL ADVISORS
BE BLAMED FOR THE
DOWNTURN?**

BY JOSEPH ELIAS HIGHT





E

**CONOMIC TROUBLES THAT
CAME TO A HEAD IN 2008**

DEVELOPED FROM POLICIES PUT IN PLACE BEFORE DISASTER STRUCK. IN THE END, BANKS BELIED UP, STOCK MARKET INDEXES FELL LIKE A KING FISHER SWOOPING IN FOR A KILL, AND INVESTOR PORTFOLIOS COLLAPSED. NEITHER ADVISORS NOR THEIR CLIENTS WERE ABLE TO ESCAPE THE PAIN. »

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KENNETH ROBINSON SAYS TYPICAL INVESTMENT PORTFOLIOS FELL FROM 30 TO 50 PERCENT. ROBINSON IS SENIOR PLANNER AT THE MONITOR GROUP IN MCLEAN, AND DIRECTOR OF PUBLIC RELATIONS FOR THE FINANCIAL PLANNING ASSOCIATION OF THE NATIONAL CAPITAL AREA (FPANCA).

Gerald Cannizzaro, of Retirement Planning Services in Oakton, says that while financial advisors can't be blamed for putting their client's money into too high a risk portfolio for the client's age, life circumstances and risk tolerance. "Almost everyone overestimates their risk tolerance in a bull market," adds Edwin Knowles Jr., of The Knowles Company, LLC, also in Oakton. A bear market is a good time to reassess your true tolerance for risk.

Knowles says the down-

turn hit all markets, stocks and bonds, not just one asset class. The drop in portfolio values affected the income of the many financial advisors who earn fees as a percentage of a client's assets. Knowles says, "It is to my advantage for them [clients] to do well."

CRISIS A SURPRISE FOR ALL

In 2001, mortgage lending took off, spurred by a low-interest rate policy by the Federal Reserve and lucrative fees for originating mortgages. Government policy to encourage home ownership may have led to lower lend-

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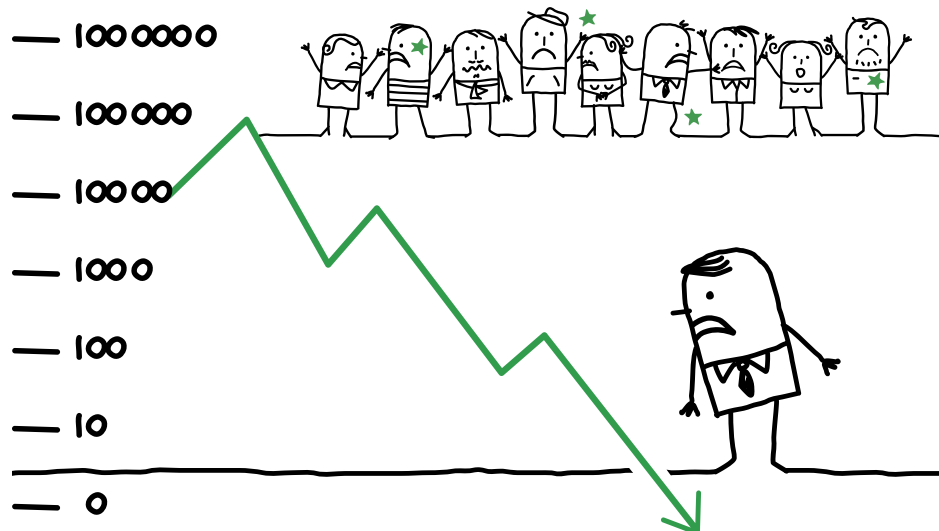
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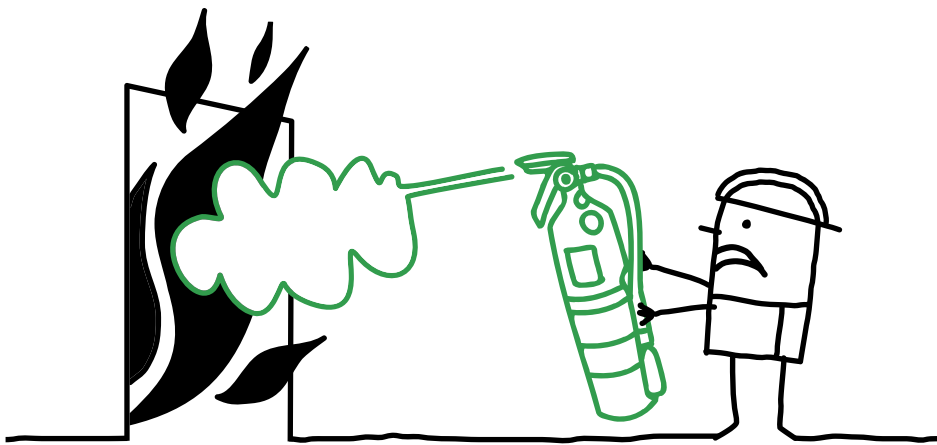
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ing standards. A report issued in June 2008 by Harvard's Joint Center for Housing revealed that new mortgage obligations in the United States went through the roof between 2001 and 2003, rising from \$2,593 billion in 2001 to \$4,445 billion, a 71-percent increase. With the increased demand, housing prices increased through the first half of the decade.

