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Investing

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Should You Trust A Bank With Your Investments?

Rob Russell, CONTRIBUTOR

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In a culture where we often value convenience over quality, banks and credit unions have become a one stop shop for many of our financial needs. You can't even walk into your bank without being propositioned (*what's called 'hits' by banking insiders*) to meet with their in-house financial advisor, but before you step off the tile floor and onto the carpet you may want to think twice.

Banking customers are being pushed more than ever to use the banks in-house 'financial advisor' in order to get a bigger share of your wallet. Tellers and bank employees are trained to cross-sell and fill their daily quota of 'hits' by encouraging you to not only do your checking with them, but also mortgages, personal loans, and of course investing your life savings. However, the quality and diversity of investment

fees, and despite perception are **not guaranteed** or backed by FDIC as evident by the mouse-print disclosure on one national banks website:

"Investments: Not FDIC Insured. No Bank Guarantee. May Lose Value."

Should You Trust Your Bank With Your Financial Future? (Photographer: Andrew Harrer/Bloomberg)

Banks are the perfect place for checking and savings accounts, CDs, and securing a home mortgage at a great rate, but they were never designed to provide high-quality investment advice at a reasonable cost. Know before you roll over your retirement savings to your local bank/credit union that you may be at a disadvantage compared to other sources of independent specialized wealth advice. Banks, large and small, offer a big convenience to have your loans, checking, and investments under one roof, but far too often this convenience can come at a steep price through **above average fees**, various **conflicts of interests**, and overall quality of advice.

Quality and Diversity of Advice: the investment "advice" at banks and credit unions tends to gravitate towards the offering of only a couple different types of asset classes (usually mutual funds/ETFs and Variable Annuities), which could leave you at a disadvantage because the bank's financial advisor doesn't have the freedom to provide a wide range of investment vehicles to you. It's kind of like going to a Ferrari dealership looking for a reasonably priced fuel-efficient vehicle and expecting the car salesman (the 'financial advisor') to refer you to a Toyota dealership - it's just not going to happen - he's going to try to convince you to overpay and buy something that may not be

"Funds available through* [bank name] *are almost exclusively limited to Affiliated Funds. The number and variety of investment options available through* [bank name] *may be limited."

The term "affiliated funds" means that the bank will only offer mutual funds that they have a relationship with and likely receive more compensation from, which naturally creates a large conflict of interest.

"Affiliates of* [bank name] *receive compensation from some mutual funds ...for providing investment advisory and other services."

This further underlines the point that advisors at this large regional bank gets paid extra for recommending specific funds - mutual funds that may perform worse and have higher expenses. It's important to note that not all bank advisors are bad financial advisors - they're usually really great and friendly people, but they're part of a system where they are told what to sell and that typically translates into the highest fee, most profitable investment products for the bank, *not their customers, like you.*

Higher Fees: no matter how you slice it, banks are typically controlled by large corporations and publicly-traded corporations are tasked with creating shareholder value and shareholders want to see big profit margins. So, banks and credit unions tend to be some of the biggest neighborhood of 3-4% per year (*many times these fees are hidden from plain sight*). According to their website, one popular regional bank charges 1.20% to manage a portfolio of mutual funds, but that's not entirely the whole story. The average mutual fund can run around 3% a year in fees, so after you tack on 1.20% you're paying the bank and the advisor behind the desk **a whopping 4.20% per year!** To average a 7% return *after fees* your investments would have to earn 11.20% per year, which can keep your future financial goals far from reach. What a great plan....*for the advisor and the bank*.

Why would a bank constantly churn out recommendations to buy expensive Variable Annuities and Mutual Funds? It's simple: *Profit margin*. With interest rates so low and consumers turning to online-only banks, in-house investment management has become a high-margin profit center for bricks and mortar banks while also creating a 'stickier' relationship with customers.

If you're considering handing over your largest financial asset to your bank or credit union it pays to read all the fine print and ask the tough questions about conflicts of interest, fees, and diversity of investment products offered.

Disclosure: Rob Russell offers advisory services through Centum Capital an independent RIA. Mr. Russell is also the President of Russell & Company Total Wealth Management.

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