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JIM: Today we have special guest Simon Reilly, a coach, a writer, and a presenter to audiences throughout the country as well as a presenter on Ted Talks. Today he's going to go over some of the mistakes that consumers make when working with an advisor, and some of the things that you can do to reach your financial goals. Well com, Simon.

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SIMON: Jim, thank you, appreciate the opportunity to speak with you today.

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JIM: Hey, today is going to be action packed. You have 17 mistakes that consumers make when working with a financial advisor, and I think this is really going to help our listeners have a better sense of what they're doing when working with an advisor, so let's start out with first of all, how do you define consumer?

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SIMON: I would say a client, a client that works with a financial advisor. Consumer is a general term, but it's a client, somebody that is working with a financial advisor.

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JIM: So let's talk about some of the mistakes they're making. You've got 17 of them here, let's get started.

1:03

SIMON: One of them is consumers or clients, they're always needing and they don't necessarily know what they need or what they want. That's one of the biggest reasons they want to be able to get some outside advice as far as working with somebody that is a financial advisor. What is needing? Well, needing is needing now versus wanting is long term. We are consumed by things we think we need now, iPhones, new car, new house, PlayStation, et cetera, et cetera, et cetera, versus something we should be wanting is to have a sustainable plan that is going to create long term wealth. Consumers wait too long. They're addicted to procrastination, and again stuff, car, clothing, food, housing, technology, stuff sometimes that they can't necessarily afford, willing to set long term goals, and they listen to financial media hype.

2:01

JIM: I volunteer at Junior Achievement and we go through an exercise of needs versus wants, and I find that sometimes we look at something like need as clothing, okay, we all need to wear clothes, but wants might be those designer clothes that cost 10 times the amount of money and sometimes the consumer or the clients will justify their spending by saying I really need that. Can you maybe expand on that a little bit?

2:26

SIMON: Thank you, you're absolutely right. The need is clothes and the want I think you said was the designer, but it's really more of a deep psychological need that is driving the person to get caught up in that designer clothing think. The consumer thinks that by buying that designer clothing, it is going to make me feel better from the inside out so to speak, and that is not possible. There's nothing from the outside that will ever make us feel better about ourselves, and frankly when I say consumers, consumers, you know, back, I'm dating myself now but if you can imagine the old Pacman game and there was a little Pacman going along the screen and it was consuming the dots, and that's what consumers are doing. They're unconsciously unaware of consumption, that they need the next new thing that is going to be able to frankly fill up what is missing, and hence that's why it is essential for them to be able to get some outside advice to be able to work with an advisor to help them get clearer on what it is that they need and what they want, again to be able to plan for sustainable long term future.

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JIM: I meet with clients every day and one of the things I try to instill upon them is to identify what their needs are and what their wants are, and actually work through a budget, and people just don't want to work through that, and when I hear them, when we come up with this, they figure sometimes if they're not completely honest with this, they don't tell me about this item or that item, that it can just slide through and then all the sudden they have financial difficulties because it was only $83 for this, and that was only $100, and that one's only $6 a month. Well, you start adding those things up, next thing you know there's not enough money to last until the end of the week, much less to start saving for the future.

So let's talk a little bit about 401(k)s and retirement savings plans. I've heard one expert talk about this and he felt, and I heard the old adage you should put away 10% a year as long as you're working if you want to have the same lifestyle you have as while you were working. I've heard someone else say there's a new paradigm now because of what's happened with the bond market, the corrections we've seen in the stock market, real estate is struggling, so we see all these things and to count on the same kind of returns might be a little bit challenging, to count on being able to retire at 65 and spend 30 years in retirement is maybe a challenge, and I have heard one expert say they really should be putting away 20%, but that would shock America, so we're still sticking with the 10% and do more if you can, but people just don't want to commit to starting. What do you say to that?

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SIMON: Well, it's interesting. We segueway back to what do you need and then talking about budgeting, and I segueway over to the psychological understanding of unmet needs. We're talking about consumers, again, not committing to their 401(k) and at the same time not telling the truth to their advisor and themselves. As you say, they won't stick to a budget and then they justify, well, that was only $83 but at the same time they've got 10 of those $83 and it's getting into the $830 and then they're saying that they don't have enough to be able to invest in a proper retirement plan, so back over to the psychological side of think, and so they are needing. Consumers do not know what they want, they are always needing.

