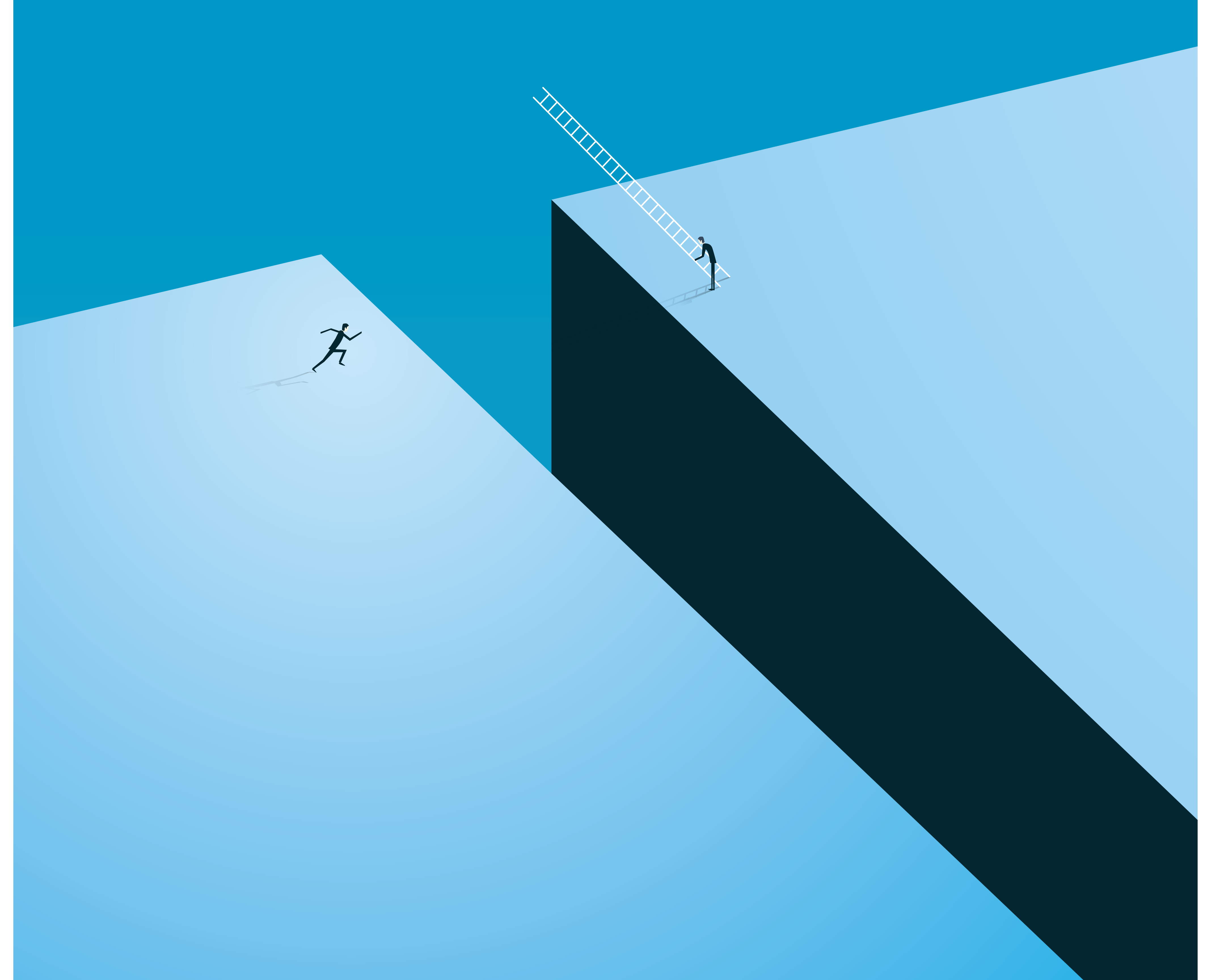
