Defining the Value of a Good Financial Advisor
By Kurt Rosentreter, CPA, CA, CFP, CLU, TEP, CIMA, FCSI, CIM

March 18, 2017 and another Saturday article criticizing all financial advisors at the hands of a personal financial columnist of a national Canadian newspaper.

The article, called "Five Things Your Advisor Isn't Telling You"[1] spews slanderous falsehoods like "I'm Actually a Salesperson", "My fees hurt more than you think", "Your guilt works to my advantage" and "I have self-serving responses to all of your concerns". Canadian financial advisors by the thousands are painted to look untrustworthy and unreliable. Just get educated he says – and all will be ok.

Let's just say I take this personally.

As a Chartered Accountant with ten professional designations, national course instructor of eight courses on money management, a university degree in finance and twenty-five years of helping people reach their financial goals, I don't need a two-bit journalist with no financial background to collectively lump together and slam thousands of financial advisors across Canada that work hard for their clients' best interests.

Let me give you the real perspective about financial advisors in Canada from someone in the trenches of Canadian financial services dealing with consumer personal finance issues every day.

The Industry Has Issues and They are Working on Them

The Canadian investment and insurance industry has been under-regulated, under-policed and under-scrutinized by the public for decades. It is too easy to get a license to sell products. Little professional accreditation is required. Hidden commissions can create biased incentives. There are few standards for advice, few standards for titles advisors use on business cards, no standards for fees, no standards for service levels and little supervision by dealers and regulators over any of this. Brokers, agents, financial advisors and the rest are free to take advantage of client trust and offer little value for high, hidden compensation. For decades, provincial and federal governments have let the investment and insurance industry largely self-regulate which is the equivalent of letting the fox supervise the hen house. Investment dealers and insurance companies offered free trips and treats to advisors who sold the most. Self-regulation has been limited largely to policing "KYC" or risk tolerance for clients and investment trading suitability – but the broader policing of fees, services, value and advisor quality has largely been

[1] The Globe & Mail, March 17, 2017

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overlooked. The financial services industry in Canada has largely been the wild-west for decades and has garnered a reputation of value-less salespeople that far too often is deserved.

But let's not let the public off the hook so easily either: much of the Canadian public would rather watch "Dancing with the Stars" than put proper time into managing their finances each year – choosing instead to overly trust sales people with their life savings and not asking enough questions about anything the financial advisor, planner or agent recommends. The likelihood of failure to reach your financial goals is only increased if a bad financial advisor is teamed up with a bad client. Simply put, Canadians need to care more about their financial goals, strategies, products and the people telling them "all will be ok".

The good news is that the government is now involved and the industry is being forced to change. CRM1 and CRM2 (Client Relationship Model) are new standards being introduced to parts of the Canadian financial services industry (leaving out the insurance industry and banking – two mistakes that need to be fixed) to require greater disclosure of compensation, fees and performance results on investments. The Canadian Securities Administrators (CSA) are also evaluating whether to go further and regulate advisor titles, fully ban embedded compensation and regulate financial planning. As a guy in the trenches dealing with planning every day I hope they add regulation in these areas as well – and extend the rules to all banking and insurance products too. There has been more positive change in the investment industry in the last five years than the last fifty – and more is needed if the sales culture of investment and insurance product sellers are going to be viewed as a profession.

Every Profession Has Bad Eggs

But let's be clear: while every industry and profession has people that lack professionalism and ethics, let's not paint all financial advisors with the same brush and let bad journalists put blanket headlines in a national paper erroneously to scare people and sell papers. This is the epitome of Canadian fake news.

There are many, many, really good financial advisors, financial planners, insurance agents, bankers and portfolio managers that consistently put their clients' interests first, disclose fees, offer good communication, focus on goals, track progress to goals and work hard to help clients.

Writing an article that craps on everyone because you are a journalist in a position to do so is a disservice to every financial advisor trying to do the right thing in the face of an industry where this can be hard at times.

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Let's look at why the future for clients entrusting their goals to financial advisors is bright.

