

Motivation of the author and my individual investor education efforts

Category : About The Skilled Investor

Published by [The Skilled Investor](#) on Dec/22/2006

What is the motivation of the author of *The Skilled Investor*? My name is Larry Russell, and I am the editor and publisher of *The Skilled Investor*. I am an experienced executive with expertise in business management, investments, economics, statistics, and accounting.



**Larry Russell, Managing Director
MBA (Stanford University), MA (Brandeis University), and BS (M.I.T.)**

In 2001, I established Lawrence Russell and Company and began an in-depth and systematic reading of the scientific finance literature. I wanted to find out what was true, false, and ambiguous about personal financial planning and investing. These activities lead to the development of VeriPlan, a sophisticated, fully-automated, and inexpensive financial planner, which enables individuals to do their own personal family financial lifecycle planning. During my 20+ year Silicon Valley management career, I had saved my pennies and invested them according to the principles that I had learned at the Stanford Business School. (See: [Background of the author](#)) With time on my hands after the collapse of the stock market bubble, I decided to catch up on my academic reading in personal financial planning and investments. As I searched the web, university libraries, and on-line scholarly paper repositories, I was impressed by how much useful, but obscurely written, financial information was scattered around the academic world. It seemed to me that many individuals and families were starved for such useful and objective financial planning and investment information, while they were drowning in a sea of self-interested industry sales pitches. I read a large amount of information in the financial media and from the financial services industry. I found this material to be generally superficial and/or biased. The financial media and the securities industry generate a

deluge of information, but it leaves individuals with very little systematic or durable understanding of what works and what does not. Faced with this finance and investment "noise," individuals are hard pressed to understand what is true and has been verified. Without valid guideposts to screen out the noise and the hype, individuals cannot reasonably be expected to plan a proper lifetime course for their financial affairs. (See: [How can individual investors trust, when so much information about investing is rubbish?](#)) As I returned to my academic and research roots, I began to read finance and investment journals, to visit finance professors' websites, and to search the Internet for publications and working papers. After my first year of almost full-time reading, clarity began to emerge. To date after five years (January 2007), I have collected and organized over 25,000 electronic documents related to personal finance and investing. I have read thousands of research paper abstracts and over 1,000 seminal papers in their excruciating economic and statistical details. Many of these scientific finance papers hold information that is directly useful to individuals for financial planning and investing. However, these papers are written for an audience of other academics and highly trained industry research professionals and not for individuals. Furthermore, the useful information is dispersed in a sea of less useful information and obscured by the vocabulary of economic and statistical research. To make some of this information more accessible, I first wrote articles and published them on my earlier investment education website: [www\(dot\)skilledinvestor\(dot\)com](http://www.skilledinvestor.com), *which is no longer on the web*.

By the middle of 2003, I was convinced that I understood more efficient and scientifically verifiable pathways for individuals to optimize their financial planning and investment strategies. Therefore, in 2003 I also began to develop an automated and highly customizable lifecycle planning model. This software tool, which became VeriPlan, was designed initially to serve as a decision support toolset for advisory clients who wanted to develop coherent, personal lifetime plans. With the scientific planning and investing knowledge I had gained from my reading and from the development of my lifecycle planning tool, I also became a Registered Investment Adviser. My firm, Lawrence Russell and Company, is a Registered Investment Adviser in the state of California (Certificate #133101). I also passed the Series 65 Uniform Investment Adviser Law Examination administered for the North American Securities Administrators Association (NASAA) by the Financial Industry Regulatory Authority (FINRA).

To avoid all conflicts-of-interest, I set up a purely fee-only advisory practice. I charge hourly or fixed fees for customized planning services. To avoid conflicts-of-interest, I do not sell any investment or insurance product of any kind. I do not charge any percent of asset fees. I do not accept or pay third party fees of any kind. (See: [Does it matter how financial planners and investment advisors are paid?](#))

[I can help you to improve your family's lifetime financial planning significantly. If you need personal help, click here and start a personal conversation with me!](#)

It is necessary to state that you are NOT my advisory client, simply because you have access to *The Skilled Investor* website and blog. Your access to and use of *The Skilled Investor* on the web, in electronic, or in printed form does NOT make you my advisory client. You could only become my client, if we were to agree mutually and to sign a written and binding legal document, which we have not done. [See the Terms of Use](#). I also began to give educational presentations on what I had learned to local organizations, including Rotary Clubs, CPA groups, financial planning groups, etc. The process of developing and giving these presentations and getting feedback has been very helpful in developing VeriPlan and materials for *The Skilled Investor*. As I spoke with individuals and groups about their needs, it became clear that everyone has similar, yet distinct, financial planning needs regarding their families' financial futures. While more wealthy people (think millions of

