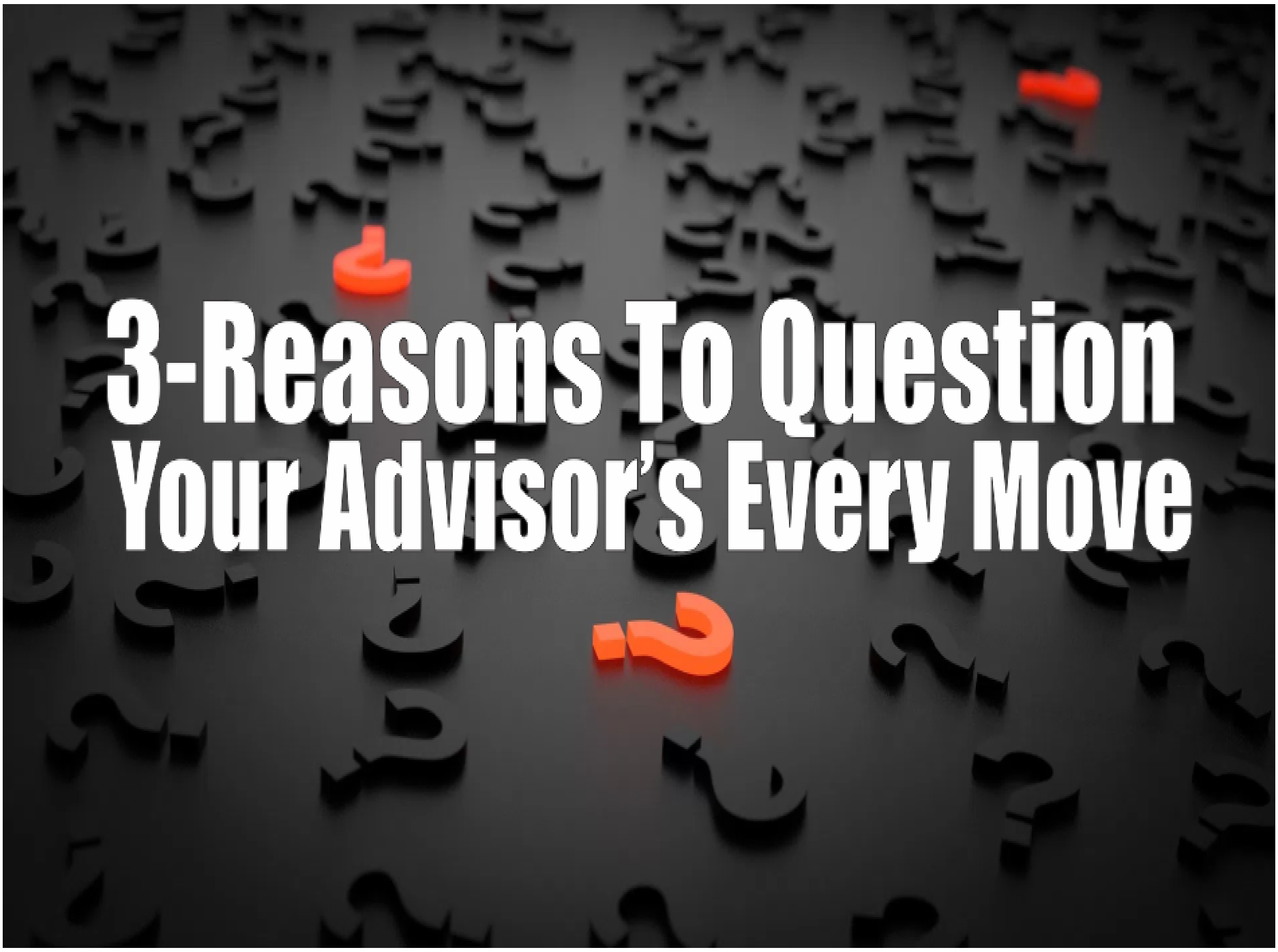
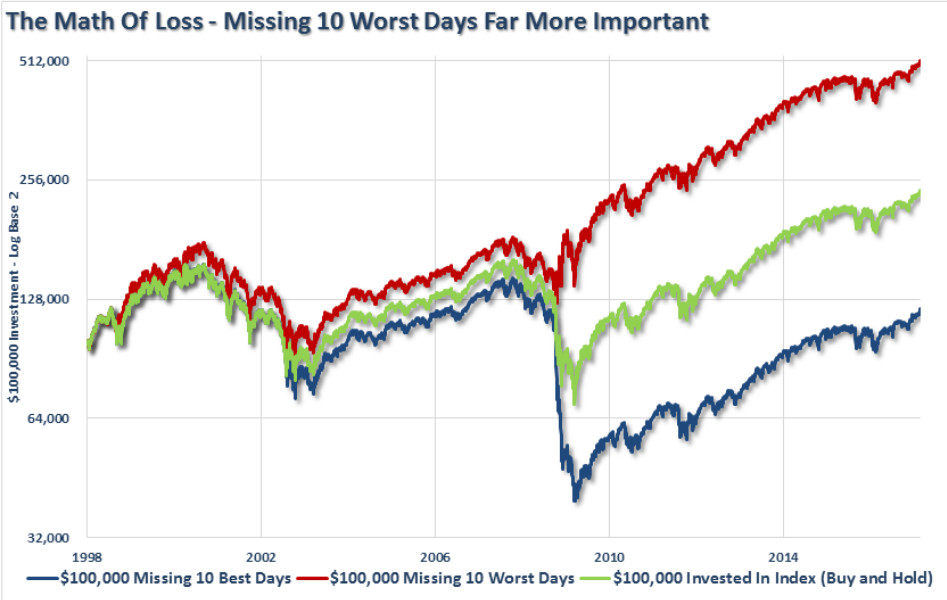


