

Bill Testimony – Burnside Capital Management

Rather than dish out statistics on how Oregonians are not saving enough, I thought I would share my front line experiences in dealing with individual investors.

I have worked in the financial services industry, face-to-face with clients, for well over twenty years. My experience is unique in that I first worked at a Wall Street brokerage firm, then with a prominent discount broker, and now own my own business as an independent registered investment advisor.

In my time, I have witnessed first-hand how investors with small balances are limited with regard to the service, education, and product choices they receive. They are truly treated as second-class citizens in the world of finance

And why is that?

Because a majority of the sophisticated investment advisors now are fee based. This means that they charge a percentage of assets on a quarterly basis. I would argue this is good because it aligns the interests of the client with the advisor. Advisors like it because it is a more consistent stream of income. At the same time, these advisors have high minimums of \$500,000 or more. It is simply easier to service 100 larger accounts than it is to service 1,000 smaller ones.

The firms who you would think might want to help small investors are the discount brokers. However, I have found that this is just not the case. It was very much frowned upon to open any account under \$50,000 in the local branch. Even then, the ongoing service options were an 800 number and the website. Basically, they are all publically traded companies and they have to look out for their profit margins. Nowadays, they seem to encourage everyone to be day traders. Have you ever met a wealthy day trader?

There are new online choices becoming available. So-called Robo-advisors are a class of financial advisers that provide portfolio management services online with minimal human intervention. Firms such as Betterment, Wealthfront, and FutureAdvisor allow one to open investment accounts with very low minimums and offer diversified portfolios and low costs as well.

These have the potential to be great for some investors - the more tech-savvy ones, for sure. But what do we really know of their real future intentions? Are they looking simply to build up a mass client base and then sell out to a discount brokerage firm? Or, they might just fall flat in the long run and kill investor confidence in the process.

I think there also exists the phenomenon of too much information. There are literally thousands of financial websites all pitching a seemingly infinite number of products and investment strategies. It is incredibly confusing, even for knowledgeable and experienced investors.

In such a financial climate, I believe there needs to be a trusted source that welcomes new investors and bootstraps them from the ground up to give them the confidence they need.

Next, after these investors are able to build up their accounts to relatively respectable levels, they will be able to go out into the financial services marketplace with more leverage to find better service, education, and product choices.