



## **Not the giant leap that skeptics see**

### **Advisors and clients should be on the same team**

Jonathan Chevreau, Financial Post, Monday, July 18, 2005

Reaction to last week's debut of Well-Advised has been mixed, though largely positive.

In initiating the column, it seemed only a modest leap to extend a consumer-oriented personal finance column to an advisor-oriented one seeking to illuminate the middle ground where the needs of advisors and clients are aligned.

Even so, one advisor wrote to say, "You really surprised me. I would generalize that your columns over the past several years, while making the rare positive reference, have had an overwhelming anti-advisor tone, not just pro-DIY." (DIY stands for Do It Yourself.)

Clearly, this advisor is skeptical this column can make the leap. But if it can't, it doesn't speak well of the direction in which this industry is headed. If its detractors are correct, that it is a zero-sum game where advisors win only at the expense of their clients, we have a serious problem.

One former lawyer who tried his hand at being an advisor noted it took years to be called to the bar but only months to become the steward of millions in OPM [Other People's Money]. He encountered an "amazing" environment where his branch posted monthly lists of top sales producers but "no list showing what advisors' clients had the greatest returns."

I also heard from a disgruntled DIY reader who is "unhappy to learn you prefer I turn the job over to a paid financial advisor." This correspondent says his "happiest move" was firing his "so-called advisor" from a well-known brokerage firm.

He believes his advisor "shouldn't have been paid outrageously more per hour than my dentist ... all my advisor's recommendations were made to fatten her commissions. All my dentist's recommendations were made to help me keep my teeth."

This investor believes there's less to know about investing basics than about teeth and that anyone can quickly get up to speed by reading a few investing books and the financial press.

But this reader is clearly in that 5% minority I talked about that is able and willing to be a DIY investor. Brian Thomson is a mathematics professor at Simon Fraser University and editor of two finance publications. Not -- you must surely agree -- your typical unwashed investor.

Such comments underline the common perception that financial advice equates with mere product sales. As [Graham Cook, financial counsel with Victoria-based Composite Finance Inc.](#), puts it, "Proper investment planning has nothing to do with product sales."

Instead, real financial planning incorporates financial and goal analysis, risk evaluation, investment planning, portfolio design, an Investment Policy Statement, retirement planning, will and estate planning, and an action plan for implementing recommendations.

That's a far cry from topping up a client's latest RRSP contribution with a little more Peter Cundill or Gerry Coleman.

I also heard from consumer advocate and author John Reynolds, who cited his experience since writing *The Naked Investor* as "a mark of the hunger that Canadians have for an effective, trustworthy financial advisor."

In talks to retail investors, Reynolds has expressed satisfaction with his own advisor, whom he does not identify. Invariably, each talk ends with a crowd of investors wanting to know who the advisor is so they could use him/her themselves.

"Are good F.A.s that rare?," Reynolds asks. "There honestly exists a raw hunger for good, trustworthy financial advice, especially among RRSP investors."

Experienced advisors will recognize this anecdote as an example of the power of referrals, a topic I will revisit as time marches on.

Related to the issue of trustworthiness and competence is that of credentials. Scott White, portfolio manager with Research Capital Corp., said, "I have always found it curious that most people put more effort into selecting a toaster than they do a financial advisor."

One problem is lay people are confused by the "alphabet soup" of multiple designations for financial professionals. "Everyone knows what a CA is, but how many people know the difference between a CFA, CFP, CIM, or FCSI [Fellow of the Canadian Securities Institute]?"

Cook raised the same point, noting there are between 80,000 and 100,000 salespeople of financial or insurance products in Canada. Only 16,000 are licensed as Certified Financial Planners (CFP); 6,000 hold the Canadian Investment Manager designation (CIM); and fewer than 1,000 people hold both the CFP and CIM. Ideally, advisors would hold both, and/or be a CFA (Certified Financial Analyst).

Aligning client and advisor interests should not be that tough a challenge. From a client's perspective, the ideal relationship is a "fiduciary" one, where the advisor makes a written commitment to act exclusively in the client's best interests.

This is the Achilles heel of the advisory industry, Cook says. "Everyone wants to be perceived as unbiased and un-conflicted. However, when all the marketing talk is put to the test I suspect only two or three out of 100 advisors will provide the client with a written declaration of their fiduciary duty as part of their Engagement Agreement."

If the pendulum is to reverse course, that percentage must rise. Advisors who do so will, in effect, become charter members of "The order of the White Hat."