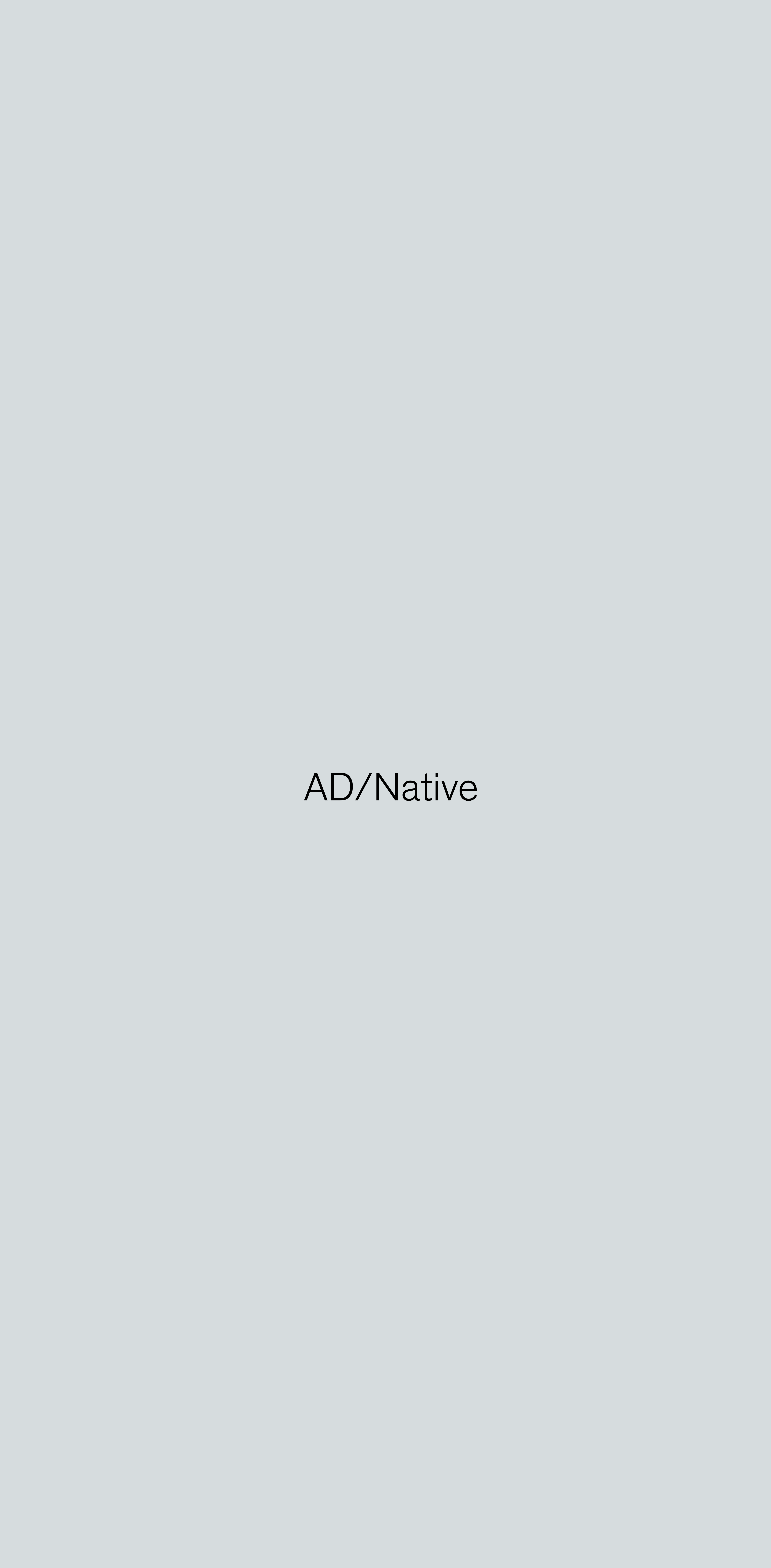
BARRON'S