Now, let me give you an example. One of the needs is safety and security. You'd think that that would turn around and cause them to want to invest and be able to look after their financial future, but if the person has a psychological need of safety is generating emotion now of anxiety and fear, and the limiting belief that there is not enough, and in fact what happens is it becomes a self fulfilling prophecy, and so they're hiring an advisor to be able to work with them to be able to create a future that is going to be based on a sustainable plan, yet their need driven by emotion, driven by belief, causes them to turn around and sabotage themselves because they don't believe they're safe enough, they don't believe they are enough, they don't believe they have enough in the moment right now, so they don't tell themselves the truth. They don't tell the advisor the truth, and they are medicating themselves with short term gratification, spending the $83 now to be able to medicate the need of safety, which will in fact cause them to self destruct in the long run. They will feel less than safe without the proper investment and the proper plan.

7:21

JIM: This has been great, and we haven't listed the numbers but we've actually gotten halfway through, and it's time for us to take a quick break. When we come back, let's shift from the consumer as far as what they need to be doing or what the client needs to be thinking to where to go for that advice and how do you get that advice, so please stay tuned.

[BREAK]

8:08

JIM: Welcome back as we continue to visit with Simon Riley, the speaker, author, and coach to financial advisors all over the country. To be a good coach, you really have to understand the client to help the advisors do a better job, and we're talking about the 17 mistakes that consumers or our clients make when working with a financial advisor.

Now, before the break you were talking about really people need to get in touch with reality and be honest with themselves, and be willing to be honest with the advisor, and I see this as looking ahead to some of these mistakes, and that is that consumers and clients sometimes sabotage themselves. We always hear about how important it is to diversify, and they diversify where they're getting advice, and my answer to all that has always been, you can't have too many cooks in the kitchen, you can only have one captain of the ship, because in order to get clear direction it's hard to do that with multiple people taking you in different directions. I found the experience that I've had is when people get conflicting advice, they sometimes do the worst thing which is just do nothing. What is your experience?

9:12

SIMON: Thank you. I want to talk in a little bit about there is another psychological need that pulls on the client or the consumer to turn around and do this, which is playing one financial advisor off from another. Now, we already talked about the need of safety, so the need of safety is driving them to think that they need to deal with more than one advisor, but in fact what they're doing is they are sabotaging their own plan, because what's going to happen? That's a possibility, possibility I'm going to say that then the advisors are competing against each other to be able to provide the best plan, the best advice, and so what happens is that in fact the consumer, if you will, draws in needs of approval and recognition. The advisors perhaps, not in all cases, but could be driving too hard and potentially it's almost like shock and awe, start offering percentage rates of return that would satisfy short term needs versus satisfying long term wants, setting up expectations that they're going to get a 12% return when a 7% long term would have been the best, and so to be more specific the advisor, if they get caught up in a situation like that, they have a tendency to get into a situation where they're over promising.

He wants to be able to provide the consumer or client with the best service possible, but then the consumer or client is not being truthful. They're not being complete. They're not telling the advisor about where all the assets are. They're not communicating where their assets are, what insurance they have, and with whom, but along the way the advisor, they can read between the lines. They realize that there are assets, there's insurance with other advisors. Sometimes they ask, sometimes they make a request, sometimes they let the consumer or client know that in order to provide you the best service possible, I want to be your trusted advisor and look after everything, that way I can give you the best service possible, but the client or consumer, they sabotage that. Maybe it's because of a psychological need to control. They will not fully let go and trust the advisor to do the best job possible.

That is abstract what I'm talking about, but it segueways into this theory. If you've got a need, safety, control is an example, it's driving emotion, fear, anxiety that I mentioned earlier, limiting beliefs that there's not enough. I don't have enough money, I don't have enough control. The laws of attraction are absolute. A client or consumer will absolutely attract what they are thinking about, and I'm not trying to defend advisors here but in a situation like that an advisor will never be able to do enough to be able to satisfy that consumer.

12:17

JIM: I see this happening all the time, and when you look at it long term, there's a ton of different places that you can invest money. If you're in a similar asset class with investment A as investment B, if you give it a long enough time the world is competitive enough and who's running the funds and all those kind of things, that long term there's not a huge difference from those that perform number one to perform number 50 or number 100, and the same thing is I've seen these brochures where they talk about winners rotate. Like if you're looking in the area of mutual funds, the top fund today might be the bottom fund tomorrow, and the bottom fund today might be the top fund tomorrow. Now, that might be an over simplification of everything, but at the end of the day if you're not honest and truthful with your advisors of what you have, one thing that has even a much bigger impact on what you have left at the end of the day is taxes.

If an advisor doesn't fully understand what you're doing with retirement accounts, what's taxable, what's tax free, what's tax deferred and all those issues, when they're advising you to draw money out that's where mistakes become really evident because all the sudden you might be paying instead of a 15% bracket, a 25% bracket. That's a 10% difference. Well, if I look at that as a percentage basis, it's like an 80% difference when you go from 15% to 25%, and then if you have a difference of a half a percent on the return that you've got an 80% difference on the tax, that's much more impactful, and if you don't have an advisor that knows all those things, you are not getting the best advice and you are going to end up shooting yourself in the foot, so the challenge is finding someone that you can work with and have confidence in, and the professional that's sending you this educational tool certainly is the best start to look at as your quarterback when getting advice.

