Six things your broker won't tell you

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Dirty secrets of the financial industry are costing small investors big-time.

Collectively, we pay millions of dollars in unnecessary sales charges and mutual fund expenses. And we lose money pursuing an often-fruitless quest to beat average market returns.

But individual investors can keep more of their money and boost returns by learning a few fundamentals that most financial professionals won't tell you about.

If they were honest, here are six things you would hear financial pros say:

--"I have no idea what the stock market will do next"

Brokers and advisers can babble on about historical stock trends, actions of the Federal Reserve and innumerable other factors that will drive the stock market one way or the other.

The fact is, they don't know any more than you do about where the market will go. But many will be glad to swap your money in and out of stocks and mutual funds while collecting commissions along the way. Don't base investment decisions on their guesses.

"They think having an opinion gives them credibility," said fee-only financial planner Christopher Jones of Keystone Financial Planning in Easton. "The only person that I know who has the ability to predict the direction of the markets is a divine being. Unfortunately, he is silent on the matter."

--"I'm here to sell you something."

Understand the difference between an investment broker and an investment adviser. A broker is basically a salesperson who makes money when he buys or sells securities for you. An adviser has a legal obligation to give you sound advice.

Nearly all financial professionals have at least some conflicts of interest, meaning they are inclined to give you the advice that earns them the most money.

To protect yourself, look for professional designations, such as certified financial planner and membership in the National Association of Personal Financial Advisors, for example.

But the best defense is to always ask the uncomfortable question, "How would you make money if I follow your advice?"

--"Most managers of actively managed mutual funds don't earn their pay."

Through cloaked mutual fund fees, you pay these Wall Street hotshots huge amounts of money to pick winning stocks. But studies show that about 80 percent of them fail over time to beat low-cost, boring index funds that simply minor the markets.

A portfolio of index funds that mimic returns of an asset class-large cap, small cap, international, etc.-is often your best strategy.

--"Paying loads is a load of garbage."

They call them A shares, B shares, and C shares of mutual funds. They talk about upfront charges and backend charges. Just forget all that and buy similar no-load funds, meaning they have no sales charge, ever.

Loads are supposed to pay the financial professional for advice. But if you want financial advice, pay in cash, not through a load. Then you'll know exactly how much you're paying for the financial wisdom and whether it's worth it. And if you choose mutual funds yourself, buy them yourself. Purchasing a no-load mutual fund is as easy as filling out a form and mailing a check.

--"It's not important to pick the very best mutual fund."

The biggest reason behind mutual fund performance is what asset class it covers, whether U.S. growth stocks, small-company stocks or bonds, for example. Success has less to do with the brand of mutual fund or even who's managing it.

Of course, nobody knows which asset class will do best in a given year, so you should spread your money around.

A second predictor of success is the built-in expense of the fund. So diversify your investments with an eye toward costs, and you can stop worrying about picking the best fund among thousands of choices.

--"Buying a few individual stocks is gambling, not investing."

If you want a chance for tremendous returns in the short term, go ahead and buy a few stocks in individual companies--or put a stack of casino chips on your favorite number at the roulette wheel. It's similar.

Nobody can consistently pick winning stocks for quick profit. And when you're only buying a few stocks, you're taking tremendous risk that probably won't be rewarded over the long run.

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