I?m sure your financial partner is a well-meaning individual. I?m also certain the professionals chosen to assist with growing and protecting your wealth are doing what is acceptable per what their compliance departments and branch managers dictate. They must never deviate. Or face the consequences. That?s the mandate. Something stinks. Is this the best you deserve? Information to consumers deemed suitable by financial industry regulatory agencies including a broker?s internal policing department is just more of what the financial marketing and branding machine requires to remain legally uninterrupted. Watered-down fiduciary standards are a first step to greater responsibility to clients however, there?s a very long way to go. **I mean, if it?s not broken, why hurry to fix or try to improve a system that?s benefited Wall Street for so long?** Candidly, most of what you?re sold as far as portfolio theory or regulatory-approved financial advice is a hodge-podge of half-truths wrapped in a highly polished, statistically-skewed heuristic narrative. I know now, at the least, what the underbelly operation of a big-box financial retail operation looks like. I was on the dark side; I paid a tremendous price to scale the wall to escape. Let?s say it wasn?t pleasant. However, I passionately believed that I had no choice five years ago but to make a break for it and let fate do what it needs to do. Good or bad. Many readers and clients are familiar with my legal imbroglio with a former employer. It was a stressful process that lead to a purposely drawn-out arbitration that took a formidable toll on my physical, mental and fiscal health. Three years after the verdict, a clear loss for corporate gunslingers in black hats, I have yet to fully recover. I also realized after numerous anxious nights of contemplation, regardless of outcome, I wouldn?t have changed my direction. I have gained a clear understanding of how big financial employers really feel about their tenured employees, especially when they depart. Looking back, that fight for my career, and frankly my life, laid the groundwork for the vision that?s coming together at Real Investment Advice. The ability to communicate what I believe passionately is the truth about markets and financial planning, along with Lance Roberts and other smart-as-hell contributors, some being mentors, is one of the sweetest rewards. The best outcome I could have ever imagined. Now I answer to clients, not shareholders. As I shared confidently with the enemy and makeshift judge and jury ? *?you?ll all be surprised what Lance Roberts and I are going to build together.?* Alas, I wouldn?t wish the arbitration process on anyone. Your fate rests with an assembly of tenured industry peers who do their best to even out the score, get the parties to settle (usually financially) and part ways nicely (highly unlikely). I sort of knew as did my attorney. Right from day one. Who was willing to listen to both sides of the arguments and who sought the most harm against me, the defendant, even though alleged ?objective parties? had zero skin in the game. Or did they? I have my suspicions. One of the most interesting (to me) and highlighted areas of contention from the plaintiff was my willingness to pay for out of my own pocket, subscriptions to financial publications and websites like The Wall Street Journal and Morningstar. Research which contradicted the internal ?think tank,? analysis and subsequently discussed with clients turned out to be an egregious act of insubordination. Naturally, I believed I was doing my job, fulfilling my responsibility. As a Certified Financial Planner bound to CFP Board Standards, I was encouraged to actively seek information which confirmed or contradicted what our internal research department was generating. Obviously, my initiative was a huge mistake. Who would have imagined that gaining knowledge and sharing multiple perspectives with clients was so threatening? The act was considered ?fiduciary,? and it was made very clear at the arbitration that I was not a fiduciary. As a matter of fact, I should be punished for even taking on the role. It?s entirely feasible that your trusted financial professional suffers from an employer-induced strain of Stockholm Syndrome brought on by a prolonged fear of job loss. When sales goals aren?t met, intimidation is delivered straight out. Or the message is cleverly received through passive-aggressive tactics utilized under the guise of corporate policy distorted by an HR department whose sole purpose is to move your advisor legally closer to unemployment. It?s really your call. After all, you?re the party ultimately responsible for the wealth. It?s up to you to uncover how far the employer allegiance goes. How far apart is the employer and client loyalty dividing line. What separates it? How comfortable are you with it? Can one serve two masters adequately? Can a professional walk the line? I found it exceedingly impossible. So much so that I believed I had little choice but to flee from a long-term career I worked close to 14 years to build. And just like that it was gone. With that in mind, here are three thoughts that should motivate you to seriously ponder a broker?s allegiance.

