

Many individual investors are not fooled by an ethically challenged securities industry

Category : Are Your Best Interests the Same as the Financial Services Industry?

Published by [The Skilled Investor](http://www.theskilledinvestor.com) on Aug/1/2005

Many individual investors are not fooled by an ethically challenged industry

Summary: Securities industry customers have very widespread concerns about being taken advantage of and being cheated. Particularly since the Internet bubble market crash, investor surveys have shown that investor distrust of the industry is high. Securities industry customers have very widespread concerns about being taken advantage of and being cheated. Some financial services industry personnel and organizations have not maintained high ethical standards. Conflicts of interest have been managed poorly, and investors have been exploited. For the past several years, the media has reported on one investment industry scandal after another. Particularly since the Internet bubble market crash, investor surveys have shown that investor distrust of the industry is high. These investor concerns help to explain the recent surge in image advertising campaigns from the securities industry on the general theme of "trust us, we are there for you." The 2004 Securities Industry Association (SIA) "Annual SIA Investor Survey" included these results regarding the securities industry as a whole:¹ Respondents cited the following as "big problems" for the securities industry: ->"Industry motivated by greed" (69%) ->"Industry's reluctance to punish wrongdoers" (64%) ->"Financial advisors or firms putting their own interests ahead of investor's interests" (64%) ->"Lack of internal controls to prevent irresponsible or wrongful actions" (59%) ->"Insider trading" (53%) ->"Insufficient disclosure of risks to investors" (46%) ->"Insufficient disclosure of fees to investors" (39%) ->"Transaction fees/commissions too high" (37%) Note that the 2003 SIA investor survey also asked investors about the main issues facing the industry.² The main issue mentioned by 43% of respondents was dishonesty. At 9%, market volatility was the next most frequently cited issue. The 2004 SIA survey did not report responses to this question. The 2002 Golin/Harris Trust Survey rated 24 different industries on a trust scale of ranging from -100% to +100%.³ The average industry scored -20%. Two industries from within the financial services sector, Insurance at -59% and Brokerage/Wall Street at -58%, ranked as two of the three industries at the bottom of the list. Only Oil & Gas at -63% scored lower. At -6% Banks/S&Ls, the only other financial services industry in the survey, scored somewhat above the overall average for the 24 industries. Apparently, the S&L scandals of the 1980s have receded from the memories of many respondents. Recent scandals seem to have left few parts of the financial services industry untouched. Even the much vaunted mutual fund industry has seen pockets of corruption. The 2004 SIA survey asked respondents whether they agreed with this statement: "The securities industry and its regulators are doing a poor job in alleviating investor concern over the security of their mutual-fund investments."⁴ Half of respondents agreed with this statement. (20% strongly agreed and 30% somewhat agreed.) Finally, internet sites and blogs have arisen where individuals vent their frustrations with the financial services industry. For example, perform a search engine search with the following text string: ["the name of any financial services firm" sucks OR sux OR fraud OR dishonest OR cheat] and see what you get. If you

enter a name of a firm that has been prominent in scandals, you may be surprised what you find. For example, the website AmexSux.com (<http://www.amexsux.com>) is just one of the more developed examples of websites where disgruntled people vent their frustrations about particular firms in the industry.

See these related articles on advisor compensation: ->[Does it matter how financial planners and investment advisors are paid?](#) ->[Financial planner and investment advisor compensation paid by clients](#) ->[Financial planner and investment advisor compensation paid by third parties](#) ->[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”](#): 1) Securities Industry Association (SIA) “Annual SIA Investor Survey,” <http://www.sia.com/publications/pdf/2004investorsurvey.pdf> November 4, 2004, page 13

2) Securities Industry Association (SIA) “Annual SIA Investor Survey,” November 2003, pages 45 and 49 [No longer available on SIA website.]

3) Golin/Harris International, 2002 Trust Survey, “American Business Faces a Crisis of Trust,” <http://www.golinharris.com>

4) op cit., Securities Industry Association, November 4, 2004, page 14