14:04

SIMON: Absolutely. A great advisor is going to be able to provide information resources and advice. Just to circle back, we've been talking about consumer and a client. Well, what's the difference between a consumer and a client? A consumer is always needing, needing the next flavor of the month, the next product or investment that is going to provide skyrocketing returns, and consumers and clients alike have got to understand that advisors, they don't control the market. You can't judge an advisor on returns. It's got to be based upon a long term relationship, and that's one of the benefits that working long term with a financial advisor is going to give clients. It's that stick-to-itiveness and being able to provide all the information and trust the advisor, and frankly let them do their job.

15:06

JIM: That's well put, and we're almost at the end of our time. I can't believe we've blown through this so quickly, but you have a statement here that you say consumers don't understand that a financial advisor can't do it for them, a financial advisor does it with them.

I can't imagine a better statement to wrap up this program with, because too many people just expect everything to happen, but what you've been talking about this whole program is how important it is for the consumer, for the client to be an active participant, sharing the proper information and taking the time to understand how the financial advisor is trying to guide them. It's almost a partnership to their success.

15:49

SIMON: Absolutely, absolutely. They've got to be able to tell the truth and they've got to be willing to commit to the recommendations that the advisor is providing, and they've also got to show up. They've also got to show up for the followup appointments. They've got to be willing to be accountable. They've got to tell the truth. This is what I did, this is what I didn't do, this is what I'm willing to re-commit to to be able to help me improve the plan that the advisor is creating, to grow the assets, to protect the assets, and to be able to generate a life long lasting legacy that will grow for generations to come. It's not about short term gratifications, trying to get short term needs met right now. It's about what do you want in the future.

16:41

JIM: I ask a lot of clients this question, and I don't know who first shared this with me but it's not an original idea, but it is something I've used quite a bit and the analogy is, where's the last vacation you went and how much time did you spend planning that? What's interesting about that, most clients will spend hours upon hours upon hours over weeks and months planning this vacation that's coming up that might last two weeks, and they don't spend a fraction of the time planning for their future retirement which could last 30 or 40 years. People procrastinate. Like you said, they procrastinate, they procrastinate, because they're taking care of all their needs now and kicking that can down the road, and I'll tell you, you cannot start too soon but don't make the mistake of getting to a certain point in life where you say well, it's too late now, why bother. Any steps you make toward providing for your future and determining you're future goals and what steps you can take toward meeting those goals, the time to do that is now. What would you say?

17:44

SIMON: Absolutely. The time is now. It's time to let go of the short term gratification that frankly a holiday, the new car, the new house, the new countertops, the new iPhone, sure that stuff feels good but long term that stuff is just going to be stuff.

18:04

JIM: Simon, you certainly have shared some words of wisdom and it's not always comfortable to tell them, get off the sofa, it's time to get your act together, but I don't think people can hear this message enough because if you're really serious about your retirement, you have spent the time with your financial advisor to understand everything, there's been complete dialogue, complete clarity in where you are and where you're going, and I think a lot of people fool themselves into believing, oh, yeah, I've done some planning, I made a deposit in hi retirement account this year, but there hasn't been much thought beyond that, so I encourage everybody listening today, go back to your financial professional and make sure you're on track. They've got a lot of tools to help you get to where you need to be, so make sure to visit with them regularly and make sure you have a plan and maintain that plan and stay on track.

Simon, this has been great, and I just want to wrap up with, if there's any more information people want to get on this subject or maybe they want to help inspire their kids or grandkids to get serious about their future, what resource would you turn them to?

19:06

SIMON: Well, thank you. You know, I've been talking about getting this understanding about unmet needs. It's a missing link. Back in April of 2013 I did a Tedx Talk and it's about 18 minutes and it covers the theory in more detail than what I've been talking about here today. It's on my web site and if you go to www.leadingadvisor.com, you will see my blog and on the right-hand side there is a link to my Tedx Talk, it's called the inspirational tipping point, and it can give you more detail and understanding to get a deeper understanding about how you can meet and exceed your goals and work with your advisor and create a stronger relationship. Thank you.

19:47

JIM: Thanks again, Simon. I appreciate it, look forward to having you again in the future.

19:49

SIMON: Thank you.

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JIM: Thanks for joining us this week, and tune in again next week as we explore another phase of the Real Wealth process, and remember, if anything you heard in today's show you'd like to get more information about, contact your Real Wealth advisor. Also if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.