Learned Belief System That Directly Conflicts With Wealth Preservation

From the day they?re hired, the financial front-line, the professionals you share your inner most concerns with, are trained (programmed) to believe that a market is a long-term continuous bull cycle. Bear markets are mere speedbumps which do minimal damage, therefore they?re rarely discussed. If anything, the subject is passed over quick. Bear markets (secular or long-term bear losses average -65%,) and occur 40% of the time, per financial historian Doug Short. Not so shabby. Has this important information been discussed with you? Is there a bear market game plan that your broker has identified? If not. Why? Mainly, the market is positioned as a capital appreciation party with a perpetually filled punch bowl of positive, compounded returns. The only mantra that is taught is to remain fully invested regardless of conditions; just weather the storms that infrequently arise (yea right). After all, the industry does an impressive job making investors feel stupid to miss out on the best 10 days in the market. The simplest of calculations and a semblance of sense are enough to comprehend how damaging the math of loss truly is. So, let me ask, as you should too: Where?s your broker?s slick marketing material to showcase reality? Let me save you the trouble. It doesn?t exist. Brokerage marketing departments don?t go near material of such nature. I tried to find it when writing my book on investing and financial planning. Lance perfected what I required.



Starting Value	% Draw Down	$ Loss	Ending Value	% Return Back To Breakeven
$100,000	10%	$10,000	$90,000	11.11%
$100,000	15%	$15,000	$85,000	17.65%
$100,000	20%	$20,000	$80,000	25.00%
$100,000	25%	$25,000	$75,000	33.33%
$100,000	30%	$30,000	$70,000	42.86%
$100,000	35%	$35,000	$65,000	53.85%
$100,000	40%	$40,000	$60,000	66.67%
$100,000	45%	$45,000	$55,000	81.82%
$100,000	50%	$50,000	$50,000	100.00%
$100,000	55%	$55,000	$45,000	122.22%
$100,000	60%	$60,000	$40,000	150.00%
$100,000	65%	$65,000	$35,000	185.71%
$100,000	70%	$70,000	$30,000	233.33%
$100,000	75%	$75,000	$25,000	300.00%

Pretty pictures are painted. Statistical models are proudly presented that validate how markets are supposed to behave. Then there?s all the scary stories about inflation. You know, your greatest enemy. Or you?ll never successfully make it to retirement and if you do, it it?s only because most of your money was invested in risk assets, like stocks. Never forget that your nemesis is the long-term loss of precious capital. Inflation is a great consideration, but not the scariest boogieman in the room. Growth in the market is allegedly the inevitable outcome of the statistically tight ebb and flow of calm, predictable seas your wealth navigates to happy outcomes. If you can stay afloat long enough. After all, the ship has a 4,000-year remote possibility of capsizing (which appears to occur more often). This fantasy is fully supported by an employer?s research data that is mined carefully, sliced, diced, and spoon-fed. Listen, there?s no professional on earth who can predict when a market top is going to be reached or a bear market will occur. However, it?s crucial to the survival and growth of your wealth to understand the complete picture or as I call it ? ?full-circle? analysis. Once a market storm rolls in, your static asset allocation may not be enough to protect against bear market drawdowns and will require monitoring and then action to further minimize damage which requires precious time to recover from. If your financial partner isn?t an objective student of markets and holistic financial planning or exclusively investigating and sharing their employer?s research department information on topics of this nature, then it?s best you find out before the next bear market begins showing teeth. As my personal experience outlines, many so-called professionals are hired for their selling prowess, not financial or planning acumen. There?s nothing wrong with it as long as you understand where your broker?s strongest allegiance lies.

