**Financial Advice**

I recently had an interesting series of conversations with my parents around investing and the world of financial advice. The main thrust of these conversations was identifying the best way for them to manage the savings they have in preparation for retirement in 5-10 years time. To slightly complicate the issue, they are also planning to move to Spain when they retire, meaning they would at some point need to convert their savings from Australian dollars to Euros. Like most people would advise others to do, and would probably do themselves, they are going to see a financial advisor to get some advice.

Now, I'm not going to disparage an entire profession, and there are a multitude of scenarios where financial advisors and asset managers provide a valuable service to their clients, but as [**Matt Yglesias**](http://www.vox.com/2015/2/24/8093533/investment-advisors-fiduciary) points out, this is almost never for small retail clients like you or me. It never hurts to listen to options and so provided you can resist the urge to hand over your life savings on the spot to a stranger with a [**who has passed the Series 65 Exam**](http://www.investopedia.com/professionals/series65/), there is little harm in organizing a meeting with a financial advisor.

So why is it that most peoples first reaction is still to see a financial advisor? I think it comes down to two basic emotions that I will overdramatically summarize as 'greed' and 'fear'.

**Greed**

Let's face it: Everyone wants to beat the market, and there is no shortage of people who will tell you they are able to do exactly that. From stock pickers in your local newspaper to highly paid active fund managers on Wall St, there is an endless line of people who want to help you discover the secret of above average returns - usually for a hefty fee of course. And because people want to believe they are special and more deserving than anyone else, they keep buying into schemes and advice that promise [**above average returns**](http://www.forbes.com/2008/12/12/madoff-ponzi-hedge-pf-ii-in_rl_1212croesus_inl.html), despite their own better judgment.

The reality is [**beating the market is extremely difficult**](http://www.forbes.com/sites/realspin/2014/01/19/try-as-you-might-you-probably-cant-beat-the-stock-market/) to do, particularly over any multi-year period. Even if there are advisors that have found a methodology to consistently beat the market, they are advising people with a lot more money then you or me. Once you have accepted this is the case, your view on the best way to invest your money also fundamentally changes. Forget about beating the market, and start thinking about the lowest cost way to match the average market returns.

**Fear**

It is a tool that has been used by professionals in most fields essentially since the beginning of people doing things for money. From lawyers to auto mechanics to [**management consultants**](http://www.sho.com/sho/house-of-lies/home), they have a vested interest in making any job they do seem much more complicated than it is to ensure that a) you don't just do it yourself; and b) they can charge as much as possible for their services. When it comes to financial advice, the situation is no different. A financial advisor's incentive is to maximize the amount of money they can charge you and that typically means things like investing in [**actively managed funds**](http://www.investopedia.com/terms/a/activemanagement.asp), regularly restructuring and modifying your portfolio, and possibly buying various structured products and securities that the advisor may receive commission on **[1]**. Of course the other benefit of all these strategies is they are all relatively complex and hence easy to believe the fees are well worth it.

The reality is that if you want to get into these types of strategies and products, you probably DO need a financial advisor. But if we return to our realization above - that it is almost impossible to beat the market - why would we bother with all this? If we accept that matching the average market return is in fact a good result, then there are a range of options available to retail investors that are only a regular brokerage account away. And essentially that is the problem for financial advisors - if they are telling you to simply buy and hold a range of [**passively managed**](http://www.investopedia.com/terms/p/passivemanagement.asp) funds through your brokerage account, you are probably not going to want to pay them very much for that advice, and definitely not on an ongoing basis.

**My Advice to my Parents**

So what was my advice to my parents? Low cost [**ETFs**](http://etfdb.com/etf-education/what-is-an-etf/), preferably weighted more towards less risky fixed income products such as bonds (given how close they are to retirement), and at least some money in ETFs that have underlying assets denominated in Euros or US dollars (although they may have [**missed that boat**](http://finance.yahoo.com/echarts?s=AUDUSD%3DX+Interactive#%7B%22range%22%3A%221y%22%2C%22scale%22%3A%22linear%22%7D)). This is the easiest and lowest cost way for them to access a low risk [**diversified**](http://www.investinganswers.com/financial-dictionary/investing/diversification-342) asset portfolio. The returns will probably not be amazing, but they can be as confident as anyone (other than the billionaire with his Scrooge McDuck style money pit) that the money will be there when they retire.

What will the financial advisor tell them? I have no idea. Maybe, they will provide some advice along similar lines, maybe not. The advantage of having discussed it though is they now have a baseline to compare to. They can now compare whatever is being offered to what they know they can get via ETFs. This not only reduces the fear element, but also allows them to have a more meaningful discussion with their financial advisor.

*Disclosure: My wife and I hold shares in several ETFs in the US.*

[1] This definitely occurs in the US, but I'm unaware what restrictions apply in Australia about disclosing this type of conflict of interest.