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Paying for advice? Your portfolio will thank you

By Rob Carrick
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Fee-for-service advice emulates professions like accountancy and law, where conversations with clients go along the lines of "here's what I can do for you, and here's a clear description of how much I will charge you for my services."

For \$75 an hour, Vancouver's Marie Robinson will sit down with you and provide coaching in debt management, investing and other aspects of personal finance.

Gordon Stockman of Port Credit, Ont., charges \$160 per hour for the more traditional financial planning he provides to clients, with a full plan costing around \$3,000. Robert Novoselac of Toronto charges \$125 per hour for investment advice and has some clients who pay an annual fee of \$750 for his services.

Over at Weigh House Investor Services, with offices in the greater Toronto area, Windsor, Ont., and Halifax, a detailed second opinion on your portfolio will cost roughly \$1,000 to \$1,500, and a full financial plan will run between \$2,000 and \$2,500.

How much are *you* paying for financial advice?

If you can't answer this with any confidence or precision, then you'll immediately grasp the benefits of a minuscule but growing niche of the financial advice business called fee for service, or fee only.

Fee-for-service advice emulates professions like accountancy and law, where conversations with clients go along the lines of "here's what I can do for you, and here's a clear description of how much I will charge you for my services."

More importantly, it eliminates a potential conflict of interest hanging over the recommendations of many advisers. These are the people who get paid for their advice through commissions and fees tied to the sales of products. There are plenty of ethical and effective commission-based advisers, but there are also those who sell what pays them and their firms the most, not what's best for clients. This is why the fee-for-service model is the preferred way to get financial advice, and why you should seek it out.

The events of the past year make fee-only advice all the more appealing. Who doesn't think more transparency is a good thing in the financial sector?

Ms. Robinson's firm is called Fresh Take Investor Education Inc. and she's been in business for only about four months. She's encouraged by the response from clients so far and says it's her independence that is the big selling point.

"People really want an unbiased voice," she said. "There's so much noise out there and they wonder, who am I supposed to believe?"

Weigh House, formerly known as Second Opinion Investor Services, started in business about four years ago with a staff of one, a former accountant named Warren MacKenzie. The firm has grown to 10 offices and has aspirations of being a national firm with 200 offices in five years.

"We don't sell anything," Mr. MacKenzie says in explanation of what has enabled his firm to grow. "People come to us and they know they're getting expert advice they can trust because we're not selling anything."

Mr. Novoselac sees himself as an alternative to what he describes as "financial peddlers," or sellers of product. He describes himself as "hourly only" to draw a clearer distinction between charging a flat fee and using a fee-based model, where clients are typically charged 1 to 1.5 per cent of their account assets each year. The fee-based model has its own drawbacks, one of them being that an adviser may provide only minimal service while collecting a steady stream of fee income.

The fee-only model solves still another deficiency in the financial advice world. Because the client is paying for advice and nothing else, he or she should by all rights receive a comprehensive plan. Commission-based advisers too often do almost nothing for you beside recommend mutual funds.

But if fee-only advice is so great, why is it so hard to find?

Dan Richards, a consultant who helps advisers build their businesses, says there are two reasons. One, clients are reluctant to pay out of pocket for financial advice.

"It's like paying for information online," he said. "People believe that information online should be free, and they believe that financial advice should be free. Fundamentally, that's what it comes down to."

Of course, financial advice is never free. Clients either pay for it directly, or through fees and commissions on products they buy.

The second reason why fee-only advice is so hard to find is that it's not a fast-buck business model. Revenue per client is not high, and one-off financial plans don't allow for a continuing stream of revenue.

"Nobody's going to be driving Ferraris or buying big cottages in Muskoka based on a fee-for-service planning approach," Mr. Richards said.

Mr. Stockman, the fee-only adviser from Port Credit, Ont., backs up Mr. Richards' comment about people being reluctant to pay an hourly fee for financial advice.

"Nobody wants to pay for the advice because they don't see the value of it until 10 years later."

It's time for a re-think on that, investors. Fee only rules.

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How to find a fee-only adviser

Look in the Yellow Pages under "Financial Planning Consultants:" Fee-only firms may bill themselves that way in their ads. Example: Ryan Lamontagne Inc. describes itself as "Ottawa's largest fee-for-service financial planning firm" in its ad.

Google.ca: Search for "fee only financial adviser" or "fee for service adviser." You'll find several references to firms offering this kind of advice in media articles, blog posts and such.