But very few investors or personal financial advisors had the foresight

to see what was coming. With few exceptions, most economists were not expecting trouble ahead. The same can be said of government policy makers at the Federal Reserve, the U.S. Treasury and financial industry regulators.

In order to expand the lucrative business of originating mortgages, lenders had turned to financial wizards to help them bundle the mortgages and sell shares to investors, thus freeing up capital to make still more mortgages.

Mortgage-backed securities in the form of credit derivatives called collateralized debt obligations (CDOs) were sold to investors in the United States and around the globe—to banks, to insurance companies, to pension funds, and into the portfolios of individual investors. Between 2004 and 2006, mortgage lending remained high at just over \$3,000 billion new mortgage obligations annually.

But the bubble was about to burst. The Harvard University housing report says housing markets contracted in 2006 and 2007. The national median single-family home price fell for the first time in 40 years, and the market value of the homes of several million homeowners fell to less than what they owed on their mortgages. Delinquency rates on home mortgages had held steady between 2002 and 2005, but began to increase in 2006, and the rate of increase accelerated in 2007.

When the housing bubble burst, securities backed by home mortgages, the CDOs, lost their value, gradually at first, but then in a deluge. Banks, financial institutions and other investors

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METHODOLOGY

Our list includes financial advisors not associated with brand-name brokerages and banks often tied to investment funds espoused by the parent firm. Fifteen on our list are firms from Wealth Magazine's 2008 national "Top Dog" list of financial advisors with offices in Northern Virginia. The National Association of Personal Financial Advisors and the Financial Planning Association of the National Capital Area provided a list of area advisors from their memberships. We culled the lists for duplicates, and selected those with offices in Northern Virginia. Most advisor firms on our list are registered investment advisors with the Securities and Exchange Commission (SEC) or with the state of Virginia. The few exceptions provide services through firms that are SEC registered.

* Minimum investible assets that the firm requires a client to have. "Investible" assets do not include equity in homes or 401(k) retirement accounts, since these are not available for management by the firm.
+ VA registered means a registered investment advisor with the state of Virginia Division of Securities and Retail Franchising.

SEC registered means a registered investment advisor with the Securities and Exchange Commission.

When AUM is listed as none, it means that the financial advisor firm does not take discretionary authority in managing a client's assets, choosing to offer planning and advice about investing assets, but not having discretionary authority to manage them.

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1ST PORTFOLIO

holding these securities in their portfolios were in trouble. Stock markets tumbled. In December 2008, the National Bureau of Economic Research announced we were in an economic recession that had begun at the end of 2007.

Kenneth Kopecky, professor of economics and finance at Temple University, and editor of the Journal of Economics and Business, says it will take a long time to sort out all the culprits that led to the housing boom and bust. He notes that loose regulation of the government-sponsored secondary mortgage market companies—Fannie Mae and Freddie Mac—contributed to the problem. And there was no regulation of credit derivatives markets and little regulation of investment banks by the Securities and Exchange Commission. Government policies to expand home ownership, while well-meaning, may have con-

tributed. All these were culprits to one degree or another, he says.

NORTHERN VIRGINIA'S ECONOMY RESILIENT

While less affected by the national economy than most metropolitan areas, Northern Virginia is not immune to downturns. Stephen Fuller, director of the Center for Regional Analysis at George Mason University, and a member of the Governor's Advisory Board of Economists, sees a dipping rate of economic growth through 2009 for the Washington metropolitan region, including Northern Virginia. Though the dip will be shallower than what Fuller expects for the country as a whole.