Understanding Of Diversification Is Based On Agenda, Not Fact.

The easiest way to convince investors to *?stick with an asset allocation or investment plan?* is to use the past as a pacifier, regardless of current market cycle. In other words, if it?s broken there?s no need to adjust the guidance. The industry just needs to isolate and showcase a cycle when the old confines worked, push that specific timeframe into the present and extrapolate the positive, perpetually into the future. **An egregious stretch of the truth emboldens the heavily-protected sanctuary of diversification.**

It?s a word that makes investors feel good.

It rolls sweet off the tongue. It represents warmth of a blanket fresh out of the dryer, the scent of fresh-baked cinnamon rolls. However, don?t be duped. Today, diversification as pitched by your broker, is a wolf dressed as Red Riding Hood. Many financial professionals have fooled themselves regarding its effectiveness. At least the way it?s defined, currently. You must understand what diversification is and most crucial, what it isn?t. Certainly, it?s not the panacea it?s communicated to be. The outdated definition of diversification requires a tune up. There?s no ?free lunch,? here, although I continue to hear and read this dangerous adage in the media. The word gets thrown around like a remedy for everything which ails a portfolio. It?s the industry?s ?catch all? that can lull investors into complacency, inaction. So, who buys into this nonsense free lunch theory, again? After all, what is free on Wall Street? Investors who let their guard down, buy in to the myth of free lunches on Wall Street, ostensibly find their money on the menu. Due to unprecedented central bank intervention, there exists distortion in stock prices. Interest rates ?lower for longer? have created a frenzied reach for return in stocks.

A way to effectively manage risk has morphed into disparate perceptions. The investor?s definition of diversification and that of the industry has parted, leaving an asset allocation plan increasingly vulnerable.

Today, the practice of diversification is Pablum. Watered down. Reduced to a dangerous buzzword. First, what is the staid, mainstream definition of diversification? According to Investopedia ? An internet reference guide on money and investments:

- ***Diversification strives to smooth out*** unsystematic risk or ***events in a portfolio so the positive performance of some investments neutralizes the negative performance of others. Therefore, the benefits of diversification hold only if the securities in the portfolio are not perfectly correlated.***
- ***Diversification benefits can be gained by investing in foreign securities because they tend to be less closely correlated with domestic investments. For example, an economic downturn in the U.S. economy may not affect Japan?s economy in the same way; therefore, having Japanese investments gives an investor a small cushion of protection against losses due to an American economic downturn.***

Now let?s break down the lunch and examine how free it is. **Unsystematic risk** ? This is the risk the industry seeks to help you manage. It?s the risks related to failure of a specific business or underperformance of an industry. To wit:

- *This is a company- or industry-specific hazard that is inherent in each investment.* ***Unsystematic risk, also known as ?nonsystematic risk,? ?specific risk,? ?diversifiable risk? or ?residual risk,?*** *can be reduced through diversification.*
- *So, by owning stocks in different companies and in different industries, as well as by owning other types of securities such as Treasuries and municipal securities,* ***investors will be less affected by an event or decision that has a strong impact on one company, industry or investment type.***

So, think of it this way: **A ?diversified? portfolio represents a blend of investments ? stocks, bonds for example, that are designed to generate returns with less overall business risk.** While this information is valid, the financial industry encourages you to think of diversification as risk management, which it isn?t. Here?s what you need to remember: **Ketchup *(consumer staples)* and oil *(consumer cyclicals)* all run down-hill, in the same direction in corrections or bear markets.** Sure, ketchup may run behind, roll slower, but the direction is the one direction that destroys wealth ? **SOUTH.** Large, small, international stocks. Regardless of the risk within different industries, stocks move together *(they connect in down markets).* Consider: **What are the**

odds of one or two companies in a balanced portfolio to go bust or face an industry-specific hazard at the same time? What?s the greater risk to you? **One company going out of business or underperforming or your entire stock portfolio suffers losses great enough to change your life, alter your financial plan. You already know the answer. Diversification is not risk management, it?s risk reduction**.