GUIDE TO FINDING A **FINANCIAL ADVISOR**

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CHOOSING A FINANCIAL ADVISOR

Industry-wide disruption is an opportunity for clients to reassess what they're paying for. **DEBORAH MONTAPERTO** discusses the evolving role of the financial advisor in America.

Financial planners advise clients on how best to save, invest, and grow their money. They can help you tackle a specific financial goal—such as readying yourself to buy a house—or give you a macro view of your money and the interplay of your various assets. Some specialize in retirement or estate planning, while some others consult on a range of financial matters.

Don't confuse planners with stockbrokers — the market mavens people call to trade stocks. Financial planners also differ from accountants who can help you lower your tax bill, insurance agents who might lure you in with complicated life insurance policies, or the person at your local Fidelity office urging you to buy mutual funds.

Anyone can hang out a shingle as a financial planner, but that doesn't make that person an expert. They may tack on an alphabet soup of letters after their names, but CFP (short for certified financial planner) is the most significant credential. A CFP has passed a rigorous test administered by the Certified Financial Planner Board of Standards about the specifics of personal finance. CFPs must also commit to continuing education on financial matters and ethics classes to maintain their designation. The CFP credential is a good sign that a prospective planner will give sound financial advice. Still, even those who pass the exam may come up short on skills and credibility. As with all things pertaining to your money, be meticulous in choosing the right planner.

Typically, financial planners earn their living either from commissions or by charging hourly or flat rates for their services. A commission is a fee paid whenever someone buys or sells a stock or other investment. For reasons we'll explain later, you may want to avoid financial planners who rely on commissions for their income. These advisers may not be the most unbiased source of advice if they profit from steering you into particular products.

A growing number of financial planners make money only when you pay them a fee for their counsel. These independent financial planners don't get a cut from life insurers or fund companies. You might pay them a flat fee, such as $1,500, for a financial plan. Or you could pay an annual fee, often 1% of all the assets—investment, retirement, college-savings and other accounts—they're minding for you. Others charge by the hour, like lawyers.

You might also encounter financial planners who cater exclusively to the rich and refuse clients with less than $250,000 to invest. Don't take it personally—hugely successful planners would just prefer to deal with big accounts rather than beginner clients. You want a planner who'll make the time to focus on your concerns and is interested in growing with you.

QUICK TIPS

Look for a financial adviser who is a certified financial planner (CFP). They're licensed and regulated, plus take mandatory classes on different aspects of financial planning.

Consider the planner's pay structure. A planner who earns money based on commission rather than a flat, hourly rate could have an incentive to steer you in a particular direction.

Read the code of ethics that your financial planner adheres to. Look for the word "fiduciary" and language that requires planners to look after your best interests.

Should You Use a Financial Advisor?

You can certainly go it alone when it comes to managing your money. But you could also try to do it yourself when it comes to auto repair. In both areas, doing it yourself is a brilliant idea for some, and a flawed plan for many, many others. Mastering personal finance requires many hours of research and learning. For most, it's not worth the time and ongoing effort.

As you get older, busier and (it is hoped) more wealthy, your financial goals – and options – get more complicated. A financial helper can save you time.

Financial planners can also help you remain disciplined about your financial strategies. Procrastination can cause all sorts of money problems or unrealized potential, so it pays to have someone riding you to stay on track.

We're not suggesting that you ignore personal finance and turn over all your concerns to an adviser. But even if you know the basics, it's a comfort to know that you have someone keeping watch over your money.

It may sound crazy to give someone 1% of your annual assets to manage them, but you get a buffet of advice about almost anything related to personal finance. The price becomes sensible when you consider that you're paying to establish a comfortable retirement, save for your child's college or choose the right mortgage when borrowing hundreds of thousands of dollars.

How to Find the Right Financial Advisor

It's best to go with a certified financial planner (CFP), which is an instant signal of credibility – but not a guarantee of same. To start, ask people like you if they can recommend a planner. If you have kids, ask a colleague who also has children. If you're single and just out of college, check with a friend in the same boat. If possible, you want to find a planner with successful experience advising clients in the same stage of life as you.

For more leads, check the National Association of Personal Financial Advisors (NAPFA). These planners are fee-only, which means their only revenue comes from their clients. They accept no commissions at all and pledge to act in their clients' best interests at all times. Often, NAPFA standards meet or surpass the requirements needed for a CFP credential.

Look for a fiduciary.

In short, this means the planner has pledged to act in a client's best interests at all times. Investment professionals who aren't fiduciaries are often held to a lesser standard, the so-called sustainability standard. That means that anything they sell you merely has to be suitable for you, not necessarily ideal or in your best interest. This point is critical, and should be a deal breaker if a prospective planner is not a fiduciary.

