The End Of The Financial Advisors

To be blunt, forthright and direct, I loathe the finance industry.

I loathe financial advisors, I loathe mortgage brokers, I loathe mutual fund managers, I loathe investment bankers, I loathe regular bankers, I loathe commercial lenders, I loathe certified financial advisors, and I loathe certified financial planners. Nearly every person employed in the world’s financial industry I hold contempt for. And the reason is very simple.

They are, for the most part, immoral human beings.

This isn’t to say your financial advisor isn’t an honest person with your best interests at heart. Nor is it to say your banker hasn’t helped you in the past, getting you favorable rates on your mortgage or auto loan.

But when you take finance professionals as a whole they are some of the most amoral, unethical people in the world and would gladly embezzle from their grandmother if it profited them.

We can point to things such as the 2008-2009 financial crisis where nearly every 1st world central bank bailed out their finance industries. We can point to the stereotypical “dude bro” who goes into Wall Street and inevitably manages to land in jail or goes rogue and costs his employer billions in unauthorized trades because of pure ego.

Or we can highlight the armies of “financial advisors” who claim to manage your retirement funds in your best interests, but upon closer inspection merely syphon off 2-5% of your investments every year and never provide a positive return on investment.

But the underlying reason for all these symptoms we witness among “finance professionals” is much simpler. They’re lazy, and they’re egotistical.

Nobody goes into “finance” because they want to work hard or produce something of value society will willingly pay for. They are not engineers or computer programmers or surgeons, willing to put forth the years of hard toil, effort, labor and studying to hone a skill that is high demand.

However, nor are they humble enough to acknowledge and accept a lower income that comes with not putting forth the hard work required for a highly-compensated career. These people want a high income with as little work as possible.

They want to “get rich quick.” And what results is the millions of slimey, oily, dishonest “get quick rich” salesmen and women who enter the finance industry hoping to sell people mutual funds, get commission on putting together bad loans, or making it as a “day trader,” NONE of which produce or provide society with a penny of actual, tangible economic production.

But there is good news and it isn’t on the horizon. It’s already here. And truth be told we’ve had good news for the past 30 years, it’s just the finance industry has tried to suppress it or certainly doesn’t celebrate it. And that good news is that your financial advisors, financial planners, brokers, and financial consultants are all, completely obsolete.

You don’t need them. Nobody needs them. And if there was any justice or sanity in the world, nearly every single financial professional would be laid off tomorrow and forced to work a real job at wages more in line with their actual abilities.

“You’re Fired!”

The obsolescence of the financial planning industry is due to three main reasons, one of which is historical, two of which are technological.

1. Finance professionals fail to beat the index.
2. Online trading
3. Roboadvisors

The first reason is the historical fact that finance professionals fail to do their job about 80% of the time. What we mean by this is they fail to “beat the index,” meaning when they manage your money, 80% of the time they will ***not*** even be able to provide returns that beat the index (typically “the index” meaning the S&P 500).

This is an important point because today you, me, and everybody else can simply invest in “indexed funds.” Nearly every mutual fund company out there offers indexed funds that track and mimic various indices around the world. Plus there are “Exchange Traded Funds” (ETF’s) that also track indices around the world.

These two simple financial products means the average Joe on the street can invest in an index fund or ETF and…

WITHOUT A SINGLE DAY OF FINANCE EDUCATION…

beat out 80% of the PhD’s in finance.

In other words, you don’t need to pour over financial statements of companies or mutual funds in the hopes of finding a “good investment.” Nor do you have to pay the fees, front end loads, back end loads, 12b-1 fees or managerial fees to a “mutual fund manager” to do that for you.

You simply invest in an index fund or ETF and you’re already beating the “pros” who all attended Harvard Business School.

The second reason for the finance industry's obsolescence is online trading. This technology has existed for almost two decades now and is nothing new or special. If you can buy something on Amazon, then you can certainly do online trading.

But it is the classical replacing humans with robots that has taken what was traditionally the preserve of the wealthy and made it so the Average Joe can trade too. In the olden days when you had physical buildings, hundreds of traders and runners screaming in the stock exchanges, and brokers replete with hickory desks in expensive marble downtown offices, that entire infrastructure and overhead would cost you around $85 per trade.

Now with computers and the internet you have a fraction of the traders on the floor, a laptop instead of an expensive broker sitting in a downtown office, and instead of a pricey downtown office building, you have a server room located in some cheap, far-flung field. The average cost of an online trade today is around $10, likely less than what you spent on drinks last night.

But the third reason is the most interesting one. For while you may know that you should invest in an indexed fund and likely put your trades through an online brokerage, do you know which indexed funds to invest in based on your age?

Do you know the balance between stocks, bonds, and cash you should hold given you're 45, plan to retire at 70, but have a life expectancy of 78, have $200,000 saved up now, and would like to live off of $45,000 a year when you retire? Do you even know the math or the right questions to ask so that you can effectively plan your retirement?

Technology and index investing may have gotten rid of your need for a broker, but not a long term financial planner telling you precisely which indexed mutual funds you should invest in and when…until now.

Introducing the “roboadivsor.”

A “roboadvisor” is simply that. An advisor that is not made of flesh and blood, but rather bits and bytes of code. More specifically, software where you answer a battery of questions and it maps out a retirement plan for you.

You may be concerned at first saying, “how does software know me better than a flesh and blood human,” but the sad secret is most human financial advisors are not these mathematical, actuarial, psychological geniuses that had some kind of insight into your personal financial lives and goals.

The truth is they were merely using software themselves, asking you that same battery of questions, and plugging your answers into that program, telling you the results, and charging 1-5% of your balance every year for that. Roboadvisors simply got rid of the advisor (and corresponding fees) and now has you answer those questions yourself.

When you tally up the savings, the cost of roboadvisors and indexed funds are now going below 1% of assets managed (compared to 2-5% with a traditional human being). Roboadvisors are so new and the industry has yet to fully suss itself out, but you can expect to have an annual expense ratio of around .3% of assets managed.

Not 3%. *.3% POINT 3 %!* This is infinitely cheaper than the bricks and mortar, flesh and blood model that (once again) can’t even beat the index 20% of the time. This doesn’t mean if you have a human financial advisor you like then you should get rid of him. There ARE good financial advisors out there.

But if you’re new to investing or want to take it into your own hands (not to mention, beat most of the pros) the tools and technology are out there that retirement planning is well within the abilities of your average man.