It's About Goals, Not Products

Retirement. Raising kids to independence. Paying off your mortgage. Owning a vacation home. These are examples of goals that many of us care about.

In many ways, the financial writers are part of the problem with financial services in the marketplace. All they write about is products, products, products. Readers are conditioned to think that all their financial plan needs to consist of is the right product – buy a dividend paying stock and life will be good. What a joke.

Reaching your dreams starts with defining your financial goals, costing them out, attaching timelines and prioritizing resources to achieve them. Then you set strategies, sometimes buy products, track progress towards your goals and modify your plans over time to stay on track. Life will throw you curves – and this is where a financial planner who is a good listener will coach you on the steps to take to evolve towards your evolving goals and be part psychologist some days, hold your hand during rough times and report on results throughout.

Part of the real value of a financial advisor is not about products at all. It is about helping you to define goals, develop strategies to achieve your goals, modify the financial plan over time as needed and communicate effectively with you, all for a fair, visible fee. Buying stock A or fund B or ETF C is nothing more than a commodity that is worth $9.99/trade. But guiding someone emotionally and financially towards retirement after losing a job, living through a divorce and raising a family takes real skill, patience, care and time. A good advisor that gets you through lifelong financial decisions can be priceless.

For these reasons alone the financial advisory industry always has a role to play. Robo-advisors and do-it-yourself investing can never cost effectively offer advice and personal caring or even know your name in a way that matters to real people. Automating investing is a tool and nothing more. Financial advisors will always be needed for the human touch and sensitivity attached to human goals.

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Financial Advisors Specialize in Strategic Thinking about Your Master Plan

Good luck just buying a dividend paying stock at a discount brokerage and achieving your financial goals. You have merely scratched the surfacing on one layer of planning when you talk investing. But your goals are more complicated than products and a good planner and advisor knows this. Sometimes you need to get up to the 10,000 foot viewpoint and look down on all aspects of your finances to see how integrated planning is essential to getting to the right answer for you.

Managing your finances is a comprehensive exercise of linking income sources and how they will change over time, minimizing tax burden with ever changing rules, deciding what to do with your real estate long term, pricing out healthcare costs for your elderly parents and someday for you, deciding how long you will support your adult children, deciding what retirement means to you, setting an estate plan, figuring out how long to keep life insurance, deciding to pay down your mortgage or save and more. All of these areas of your finances comprise your financial plan or your master overall plan and they are all linked together. Often in making even the most basic financial decisions, these different sections of your finances need to be looked at congruently. Never forget this. It is one of the biggest mistakes I see consumers and financial advisors overlooking in the marketplace.

Stop Putting the 0.1% on a Pedestal

I like and dislike when newspapers find the one guy in a crowd who manages his own investments, runs his own finances, likely retired early and holds him out like a superstar because he did it without help. I like this example because it shows self-interest, control and engagement that everyone should have to some degree on their finances. The biggest thing I see missing when I sit down with consumers and talk about their finances is the excessive degree to which they delegated responsibility of their finances to a salesman investment person who has befriended them. They have no idea what he is doing with their money and don't ask. Sadly, they may have lost control. More troubling, they don't try to take it back. This is clearly not good and far too many people are in this boat.

But what I don't like about the retired do-it-yourselfer is how little we hear about what it takes to achieve what he is presenting. The article often sings the praises of his achievement but stops short of stating that he spends fifteen hours a week absorbed in his finances in his home office and how his family will have to live on a tight budget for the next fifty years. What worries me is the naivety of the fellow and his family expecting to know his cost of living in thirty years when we don't even know what gasoline will cost next

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week. I'd love to talk to his wife – I wonder if she knew she was signing up to marry a personal finance junkie that would make her keep her 2008 Blackberry and 2006 Honda Civic because new toys are not in their budget for the next half century of life together. Yet the papers treat this guy as a hero with the secret sauce – come on people this isn't how Canadians want to live!