Consider the advisor's pay structure.

You typically want to avoid commission-based advisers. Planners who work on commission may have less than altruistic incentives to push a certain life insurance package or mutual fund if they're getting a cut of that revenue.

But fee-based advisers aren't perfect. Advisers earning 1% of your annual assets might be disinclined to encourage you to liquidate your investments or buy a big house, even if those are the right moves at a particular point in your life, because their fee would shrink.

If you're starting out and don't have a trove of assets, an planner who charges by the hour could be the best fit. These planners are best for when your needs are fairly simple. Typically, hourly planners are just building their practice, but that usually means they'll take the care to get your finances right. After all, they're relying on your recommendation to grow their business. Finally, many experienced advisers do hourly work because they enjoy working with younger clients who can only afford to hire someone at that rate.

Run a background check on your planner

Start with these two questions: Have you ever been convicted of a crime? Has any regulatory body or investment-industry group ever put you under investigation, even if you weren't found guilty or responsible? Then ask for references of current clients whose goals and finances match yours.

Check to ensure the credentials the person claims to have are current. Google them, see who administers the designation, then call that administrator to verify that the credential is valid. If your advisor is a CFP, discipline records are located here.

Beware of market-beating brags.

Warren Buffet outperforms the market averages. There aren't a lot of people like him. If you have an initial meeting with an adviser and you hear predictions of market-beating performance, get up and walk away. No one can safely make such guarantees, and anyone who's trying may be taking risks that you don't want to take.

Asking someone whether they'll beat the market is a pretty good litmus test for whether you want to work with them. What they should be promising is good advice across a range of issues, not just investments. And inside your portfolio, they should be asking you about how many risks you want to take, how long your time horizon is and bragging about their ability to help you achieve your goals while keeping you from losing your shirt when the economy or the markets sag.

To see a list of the country's top advisors, visit **barrons.com/directory**

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QUESTIONS YOU NEED TO ASK YOUR FINANCIAL ADVISOR

American's Spend more time buying a new car than they do looking for an advisor. Finding a great car is important—you know what you want, what you're willing to pay, and you ask important questions before making an investment in a new vehicle. But when it comes to finding an advisor, it's just as important—if not more—to take your time and do your due diligence to ensure you're getting the value you deserve from your advisor.

Oftentimes, investors may not know the questions to ask. Or they may get runaround answers from their advisors. If your advisor can't answer these questions or gives you an indirect response, you may want to consider getting a second opinion on your portfolio.

1

WHAT IS YOUR FEE STRUCTURE?

How do you get paid for investments you recommend? Do some pay more than others? Are you paid commissions on investments or other products you sell? Do you receive payments from mutual funds or investment companies you recommend? Aside from what I pay you, what other costs will I incur?

Does your advisor charge on a tiered rate system or does he or she receive commissions on the assets you invest? It's important to understand the commissions that your advisors receive and whether or not they receive payments from mutual fund companies or investment companies that they recommend.

2

REGULATORY CONTROLS

Are you fiduciary? What safeguards does your firm have in place to ensure that my assets are protected from fraud? Have you ever received disciplinary infractions for unlawful or unethical actions? How do you ensure that your firm remains in compliance with legal and regulatory statutes?

Advisors who strictly adhere to a code of ethics and client bill of rights have defined standards in place that they can share with clients. Your advisor should be compliant with the Financial Industry Regulatory Authority (Finra), the Securities and Exchange Commission and state and regulatory agencies.

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3

EXPERIENCE

What licenses, certifications and/or credentials do you have? Many of the top advisors in the industry have designations such as certified public accountant (CPA), certified financial planner (CFP), certified fund specialist (CFS), chartered financial consultant (ChFC), chartered financial analyst (CFA), chartered life underwriter (CLU) and/or juris doctor (JD), and carry their Series 7, 24, 51, 63, 65, 66 and insurance licenses.