dollars) have greater complexity to their financial affairs (caused largely by our incredibly convoluted U.S. personal tax codes), everyone needs sophisticated financial lifecycle planning. Whether wealthy or not yet wealthy, families need a personalized way to understand how their current financial behaviors could affect their families in the future. However, few people already own enough assets to justify the high cost of a competent and objective advisor. Only those who are wealthy now can afford to pay directly for highly personalized, professional financial planning assistance. Direct client payments help to avoid the conflicts-of-interest that are inherent and pervasive in the structure of the financial services industry. In studying the financial services and advisory industry, it became clear to me that the industry is almost exclusively focused on the interests of those who already have substantial financial assets and not on the mass of Americans who were trying to become more secure financially. Using many hundreds of thousands of what the securities industry calls "producer" employees, the brokerage industry sells investment products and services to clients for transactional fees, asset holding charges, and many other more or less visible investment costs. Governed by the Securities and Exchange Act of 1934, as amended, the legal standard of client care by these brokers is the "suitability" of an investment to a client. However, there is huge latitude in what a suitable investment is and how much it costs a client. From the brokerage industry's perspective, the wealthier the client is the better. Greater assets yield more revenue and high profit per hour spent with clients. For example, Morgan Stanley's 2007 compensation plan for their personnel serving retail clients eliminates all compensation for household accounts below \$50,000, and it reduces compensation on household accounts under \$75,000, unless these client accounts are being charged a percent of assets fee. Clearly, the message to Morgan Stanley sales personnel is to chase wealthier fish. Similar messages are given to broker producer employees in all brokerage firms across the industry. Another large segment of the financial services industry that serves the public consists of about 100,000 independent planning advisors, who are regulated at the federal and/or state levels. Governed by the Investment Advisers Act of 1940, as amended, and by state laws, these advisors have a seemingly more stringent fiduciary standard of client care. Financial advisers regulated under the Investment Advisers Act of 1940 have a wide variety of educational and career backgrounds and must pass the FINRA Series 65 test. Financial advisers earn degrees and designations from a variety of educational institutions including traditional and online colleges and universities. They hold a variety of educational certifications including undergraduate business, accounting, and finance degrees, and some even hold an [online finance degree](#) earned from an online university. In addition, many have pursued advanced educational degrees and hold MA, MBA, and PhD degrees in business, finance, accounting, and investment management.

There is substantial latitude in what constitutes fiduciary care and how much advisory services will cost a client. Most registered investment advisors deliver services that are charged as a percent of client assets under management. However, often these same advisors also obtain additional revenues from the securities and insurance industry, when they sell commissioned financial products to their clients. Again, the wealthier the advisory client the better it is for the advisory practice. The greater the client assets under management, then the more revenue for the advisory practice and the higher the profit per hour of client service will be. Whether served by a broker or by an independent financial advisor, the economics of the industry are clear. If an individual wants personal professional attention, that individual must already have substantial assets that can generate revenue to compensate the advisor. If clients are to be given personalized attention and the valuable time of the advisor, each client must generate several thousand dollars in fees annually one way or another. The math is simple. For example, if average client servicing requires 20 hours of attention yearly and a profitable hourly rate is \$150 per hour, then the required average revenue per client is \$3,000 per year. If \$3,000/per year is the client revenue minimum for a practice, then the client needs to have \$300,000, if the fee is 1% of assets per year. The lower the assets, then the higher the percentage necessarily must be. Since clients usually balk at much higher fees, the revenue requirements of

advisory practices mean that people with less assets will not get personalized services. Clearly, the vast majority of Americans do not fit the industry's economic profile of a profitable advisory client on an hourly basis. This is why there is so much effort to obscure and hide the financial and investment costs that clients actually pay. The more the true cost can be hidden and the services offered as supposedly "free," then the easier it is to profit from the client, but not necessarily serve his best interests. It also became clear to me that almost all computerized financial planning technology was focused on the needs of professional advisors. Before starting my development of VeriPlan, I had searched for a sophisticated and customizable lifecycle financial planning tool to use myself. I was unimpressed with what I had found. Instead of providing an interactive and personalized modeling environment that a client could use inter-actively with an advisor, many professional financial modeling tools had significant functional and analytic limitations. They also required extensive training to be used properly. Worse, these professional tools just cost too darn much. Expensive computerized tools can be economical, when the costs are spread across the higher fee structure of an advisory practice, but no professional lifecycle planning tool was inexpensive enough for individuals to afford directly. Furthermore, many of these computerized professional planning tools are designed to channel clients toward the selection of more costly financial, securities, and insurance products. After extensive scientific study of what works and what does not, it is very clear to me that there are scientifically verifiable selection criteria for financial and investment products. Furthermore, the cost of a financial or investment product is at the top of this list of criteria. Financial product selection should be separated entirely from the lifecycle planning process. The sale of financial products should never be embedded into any true financial lifecycle planning application. Lifecycle financial planning software should provide interactive tools to understand personal needs and to evaluate financial tradeoffs between one alternative and another. Integrating financial product sales will necessarily distort objective financial planning, because what is best for the client, the advisor, and the industry most often are just not the same. These realizations lead me to focus significant resources on the further development of VeriPlan as a standalone financial lifecycle planning software product. I realized that the mass of Americans would never have access to a personalized lifecycle planning application, unless an inexpensive software product was developed. Since I already had developed earlier versions of VeriPlan for use with clients, I decided to develop a standalone configuration that individuals could operate themselves. Furthermore, I decided that it must be priced very low (under \$50), so that everyone could afford it. These are the reasons why I have dedicated significant time and effort to provide both *The Skilled Investor* and VeriPlan to those of you who want to improve your ability to manage your own financial planning and investing affairs.