Northern Virginia housing prices began falling in 2007, and the decrease in prices accelerated in 2008. Because of a fall in the rate of growth of state and local government tax revenues, the budgets of the state of

Virginia and local jurisdictions, including those in Northern Virginia, face pullbacks in spending.

But George Hoffer, Virginia Commonwealth University economics professor, also a member of the Governor's Advisory Board of Economists, says Virginia's economy is buoyed by a regional crescent from Northern Virginia down to the Tidewater area. The crescent has had some of the lowest unemployment rates in the country for virtually all of this decade. Northern Virginia has the high-tech industry and government. Richmond has a balanced non-manufacturing economy, and Tidewater has the military.

"Northern Virginia is clearly the crown jewel" of Virginia's economy, Hoffer suggests. "We have a paradox. As the national economy gets in trouble, Northern Virginia does relatively better. You wind up with new government

ADVISOR FOR HIRE

WHAT YOU NEED TO KNOW

1

"Fee-only" advisors have less conflicts of interest than advisors who earn commissions on sales of funds or products.

2

Look for a planner with a "CFP" (certified financial planner) after the name.

3

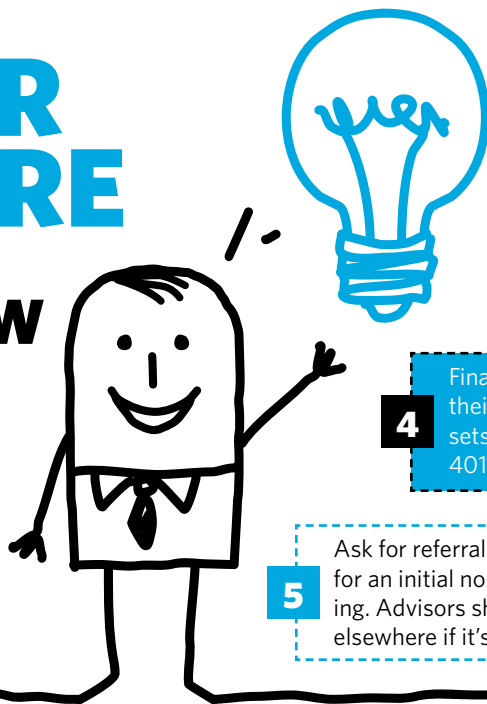
You don't need to have a lot of money to consider consulting with a financial advisor.

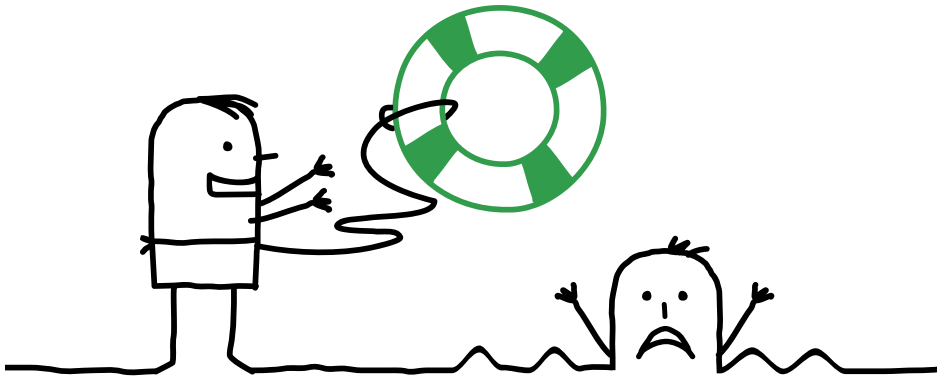
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Financial advisors often base their fees on "investible assets," those not tied into a 401(k) or home equity.

5

Ask for referrals. Arrange for an initial no-cost meeting. Advisors should refer you elsewhere if it's not a good fit.





KELLER MAKES THE ANALOGY THAT GOING TO A FINANCIAL PLANNER FOR FINANCIAL HEALTH IS LIKE GOING TO YOUR FAMILY DOCTOR FOR MEDICAL HEALTH. IN BOTH CASES YOU MAY BE REFERRED TO A SPECIALIST—PERHAPS TO A TAX SPECIALIST OR ESTATE PLANNER OR A BROKER BY YOUR FINANCIAL PLANNER, OR TO A CARDIOLOGIST OR UROLOGIST BY YOUR DOCTOR.

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programs to deal with the ills that befall other parts of the country, adding to government employment and to the employment of government contractors, so economic downturns are mitigated to some degree in Northern Virginia.”

