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A holistic approach to advising; Investors want more than asset management

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It's fair to say the ideal prospect for the typical financial advisor has at least \$1-million in investable assets. The problem is those same affluent investors tend not to be enamoured of the average advisor, according to a survey of accountants and lawyers.

Peter Watson, a Wealth Manager with Oakville, Ont.-based Peter Watson Investments, recently surveyed 34 accountants and lawyers who serve business owners and senior corporate executives. Those two groups account for the lion's share of high-net-worth investors, but the feedback was that "many clients aren't happy with their financial advisors," Watson said.

Advisors tend to focus narrowly on investments, partly because that's their main area of interest and secondly because that's how they're compensated. But while investment management is certainly a necessary component of the puzzle for the wealthy, it's not sufficient. Executives are looking for a total lifestyle picture that includes financial independence as well as all other aspects of their lives. Business owners have a similar need and are additionally concerned with succession planning.

Such clients need tailor-made investment strategies, preferably through a "one-stop shopping" approach some call the "family office." What they're looking for is a seasoned "chief financial officer," with legal, insurance and other specialized help available either inhouse or through a trusted network of approved suppliers. Watson likens this role to that of a football quarterback, which he defines as a "key strategist who sets the team of professional advisors in motion to reach the client's goals."

Watson's survey bears this out. Only 9% of the lawyers and accountants surveyed said portfolio asset allocation was uppermost in the minds of their clients. Succession planning topped the list at 24%, followed by retirement planning at 22%. Estate planning was mentioned by 10%, while "no comprehensive approach" was mentioned by 12%.

One of Watson's interview subjects was Tim Cestnick, managing director of the Burlington, Ont.-based Water-Street Group, which runs family-office services for ultra high-net-worth clients.

Cestnick says the gaps in many advisory services arise because their advisors "often work in the traditional silos of accounting, legal, investment and insurance advice." It's hard to close those gaps because what's needed is a comprehensive, inter-disciplinary approach.

Usually, the client's current firm does not have all the expertise required to provide this one-stop approach. They "should involve the client's other advisors in the process so each advisor's strengths are utilized," Cestnick said. "It begins with a clear understanding of the client's vision for the future." And while many firms may talk a good game in describing supposedly comprehensive services, "good marketing does not guarantee good execution," Cestnick quipped.

Watson believes this holistic approach to handling wealthy client's affairs means jettisoning the traditional commission-based compensation model that previous generations of advisors lived by. That means moving to a fee-based model, typically by charging an annual fee that is a percentage of the client's investment portfolio. Some may even charge a fee as a percentage of total client net worth, perhaps even covering a client's real estate and other possessions, including luxury cars.

Young business owners are a focus for Oakville-based chartered accountant Bianca Tino-Gaetani. These young tycoons-in-training are "gung-ho about building their businesses as quickly as possible and generating discretionary income," she said. But many don't even consider exit strategies or retirement until after they've passed 50.

Only 25% of business executives are actively planning their retirements, said chartered accountant Doug Ferguson of Oakville-based Glenn Graydon Wright LLP. But when you ask business execs what's on their minds, 70% put retirement first and 30% list estate planning. "It is difficult for them to get an advisor to start the process for them."

Similarly, while business owners may say they are concerned about estate planning, few take the time to work out an estate plan, said Brian Hanna, a partner with Oakville-based O'Connor Mac-Leod Hanna LLP.

Owners of private businesses face a radical shift in perspective, said Randy McLachlan, co-founder of the WaterStreet Group. The shift involves moving from a position of perceived control to one where they need to rely on others to manage their affairs. They need coaching, particularly when the process involves shifting assets from their businesses to investment portfolios for which they have no

control. The task is harder still if they have minimal trust in the investment industry.

The professionals surveyed by Watson also see a lack of trust by investors, which manifests itself in a reluctance to table sensitive issues. Watson believes some advisors call themselves wealth managers but lack a professional network of specialists to deploy. "They are really investment generalists." In some cases, well-heeled clients scatter their investments across multiple institutions, which means there is no consistency in their portfolios. Investment advice dispensed by a single individual who is unaware of the parts of the portfolio managed by others may well be inappropriate and the portfolio construction similarly flawed. But because of the lack of trust in their advisors' ability or motivation, they are reluctant to consolidate all their affairs with a single advisor.

When it comes to transferring wealth between generations, cohesive planning may be further stymied by excessive secrecy between family members. "A living wealth plan that keeps inheritors in the loop is very valuable," McLachlan said. "It can help avoid family tensions around the family cottage, heirlooms and trinkets."

The ability or willingness to raise touchy issues with parents and children is often lacking in financial advisors. "Half my job is assuming the role of a psychologist," Tino-Gaetani said.

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