

A world apart: Advisers and counsellors

Knowing which is best for you can save time and money, and maximize your investment potential



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What is the difference between a financial adviser and an investment counsellor?

When people say they have a financial adviser, they're usually dealing with a commissioned salesperson employed by a brokerage firm. Financial advisers are also known as account executives, stock brokers, registered representatives, wealth advisers and other titles that suggest financial expertise.

In most cases, however, advisers are salespeople compensated via commissions for buying and selling stocks, bonds or mutual funds, although a growing number of advisers are moving toward a fee structure based on a percentage of the client's assets.

When dealing with a commissioned adviser, clients must be mindful of potential conflicts of interest. An unscrupulous adviser may recommend products, not because they suit the client's needs, but because they generate the highest commissions.

There are plenty of honest, hard-working advisers who have their clients' best interests at heart, but there are also dishonest advisers who churn accounts, recommend inappropriate products and otherwise inflict financial pain on the people they are supposed to be helping.

One way to minimize the potential for conflicts of interest

DO YOUR HOMEWORK

If you're searching for an investment counsel firm, here are some questions to ask:

Is the firm registered with the provincial securities commission?

What is the minimum account size?

Are client assets held with a third-party custodian?

How long has the firm been in business?

How does the firm define its style?

Do the investment professionals carry the Chartered Financial Analyst designation?

Will the firm develop with you an investment policy statement that reflects your objectives?

How often are representatives of the firm available to meet?

On what basis are the investment management fees calculated? How frequently are they charged?

Will the firm provide you with names of clients for reference purposes?

For a list of investment counsellors, minimum account sizes and other tips on selecting a firm, see the Portfolio Management Association of Canada's website at portfoliomangement.org

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is to work with an investment counsellor. Also known as a portfolio manager, these firms or individuals generally have rigorous educational and ethical standards, typically work with higher net-worth individuals and also often manage money for foundations, endowments, pension funds and other institutions. They differ from commissioned advisers in several key respects:

Asset-based fees

Investment counsel firms charge a fee based on a percentage - usually 1 to 2 per cent - of the assets they manage, with larger accounts typically qualifying for the lowest rates. Fees are broken out explicitly on statements so the client knows exactly what he or she is paying, unlike mutual fund fees, which are deducted silently from the assets of the fund (which explains why many mutual fund investors don't even realize they are paying fees at all!).

Discretionary management

A portfolio manager has the authority to buy and sell securities without the client's prior approval, as long as the securities meet the client's goals and risk tolerance as described in an investment policy statement. While handing over trading authority may sound dangerous, because portfolio managers don't work on commission, they aren't tempted to overtrade to line their own pockets.

Fiduciary duty

By law, portfolio managers have a fiduciary duty to act in the client's best interest. Advisers, on the other hand, merely have to recommend products that are

appropriate, even if there are other, more appropriate, alternatives. What's more, most portfolio managers have earned the coveted Chartered Financial Analyst designation, the gold standard in the investment industry, whereas advisers aren't required to complete such rigorous education.

Larger accounts

Generally, you'll need a couple of hundred thousand dollars to gain access to investment counsel, and at that level you'll probably only qualify for the firm's "pooled funds," which are similar in structure to mutual funds, but typically have lower fees. Many investment counsel firms also sell low-fee mutual funds to the public, usually with higher minimum investments than other funds.

For larger accounts - minimums generally range from \$500,000 to more than \$2-million - firms will manage a fully segregated and personalized account on the client's behalf, tailoring the asset mix to the client's goals, stage in life, risk tolerance and other factors.

Clients with complex tax, estate or private business issues may also benefit from the expertise of an investment counsellor.

Other designations

We've only mentioned a few of the myriad financial designations in use today. In addition to financial advisers and portfolio managers, there are financial planners who work on commission, others who charge an hourly fee, and some who do a bit of both. Some financial industry employees are licensed to sell only mutual funds, insurance products, or both.