Do-It-Yourself Investing is the New Addiction

Do-it-yourself personal finance in Canada mostly applies to managing your own investments and preparing your own tax return. But it should never apply to tax planning, estate planning and retirement planning. These three major planning areas involve complex legal, tax, estate and other laws and rules where the engagement of a professional lawyer, accountant or planner for $200/hour+ is warranted. Trying to save $500 in legal fees by preparing your own Will could destroy your family through fighting about entitlements or paying excess taxes after you are gone. Similarly, retiring too early because you under-estimated your spending in retirement and over-estimated investment returns can lead to a pretty miserable lifestyle post-age 70.

Even millennials, the poster children of do-it-yourself investing realize around age 35 that trading ETFs during their day job doesn't provide answer to questions like how much mortgage is too much, what kind of life insurance they need to protect their newborn, how they income split to minimize taxes, what goes in their Wills, how much they will have to contribute to his mother's nursing home, should they lease or finance their car and on and on.

I'm all for do-it-yourself investing if it helps to teach the investor about investing techniques, products, fees and risk. I really like it for the amount of control and awareness the investor has over their finances. Many of my clients are encouraged to do some self-investing alongside what we do together and the courses I teach across Canada, promote self-investing as a learning method. But let's be clear: do-it-yourself investing has an ugly side too. Stories from divorced women about how their husbands spent most of their waking hours every day watching the business news, reading on the computer, trading securities, getting newsletters and attending investment clubs to the point it took over their lives and their wives divorced them. "This isn't how I expected my retirement to be Kurt" one said. Another: "I drew the line when he put a second TV in the bedroom to watch the Asian business news after 10pm". And then there is the husband that builds elaborate portfolios and management systems while their partner hasn't got a clue what is going on. All this is fine until the guru husband dies – leaving the survivor clueless about what to do next or how to unwind her husband's fancy options strategies. In one case I was involved with

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an 85 year old man who died and his kids got the first look ever at how dad had invested the family money as he sat in the basement everyday alone in front of the computer. They were horrified to learn he had bet the couple's life savings on small cap stocks and lost most of their life savings – and no one knew as dad hid it from everyone. After all, it's not like you yell across the Thanksgiving table "hey dad, how much money do you have?". Instead dad, fell in love with investing when he retired, took increasingly more risk, told no one he was losing money, the discount brokerage doesn't care about you (after all, you signed up for $9.99 / trade to do this alone), and ended up dying with the secret that he lost the family money. Now mom lives with one of her kids because there was too little savings left after dad lost it all trading penny stocks on his own. Be forewarned: do-it-yourself investing is not for everyone. But the newspapers don't write about that!

Personal financial management by a qualified advisory partner from my experience is quite in demand and I see nothing that will change this. Many people have no desire to sit in front of a computer and manage their own investments, do their own tax return or prepare their own Will. They want to be taken care of, know they are being taken care of, pay a fair, transparent fee and be happy with the value that they measure regularly. Unfortunately, many Canadians are too nonchalant about their finances and I worry about them. They need to stay engaged, care about progress and demand accountability from their advisors. But too many people don't have Wills, don't have adequate disability insurance, spend more on coffee than deposits into their child's RESP, spend more on high end cars than retirement savings and more. They have a greater likelihood of engaging and moving towards financial goals if they work with a professional planner. These people need help and they will never go to a robo advisory firm and they don't read financial articles in newspapers either. For the Canadians that need the most help, the greatest irony is that they will never seek it out.

What is worth paying for? Good Financial Advisors Focus on Value Not Just Cost

While we all love to save money, most people will pay more for value. We regularly buy more expensive cars and clothes because we feel it is worth the quality. Financial services should be no different. But to measure value in financial services you need to know the variables: you need to know annual costs of your products and advisory services; you need to know investment performance after fees and compared to benchmarks; you need to summarize the range of planning services provided to you during the year; and you need to measure the amount and quality of communication provided to you by the advisory team. All of these variables and more go into defining a value proposition that is unique to each consumer. But let's be clear: the media telling you that paying as little as possible for investments is a confused message.

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If you want a qualified expert to meet with you four times a year at your home, create a comprehensive financial plan, provide a portfolio of low cost ETFs and stocks and bonds then you need to expect to pay a fee in line with your accountant's or lawyer's fees plus home visits.

