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'Sell all your mutual funds!' (Yes, all!)

Top adviser: They're 'ripping you off,' so he takes own advice, sells!

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Last Update: 7:25 PM ET Oct 22, 2007

ARROYO GRANDE, Calif. (MarketWatch) -- No, I'm not kidding. That's the advice one of America's biggest financial advisers is telling his clients about "the lies that are placing your financial security in jeopardy."

Who's lying? Everyone involved with mutual funds, says Ric Edelman in his new book "The Lies About Money: Achieving Financial Security and True Wealth by Avoiding the Lies Others Tell Us, and the Lies We Tell Ourselves."

Ouch, that hurts! His indictment is brutal: "There's no greater pitfall than the one created by the retail mutual fund industry. [They] are ripping you off. You are incurring greater risks, lower returns and higher fees than you realize, and as a result you are in danger of not achieving your financial goals. The situation is shocking, and no one is more astonished than me."

Astonished? Yes, for over two decades Edelman's firm was building his credibility and reputation as one of America's best-known financial advisers: "On my radio and TV shows, through my books, newsletter, Web site and seminars, I've been the retail mutual fund industry's biggest proponent ... I've said that retail mutual funds are the best way to save ... No longer."

Why? "The demise of the retail mutual fund industry ... When I started investing in mutual funds in the 1980s, the industry's top concern was serving shareholders. Today, though, the industry is more concerned with making profits for itself than serving its shareholders. This comes at the expense of people like you and me who have invested our life savings in mutual funds. As a result, owners of retail mutual funds today earn lower returns, incur higher risks and pay more in fees and taxes than we should."

He details 25 ways funds scam their investors.

True, the fund industry has been fair game for critics given its massive, widespread illegal shenanigans in recent years. Unfortunately, things may be worse today than three years ago when former Sen. Peter Fitzgerald, author of the Fund Reform Act of 2004, warned that "the mutual fund industry is now the world's largest skimming operation, a \$7 trillion trough from which fund managers, brokers and other insiders are steadily siphoning off an excessive slice of the nation's household, college and retirement savings."

Back then I wrote 68 articles exposing fund scandals. But I finally realized the futility of challenging the industry when the Senate Banking Committee caved to special-interest money and [killed](#) reforms. At the time the fund industry's lobbying group had a budget reported to be roughly \$50 million and was staffed by five full-time, 30 part-time and 75 outside lobbyists.

My response was "The Lazy Person's Guide to Investing," a book about how Main Street investors can avoid the rip-off by using no-load index funds. Edelman's solution is far more dramatic, even shocking and risky. He put everything on the line, not just with a new book and an indictment of the fund industry, he made an incredible bold statement with this move: We "have sold all our investments in retail mutual funds. All my colleagues at Edelman Financial have done likewise and our clients are following our advice. You need to sell all your retail mutual funds too."

You heard right, he sold and says "you need to sell all your retail mutual funds too."

And what if all advisers and all their clients sold their funds too? Would the industry finally wise up and realize that being "more concerned with making profits for itself than serving its shareholders" doesn't cut it any more?

Now folks, that's a truly bold, shocking and risky solution. And what an indictment of the mutual fund industry's coming "demise," as he calls it. We are at a crossroads, a turning point, a watershed moment in financial history, and we may be seeing the beginning of the end of the fund industry.

What pushed him over the edge?

How did Edelman go from strong advocate to arch-enemy of the fund industry engaged in a sell-off. What pushed him? He was betrayed. Remember back in the 2003-2004 era, the massive scandals? Not just Edelman, we were all betrayed -- you, me and the rest of America's 95 million Main Street investors were betrayed by the illegal and immoral behavior of the entire fund industry, which continues even today.

How bad is it? Obviously outrageous enough that one of America's top financial advisers would actually sell all his funds! Check out the book: You'll find a 40-page "timeline" exposing around 400 "allegations of misconduct," with sleazy details, many ongoing through 2005, 2006 and 2007 and still under investigation:

"Since the mutual fund scandals started making headlines in 2003, nearly every retail mutual fund company has been ensnared; and investigators from the NASD, SEC, New York Stock Exchange, and several state attorneys general, most notably those in New York and Massachusetts, continue to uncover mischief and wrongdoing in the retail mutual fund industry." Yes, he felt betrayed, outraged.

And yet, in spite of this widespread, massive and ongoing fraud, guess what? The assets of the fund industry increased about 43% from \$7 trillion to \$10 trillion in the three years since the Mutual Fund Reform Act of 2004 was killed by the Senate Banking Committee.

Why? Two reasons: First, in the four years since the scandals were exposed, the fund industry as a whole and the individual funds have spent huge sums on advertising and marketing (using their shareholders' own money against them) flooding the media with ads rebranding themselves as good guys.

Yep, they are reducing your returns, using your money to cover over their "sins," to convince you they're not crooks. And it's been effective. Recent studies show that a large majority of investors couldn't remember the

names of funds involved in corrupt behavior. Get it? Investors are brainwashed, oblivious, numb about the fairly recent corruption and scandals.

Where to put your money?

The second reason: America's 95 million passive investors have had few real alternatives. What's Edelman's solution? After all, if you sell funds you need someplace to reinvest the proceeds plus someplace to put new money.

Read his book for the details; he puts a lot of emphasis on a very simple and easy way to customize a well-diversified portfolio that fits your personal needs today and can be modified as things change in the future. He emphasizes exchange-traded funds and institutional funds such as Dimensional Fund Advisors.

I still say that "Lazy Portfolios" of no-load index funds make sense. Like Edelman, I see huge problems with the actively managed funds that are 90% of the industry's total, but not with the other 10% in index funds. [Read more on lazy portfolios.](#)

But where you put your money (once you decide to sell your mutual funds) is not as important at this moment as the fact that Edelman has made such an incredibly bold rejection of the entire \$10 trillion retail mutual fund industry ... by actually selling all his mutual funds, asking his staff to sell and then recommending to all his clients that they do the same ... and then, advise the American investing public to "sell all your retail mutual funds too!"

Folks, something is deeply wrong with the American mutual fund industry when one of our best and the brightest financial advisors makes such a strong indictment of corruption in the entire \$10 trillion fund industry, and then not only sells all his funds but wants everyone else to sell too. Think about it, maybe you should sell!