- *When your broker preaches diversification as a risk management technique, what does he or she mean?*
- *It?s not risk management the pros believe in, but **risk dilution**.*
- *There?s a difference. The misunderstanding can be painful.*

To you, as an investor, diversification is believed to be risk management where portfolio losses are controlled or minimized. Think of risk management as a technique to reduce portfolio losses through down or bear cycles and the establishment of price-sell or rebalancing targets to maintain portfolio allocations. Consider risk dilution as method to spread or combine different investments of various risk to minimize volatility. **Even the best financial professionals only consider half the equation.** Beware the lamb (risk management) in wolf?s clothing (risk dilution). **The goal of risk dilution** is to **?cover all bases.?** It employs vehicles, usually mutual funds, to cover every asset class so business risk can be managed. **The root of the process is to spread your dollars and risk widely across and within asset classes like stocks and bonds to reduce company-specific risk.** ***There?s a false sense of comfort in covering your bases. Diversification in its present form is not effective reduce the risk you care about as an individual investor ? risk of loss.*** Today, risk dilution has become a substitute for risk management, but it should be a **compliment to it.** Risk dilution is a reduction of volatility or how a portfolio moves up or down in relation to the overall market. Risk dilution works best during rising, or up markets as since most investments move together, especially stocks**.** Think about betting on every horse in a race.

- ***In other words, a rising tide, raises all boats.***

Diversification can be stronger than it is right now. Unfortunately, the financial industry as a whole, has watered it down and widened it so much, it?s become absolutely ineffective as a safeguard against losses. One reason is the sales targets that forces financial representatives to spend less time with client portfolios. Also, a financial big-box compliance department which is designed to protect the firm, not you as a client, will not allow anything but the washed-down outdated definition of diversification. Think about it: A targeted diversification strategy places accountability on the advisor and poses risk to the firm. A wider approach makes it easier to vector responsibility to broad market ?random walks? so if a global crisis or bear market occurs and most assets move down together, an advisor and the compliance department, can ?blame? everything outside their control.

- ***?Hey, it?s not our fault, it?s the market!?***

Convenient excuse, isn?t it? You?ll find out, eventually.

Your Opinion Doesn?t Count For Much.

I engage frequently with individual investors who share a common, disturbing concern. Their financial partners are minimizing their requests to manage risk. Conversations are growing frustrating for those investors who have lived through two devastating market derails in 17 years. Some have yet to recover from the tech bubble. In the face of an 8-year cyclical bull market, financial professionals, especially those who have never experienced a bear mauling, are falling for their own stories. Investors aren?t as quick to go along as losses are not the brokers to suffer.

Recently, I met with a retired woman who holds a concentration of liquid assets in a junk bond fund. Her financial professional explained that it?s a ?good fund,? and paying a ?good income,? ending with the ever credible ?I own it, too.? In other words, lots of positive words; yet her uncomfortableness was not addressed. Regardless of his stamp of approval, I needed to empower her with the knowledge that indeed the concerns were valid. We needed to put a stop to her sleepless nights over this ongoing issue. We reviewed together, step-by-step, the risk she was taking being overweight in this investment, the overall pros and cons and finally, a concrete, actionable game plan to reduce the risk she felt uncomfortable with along with detailed instructions for her advisor. I?m anxiously awaiting to hear how the meeting went. What appears to be an endless march higher for markets is encouraging financial professionals to perhaps grow overconfident in their abilities to generate returns. In some cases, they?re willing to outsource portfolio management and focus on ?more important issues? like financial planning which on the surface, is not a bad thing. I?m an advocate for financial planning; I don?t underestimate its importance. However, I believe it may becoming employed as a ruse, an excuse to become distant about how stock markets behave, change and the damage that may result from putting our guard down. In other words, the ongoing bull market is making front-line advisors lazy and salespeople more emboldened than ever to pitch their wares.

> ***It?s part of an advisor?s overall responsibilities to help investors participate in markets, minimize emotional and cognitive biases and importantly, manage market risk.***

If they?ve forgotten how to, then you need to now take matters into your own hands and not look back.