To the Securities and Exchange Commission
Re File # 4-606, Study Regarding Obligations of Brokers, Dealers, and Investment Advisers

Into the Fiduciary Fire?

Dick Purcell

Fiduciary investment training is so warped by single-year abstractions of investment theory, it confuses well-meaning fiduciaries to mislead investors and feed their savings into the financial industry fleece machine.

If fiduciary investment training is not redirected -- from the interests of the financial industry and professors to the interests of investors – any SEC action to broaden application of the fiduciary standard will have the effect of throwing investors from the broker-dealer frying pan into the fiduciary fire.

In all the most fundamental ways – investment purpose, assumptions, and presentation – prevailing fiduciary investment training is the opposite of what it should be:

1. **Investment purpose** – For investment selection, investments should be compared in result probabilities for the investor's future dollar purchasing power needs and goals.

   Instead, fiduciaries are trained and encouraged to misdirect investment comparison to theoretical abstractions of so-called "return and risk" and "risk tolerance" for the mere individual year. From this short-sighted single-year misfocus, the fiduciary and the investor are selecting investments double-blinded. Neither fiduciary nor investor can see what's best for the investor's future. And with this short-sighted single-year misfocus, they cannot see the terrible long-term cost of financial industry fees.

2. **Assumptions** – Fiduciaries should be taught that for almost all investments, grounds for estimating future-performance probabilities are pitifully weak. Consideration should be focused on the very few investments with longest return-rate histories and widest diversification as grounds for estimating future prospects: whole major asset classes, represented by index funds or major-asset-class-tracking ETFs.

   Instead, fiduciary investment training encourages fiduciaries to accept, and gamble investors' financial futures on, absurdly ill-grounded numbers for speculations on actively managed funds and stocks, and to dishonestly misrepresent such gambles *within* asset classes as if they were equivalent to investment in the whole asset classes.

These two features of fiduciary investment training have the effect of "hide and fleece." First, misguide the investor to focus on theoretical abstractions for the single year, where she cannot see what's best for her future or the long-term devastation of fees. Then place her money in gambles on individual stocks or investment managers, which have excessive uncertainties and higher costs and fees.

3. **Presentation** – Fiduciaries should be trained to prepare and deliver investor guidance clearly and concisely focused on best prospects for the investor's future, free of diversionary complexities and labels that confuse and mislead.

   Instead, fiduciaries are trained in confused, confusing complexities and misleading labels: a maze of investment theory that fails to address the investor's future dollar goals, an ocean of speculations on investment managers and other gambles that most investors should never consider, all presented with the most misleading pair of labels in all of economics: "return" and "risk."

For certain specialized groups, the one-year abstractions of investment theory no doubt offer value: for financial industry profit; for economists' macro models; for professors' career advancement, torrents of technical publications, and entertainment. But for the 99% of investors who are individuals, whose most important purpose is meeting needs of retirement and other dollar purchasing power goals of future years, that theory is misleading and fleecing wrapped in clouds of complexity with specious labels.

The problem is gross misapplication of investment theory, and for the investment theorists, this is not the only misapplication. Sources of the theory so misapplied in fiduciary training also pioneered and taught investment theories, complexities, assumptions, and irresponsible gambling with others' futures that confused and misled our Wall Street Big Boys off the cliff, destroying jobs and sinking retirement funds across the nation

A visitor from another planet would wonder how in the world the financial industry can extract from the people's investments hundreds of billions of dollars, each year, supporting an obscenely overgrown population of ten thousand mutual funds – more funds than there are stocks for the funds to gamble in. For the answer, the visitor (and the SEC) should look to the investment-theory-based mistraining of this nation's well-meaning fiduciaries.

Early recipients of the Nobel Prize in Economics warned us of what fiduciary investment training has become. Herbert Simon warned against presenting overloads of diversionary complexities that confuse and mislead, and use of terms that to normal people have meanings very different from what they mean in the ivory towers. And Friedrich Hayek warned against awarding the Nobel Prize in Economics at all, for danger that theories will be accepted and applied where they are nonsense simply because they were awarded that prize. Fiduciary investment training fits what Simon and Hayek warned about so well, it has the appearance of intentional mistraining of fiduciaries to confuse, mislead, and fleece the investing public, and it certainly has that effect.

There are indeed some fiduciaries who have overcome this mistraining, who inform investors for choice of investment that offer best prospects for their financial futures. Presumably they have undergone the 12-step program of recovery from the investment training required for fiduciary certification. But for those recovered fiduciaries as well as for the millions confused and misled by fiduciary investment training, the training has a tragic effect. For the investing public, the label "fiduciary" is most prudently viewed as a red flag, warning of probable misleading-and-fleecing wrapped in investment-theory confusion.

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