Further, each year you should sit down with your financial advisor to evaluate the level of your fees and whether you are happy with the value. There are industry guidelines to help you evaluate if your fees are generally reasonable. Many financial advisors offer multiple ways to pay for products and services (hourly rate, flat fee, commissions, asset based and a blended approach). And fees can often be made to be tax deductible.

If your goal is to pay for value (not just low cost) then take the time to have a thorough conversation with your financial advisor about options. And if your financial advisor or planner won't listen but you still want a full service advisory relationship then look to credible sources like the Financial Planner Standards

Council for referrals to new financial advisors to consider. Not enough consumers shop around for financial advisors. Relying on referrals, plopping yourself down with one financial advisor used by your brother in law and staying there for twenty years without questioning what they do is not appropriate.

Conclusion

The financial world is getting more and more complicated every day. Politics, economics, investing, taxation, regulations and more are making the ability for anyone to manage their finances a greater challenge than ever before. Do-it-yourself financial management is the last thing you should try. Sadly, more people are simply putting their head in the sand entirely. A good financial advisor should be positioned to help anyone with a wide variety of financial planning needs for a fair fee. Everyone should be able to benefit from the assistance of a financial advisor at some point in their life and with some or all of their financial issues. But, and this is a big but, both consumers and advisors need to acknowledge and embrace the following:

1. Define goals first – write down your goals. Engage a financial advisor to help attach dollar amounts and timelines to your goals. Engage a financial advisor to objectively evaluate tradeoffs between goals and progress towards goals over time. If you have a financial advisor now and they have never done this please fire them tomorrow – they are not a financial advisor if they have never talked about your goals!

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2. Build an integrated financial plan – all financial decisions are affected by several parts of your financial plan. Retirement for example is affected by career, taxes, investments, real estate, healthcare, kids and when you die. All of your financial decisions need to be viewed comprehensively. Similarly, products you buy (insurance, investments) are the final step after you build a plan. Run from any so-called financial advisor that doesn't address planning first.
3. Understand the role products play – buying investments or insurance policies or doing your tax return or Will on a "one-off' basis is incomplete planning. It is merely a transaction. But sitting with a professionally educated and experienced financial advisor who can listen to your dreams and fears, integrate strategies to address your needs and select products to fit your plan is worth a fair fee.
4. Be value focused on fees – Know all financial advisory fees you pay. Compare to the market. Evaluate against advice, services, communication and market investment results to assess value. Pay for what you need. Pay what is fair.
5. Use effective metrics to measure your plan success – If you need $2 million to retire and have to save $30,000/year to get there, judge annual progress towards this. If you need $100,000 to put your children through university at age 18 measure progress towards this annually. As your assets grow and debt disappears evaluate continued need for as much life insurance. Re-visit tax planning opportunities as the Minister of Finance passes new rules. Everyone needs goal posts to measure progress against. Establish yours up front and never forget achieving results is what you are striving for.
6. Update the plan – Birth. Death. Real estate corrections. Marriage. Divorce. Stock market dips. Retirement. Getting fired. Having a baby. Winning the lottery. Life happens. Your plans need to evolve as you evolve. Life events can have some of the biggest impacts on your finances. Let your financial advisor into your life so they can pro-actively keep you on track.
7. Advisors need to transition from salespeople to professionals industry wide, once and for all. Clients would be better served if financial advisors adopted more of the requirements of real professions: use of engagement letters, full fee disclosure, well defined services, adoption of one global professional designation on business cards that the public understands, requirement for advisors to be members of national associations that will police them, standardized practice management guidelines, professional code of ethics, practice reviews by third parties and more. No exceptions – with changes like this the public can start to look to financial advisors as trusted experts like their accountants and lawyers.

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I talk to a lot of people in a year. I listen to their hopes and dreams, their fears and their concerns. Many have been taken advantage of by rogue sales people and it hurts to see it. They trusted someone to help them and they were let down. But many more have been helped by hard working financial advisors who are trying to do the right thing. Most consumers need a guiding hand. Financial advisors need to be trusted experts that the public needs. Consumers need to hold them accountable. Regulators need to make this happen.

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