[Start a personal conversation today -- Simply click here to contact me now!](#)

Larry Russell
Managing Director
Lawrence Russell and Company
Pasadena, California _____

See also: [What is The Skilled Investor and who will find it useful?](#) [How does The Skilled Investor find and summarize scientific investment information?](#)

**KNOWLEDGE -- OBJECTIVITY -- HONESTY -- CONFIDENTIALITY -- DILIGENCE -- EFFICIENCY
-- SATISFACTION**

These articles about financial planners and investment advisors may also be useful to you: [Selecting a Financial Advisor](#): ->[Preparing to interview a financial planner or investment advisor](#) ->[Questions](#)

[to ask, when hiring an advisor](#) – [Part 1, Background and training](#) ->[Questions to ask, when hiring an advisor](#) – [Part 2, Fees and contracts](#) ->[Questions to ask, when hiring an advisor](#) – [Part 3, Services and references](#) [Payment of Financial Advisors:](#) ->[Does it matter how financial planners and investment advisors are paid?](#) ->[Financial planner and investment advisor compensation paid by third parties](#) ->[Financial planner and investment advisor compensation paid by clients](#) ->[Fee-only compensation aligns the interests of clients and their financial advisors](#) -> [Fee-only financial planner and investment advisory groups](#) ->[The securities industry calls marketing and selling](#) “advising” ->[Many investors are not fooled by an ethically challenged securities industry](#) [Regulation of Financial Advisors:](#) ->[Regulation of financial planners and investment advisors -- Introduction](#) ->[Checking the backgrounds of individual securities brokers and advisors who sell investments](#) ->[On-line information explaining the licenses of financial planners, investment advisors, and insurance representatives](#) ->[Online information about registered securities broker-dealers and investment advisory firms](#) ->[Finding state regulators of securities brokers, investment advisors, insurance agents, and insurance brokers](#) ->[Private certifications of financial planners and investment advisors](#) ->[Widely recognized private financial and investment advisor certifications](#) ->[Governmental and self-regulation of the securities industry](#) [Advisor Fraud](#) -> [Avoiding financial planning and investment advisor frauds and scams](#) – [Overview](#) ->[Avoiding advisor frauds and scams](#) – [The](#) “Never-do” [list, Part 1](#) ->[Avoiding advisor frauds and scams](#) – [The](#) “Never-do” [list, Part 2](#) ->[Avoiding advisor frauds and scams](#) – [The](#) “Never-do” [list, Part 3](#)

A completely independent, fee only financial planner, investment advisor, and guide providing

personal financial, investment, money, and retirement planning advice and consultant services. Serving Financial Planning and Investment Management Clients in the Santa Barbara, California Area, including: Arroyo Grande, Atascadero, Avila Beach, Ballard, Baywood Park, Buellton, California Valley, Carpinteria, Cayucos, Cuyama, Gaviota, Goleta, Grover Beach, Isla Vista, Lompoc, Los Alamos, Los Olivos, Los Osos, Montecito, Morro Bay, Nipomo, Pismo Beach, San Luis Obispo, Santa Margarita, Santa Maria, Santa Ynez, Shell Beach, Solvang, and other cities around Santa Barbara. Serving Financial Planning and Investment Management Clients in the Anaheim and Huntington Beach, California Area, including: Anaheim, Avalon, Beach Center, Bristol, Buena Park, Capistrano Beach, Catalina, Cerritos, Corona del Mar, Costa Mesa, Cypress, Dana Point, Diamond, Fullerton, Huntington, La Mirada, La Palma, Laguna Niguel, Lakewood, Mirada, Monarch Beach, Newport Beach, Santa Catalina, Seal Beach, South Laguna, Sunkist, Sunset Beach, Westminster, and other cities around Anaheim and Huntington Beach.