HOW THEY HELP

CEO of the Certified Financial Planner Board of Standards, Inc., Kevin Keller says that financial planning is a distinct profession, different and separate from a securities dealer or broker. “A financial planner’s job is to help an individual or families meet life goals through the allocation of financial resources. Investment advice is part of it.”

Advisors are available for individuals and families at every age and every stage of their lives—for retirement planning, for planning for the financing of college education of young children, and for estate and insurance planning. Keller suggests asking for referrals from

friends and colleagues and calling advisors to arrange for an initial no-cost meeting to see if it may be a good fit. If not, he says most advisors will make a referral to someone in the field who better fits the client’s needs.

Keller makes the analogy that going to a financial planner for financial health is like going to your family doctor for medical health. In both cases you may be referred to a specialist—perhaps to a tax specialist or estate planner or a broker by your financial planner, or to a cardiologist or urologist by your doctor.

Robinson recommends “fee-only” advisors. Fee-only financial advisors charge a fixed fee, hourly rates or fees as a percentage of assets to be managed. Robinson doesn’t like the term “fee based,” referring to a sort of hybrid fee structure that combines fees and commissions. He says that fee-only advisors have less conflicts of interest than advisors who earn

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Michael McLenigan, CFP

commissions on sales of funds or products. He adds, "The 'fee-only' description is strictly guarded criteria. Financial advisors must disclose when registering with the SEC or a state regulator whether fees they charge include commissions."

Knowles advises clients to be diversified, which he says is a better prediction of success than individual stock picking. For those fully invested and diversified, he advises, "Just hang tight and to wait it out; average stock market recovery is 34 percent in the 12-month period after a recession." He suggests maximizing 401(k) contributions if you are not already doing so, and notes that investors with taxable accounts can lower taxable income by selling shares in funds with losses and replacing them with shares in funds with similar stocks. He says you will gain by lowering your income tax bill.

As for the distinction

between financial advisors and financial planners, Robinson doesn't believe it's important. The key is for the advisor or planner to offer short- and long-range planning, provide financial advice and help manage assets according to client needs and wishes, solely in the client's best interest.

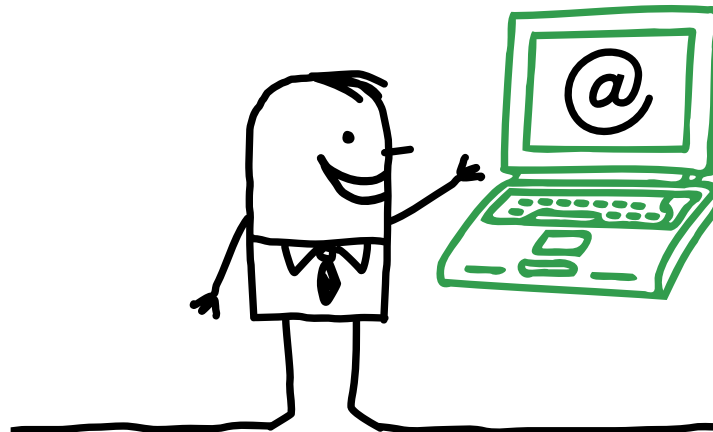
The CFP Board is neutral in its stance toward fee-only and commission-based financial advisors, but Keller emphasizes that advisors should fully explain charges and fees, including commissions. Even fee-only financial advisors can have conflicts of interest, he says; for example, in offering advice on paying off a mortgage or in selling a piece of real estate, which could increase a client's investible assets, and fees for the advisor. The bottom line, he says, is to check out the financial advisor's credentials and references, and to carefully explore

