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The elusive search for financial advice

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Fee-only advice is client-friendly, and it turns advisers into professionals who sell expertise rather than products

A young man in his early 30s came into the Ottawa firm Ryan Lamontagne recently to buy some financial advice.

"He was a nice young guy, very frugal and investing on his own," said Marc Lamontagne, a founding partner at the firm. "He said, I think I'm doing everything okay, but are there some things I could be doing to improve?"

Mr. Lamontagne spent about six hours interviewing this client and coming up with a series of suggestions in areas such as how to better deploy some cash he'd saved and how to better organize his investments in registered and non-registered accounts. Total cost: About \$1,200, billed at the usual hourly rate of \$195. Investing products sold: None.

A growing number of people want to buy financial advice straight, no products. I've been marvelling at the steady flow of e-mails received from readers this year asking whether I can help them locate this kind of financial help. Mr. Lamontagne's firm has noticed the trend as well.

"We're swamped," he said. "The phone is ringing off the hook, and people are all saying the same thing: 'I want to pay you a fee for advice, I don't want you to sell me anything.'"

The idea of pure advice is appealing because it does away with the conflicts that can arise when an adviser is compensated through the sale of products that generate commissions and fees. Pure advice is elusive, though. First off, people in the advice business don't agree on what it means. Second, there may be practical limitations on the kinds of advice you can get for a flat rate or hourly fee. And then there's the fee itself. Some people just aren't willing to pay it.

Let's address some jargon you'll have to contend with if you want pure advice. Someone who provides financial advice to a client and is paid through an hourly or flat fee is generally called a fee-only or fee-for-service adviser. But these terms suffer from the vagueness that characterizes virtually all the terms used in the financial industry to describe people who advise and the work they do.

In some cases, fee-only can include fee-based advice. That's where an adviser charges clients fees equivalent to roughly 1 per cent of their account assets each year. In fact, many fee-only advisers are like Mr. Lamontagne in that they're also fee-based advisers.

He'll do financial plans for clients and charge them a flat or hourly rate. If clients then want him to manage their investments, he switches to a fee-based model. "Both [kinds of advice] cost fees," he said. "But they're different kinds of fees."

There are also advisers who mix fee-only advice with commission-based investment sales. You might pay for a financial plan and then, if you want, have the adviser manage a portfolio for you and be compensated through fees and commissions on the products you buy.

The advice industry is very big on fee-based accounts, in large part because they're great at wringing steady and reliable fee income from clients. But the investors I'm hearing from are more interested in paying a flat or hourly rate for advice.

Mr. Lamontagne said people seeking this type of advice are often what he calls "validators," or self-directed investors who want to consult an expert. "These people are smart enough to do it on their own, but they really want someone to look at their investments and answer questions like should I sell RIM, or is this the best ETF?"

Some fee-only advisers are not licensed in a way that allows them to discuss the merits of individual stocks and exchange-traded funds, Mr. Lamontagne warned. For that reason, fee-only advice is best used for help with financial planning. Investing matters can certainly be covered, but at the big-picture level of risk and the right mix of stocks and bonds for your portfolio.

Something else people should be aware of if they want fee-only advice is that the fees are substantial, but also flexible. Peggy Cameron, an Ottawa fee-only planner, charges \$225 per hour plus HST and generally bills clients for \$1,500 to \$2,000 per financial plan.

Too expensive for you? Short consultations with clients are also an option. "I can accomplish an awful lot in an hour," she said.

Ms. Cameron said the bulk of her clientele are people who have advisers and are looking for second opinions. These days, many of the questions clients have are about retirement. "People are asking, do I have enough money to retire, how long will my money last, what kind of income can I expect to enjoy? Somebody wanted to know, could they afford to live in another city?"

Fee-only advice is client-friendly, and it turns advisers into professionals who sell expertise rather than products. So why isn't it more popular? First, it's not a lucrative business model for advisers.

"It's tough because most of your clients are coming in just for a financial plan - there's no ongoing relationship," Mr. Lamontagne said. "So you constantly have to go and get new clients."

Getting those new clients is a challenge because many people are surprised to be asked to pay directly for financial advice. They've been trained by the mutual fund industry to believe that advisers work for free.

Advisers who sell mutual funds are typically compensated through trailing commissions that are siphoned out of the fees fund companies charge investors who own their products. Investors are often oblivious to trailing commissions, and that in turn makes them testy when asked to pay out of pocket for advice.

"I've had people come to me say, why would I come to you when I can go to this guy and get it for free?" Ms. Cameron said.

Find an adviser

The biggest challenge faced by people who want fee-only advice is to find a firm or adviser to deal with. Here are four places to look:

1. I invited my personal finance community on Facebook [<http://www.facebook.com/photo.php?fbid=10150349912457026&set=a.178472212025.134415.178467687025&type=1&theater>] to provide names of fee-only advisers this week, and the result is quite a few leads in several cities.
2. The personal finance magazine MoneySense has for a couple of years maintained a database of fee-only financial planners [<http://www.moneysense.ca/2010/03/18/find-a-fee-only-planner-in-british-columbia>] in British Columbia, Alberta, Manitoba, Ontario, Quebec and Prince Edward Island.
3. The online "find an adviser" search engines provided by the Financial Planning Standards Counsel [<http://fpsc.ca/find-cfp>] and Institute of Advanced Financial Planning [<http://tinyurl.com/7lu8rx3>] both allow you to focus on compensation. If you choose fees, be aware this could mean fee-only or fee-based. You'll have to contact advisers directly to find out what fee options they offer. Note: For the FPSC search engine, you must click on "advanced search options."
4. A Google search along the lines of "fee-only financial planning Calgary" is well worthwhile.

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