

Commission-based model undervalues advice

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By IE Staff

Defenders of the status quo in the Canadian retail financial services industry must be either hopelessly naïve or utterly disingenuous.

In a recent editorial, Investment Executive argued that commission-based compensation structures may not be in the best interests of either clients or advisors over the long run.

Not surprisingly, those who are thriving in the current environment take issue with that stance. They claim that product manufacturers are powerless to influence advisor recommendations.

Really? Regulators have concluded otherwise. That's why they implemented a mutual fund sales practices rule. Moreover, research by the Ontario Securities Commission has since found evidence that advisor compensation, rather than clients' best interests, is still influencing asset-allocation decisions.

It must also be a stunning coincidence that products that are launched paying high commissions often gather assets with remarkable success. It's possible that advisors believe they are always acting in clients' best interests in these situations, but that's clearly not always the case. Remember the Portus Alternative Asset Management Inc. fiasco?

Yet some in the industry are pushing back at regulators' modest efforts to improve transparency by requiring point-of-sale compensation disclosure for mutual funds and segregated funds. They claim revealing that information would be too confusing to investors. What's confusing is a system that embeds advisors' pay within a product and divorces their compensation from the advice they provide.

Advisors offer a valuable service to investors. Indeed, we believe that it is so valuable that they should be explicitly compensated for it by their clients, rather than allowing it to be devalued through a system of centrally planned and controlled compensation.

We don't believe that advisors are overpaid; we believe that lousy advisors are overpaid. We do believe that high-quality advisors are underpaid and undervalued by a system that simply rewards quantity over quality. We also find it odd that firms operating in such an inherently entrepreneurial industry are so eager to preserve what amounts to a socialist system of providing financial advice.

This may be in the best interests of the industry's large players, but we don't believe it best serves advisors — or their clients.

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