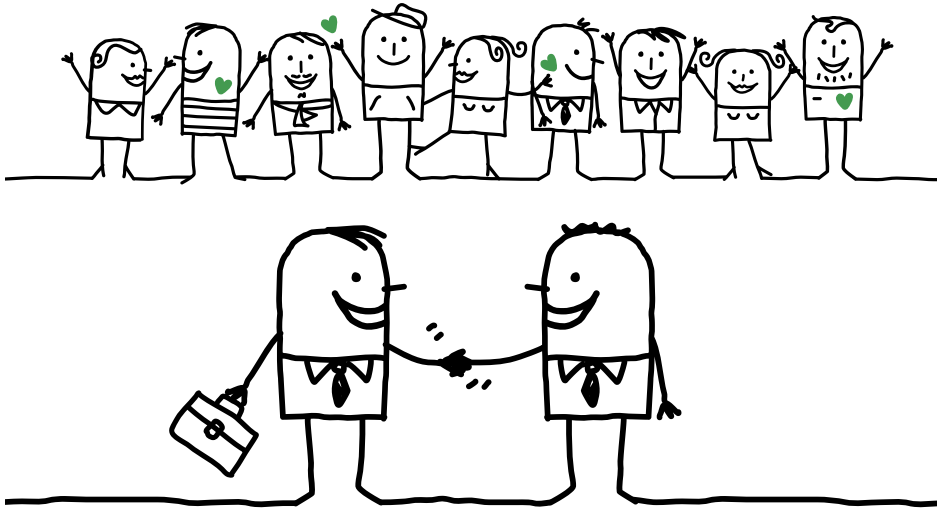
any potential conflicts of interest. Investible assets are assets not locked up in home equity or 401(k) plans and are the measure of assets on which financial advisors often base their fees.

THE IMPORTANCE OF LICENSURE

When seeking professional financial planning and advice, Al Hughes, chief of registration for the Virginia Division of Securities and Retail Franchising, recommends working with financial advisor firms that are registered with the SEC or a state regulatory authority. Investment advisor firms with more than \$30 million in investible assets under management must register with the SEC and be subject to audit and regulation by that authority. Firms with between \$25 and \$30 million in assets under management can choose to register with the SEC or with a state regulatory authority. Those with less than \$25 million in assets under management register with state regulators and are subject to audit and regulation by the states in which they

"JUST HANG TIGHT AND TO WAIT IT OUT; AVERAGE STOCK MARKET RECOVERY IS 34 PERCENT IN THE 12-MONTH PERIOD AFTER A RECESSION."





■ **THERE IS PLENTY OF HELP IN THE AREA. IN 2008, THERE WERE 1,782 REGISTERED INVESTMENT ADVISOR FIRMS IN VIRGINIA, 623 WITH OFFICES LOCATED IN THE STATE, 271 IN NORTHERN VIRGINIA.**

are registered.

Keller advises looking for a financial planner with a “CFP” (certified financial planner) after the name. In addition to a four-year college degree and a minimum three years of experience, the CFP requires the equivalent of five to six graduate-level courses, as well as sitting for a 10-hour, day-and-a-half-long exam. “There are over 100 different kinds of credentials in the financial planning field,” Keller says. “Some of these are credible; others can be achieved with a weekend course and an open-book test ... A client should be careful to check out what the letters after an advisor’s name really mean.”

Chartered Financial Analyst (CFA) is a credential offered by the CFA Institute, a global organization with headquarters in Charlottesville. It is also

a respected credential, requiring serious study to achieve. It requires four years of college study or the equivalent thereof, four years of professional experience and passing a series of exams.

HOW NORTHERN VIRGINIA BENEFITS

In financial crises, the need for professional financial help can be acute, marking the difference between a spiraling pattern of panic and taking control. But financial planning and professional financial advice is not just for economic crises; rather, they can be useful in good times and, as Keller says, for families and individuals at any stage of their lives.

■ There is plenty of help in the area. In 2008, there were 1,782 registered investment advisor firms in Virginia, 623 with offices located in the state, 271 in

Northern Virginia.

Of the registered investment advisor firms in Northern Virginia, 105 were registered with the SEC and 166 with the state of Virginia.

Befitting an area with some of the most affluent counties in the country, 15 of Wealth Magazine’s 2008 list of 500 “Top Dog” investment advisor firms in the country are in Northern Virginia. An additional 13 are in the Washington, D.C., suburbs of Maryland.

Washington, D.C., is home of the CFP Board of Standards, and Charlottesville is the headquarters of the global CFA Institute. Both can offer help in understanding the credentials of financial planners. The Financial Planning Association has an active chapter in the national capital area. Finally, a search on the national FPA website brings up a running list of 324 CFP financial planners inside of a 50-mile radius of Springfield.

For Northern Virginians who feel they may profit from reputable financial planning and advice, then, it is readily available. 🏔️

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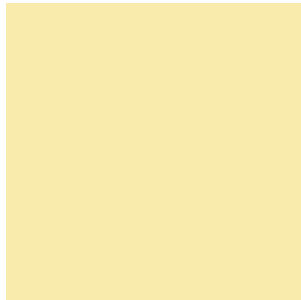
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