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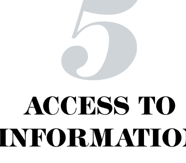
4

PROACTIVE COMMUNICATIONS

How frequently do you communicate with your clients? Do you proactively send out rationale for buy/sell decisions? Your advisor should focus on delivering proactive and transparent communications to clients. For example, our firm sends out trade notifications that explain every buy and sell decision. In addition, we send out a weekly market commentary, a monthly investment outlook and a quarterly market outlook video, along with several education videos, strategy fact sheets, industry updates, insightful statistics, informational whitepapers and more. Making these types of resources available to clients will help educate investors and give them the information needed to know that we are actively monitoring their accounts.



ACCESS TO INFORMATION

Call your advisor out and ask them to explain the top holdings of the strategies you're investing in and earnings reports. Your advisor should know or have direct access to this information.

Your advisor should not only answer your question when you call, he or she should also proactively educate you on each strategy's objective and holdings prior to investing your assets. How it ties to your family index number and both the time horizon and volatility expected from the strategy.

Once you understand the reason you're invested in a strategy, you should then receive trade notifications for the actively managed strategies so that you know the rationale for all buy and sell decisions. If you have a question after reading the rationale, you should be able to call your advisor and expect a direct and thorough explanation.

PERSONALIZED SERVICE

What services do you offer? Will you be the only person working with me?

Your advisor should be actively involved in all decisions that pertain to your financial future and serve as your ould always know who your direct contact will be, should you have any questions, and receive prompt and timely responses.

If your advisor's firm has an in-house team of experts—such as wealth planners, insurance advisors, research analysts, an investment committee or an operations team—make sure they explain whom you contact with specific questions and how the team provides enhanced value in their area of expertise.

INVESTMENT PHILOSOPHY

Ask your advisor to describe, in simple terms, his or her investment approach.

Disciplined investment strategies are the foundation of a solid investment management process. By building a portfolio that ties back to your Family Index Nummake sure you reach your financial goals—your advisor is able to create a customized yet repeatable process.

The investment philosophy should be explained in simple terms that make sense to you. It should be a process-driven and time-tested approach managed by an in-house team of experienced professionals.

CLIENT PROFILE

Who is your ideal client? How many new clients do you take on each year?

By limiting the number of new clients accepted each year, your advisor demonstrates the ability to provide each client with personalized service. By identifying an ideal client profile, both you and your advisor can determine if there is a mutual fit before working together.

Your advisor should be able to explain how he or she provides you with quality service, trusted advisors, recommendations based upon your needs and transparent and timely communications.

CLIENT EXPERIENCE

Can you explain your client service philosophy and how you ensure each client receives personal and professional service?

Your advisor should be able to explain how he or she provides you with quality service, trusted advisors, recommendations based upon your needs and transparent and timely communications.

"It's not easy to challenge your advisor with these questions, but in the long run, you will be glad you did your research. You don't want a lemon for a car"

SUCCESSION PLANNING

What happens to my money if something happens to you? Do you trust your firm to manage your own family's money should something happen to you?

Your advisor should have a detailed succession solution in place in the event that something should unexpectedly happen. The high level of service you've come to expect should not change, and the same group of experts should continue to serve you for all of your wealth management ■

TO FEE OR NOT TO FEE

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For those just beginning to work with an adviser, a little due diligence at the outset can save lots of money and pain down the line. Here are some questions – with notes on answers -- to guide you through a first meeting.

By actively vetting your adviser, "you're signaling to the adviser that you're an informed investor," says Steve Horan, head of private wealth at CFA Institute. "If they adviser doesn't want an informed investor, then you don't want the adviser."

Be wary of an adviser who has skipped firms frequently in recent years, especially if his or her explanations are vague. To be sure, many brokers and advisers are changing jobs as Wall Street reorganizes, but they should be able to give clear reasons for past departures. Similarly, if there are strings of regulatory incidents, or conflicts filed against an adviser reported on his or her Finra record, you might want to steer clear.

Many advisers have an alphabet soup of certifications on their business cards. You can find information about certifications on their Finra filing before you meet in person. Some certifications take years of study to attain, while others only require a weekend course and an open-book exam. Finra has a handy site that explains professional designations so you can understand what these distinctions mean. (Find it at finra.org under the headings "Investors" and then "Tools and Calculators.") At the meeting, if there's a qualification you'd like your adviser to have, ask whether he or she is working toward it.

Firms may have more than one way to charge their clients. Some accept flat fees, billed hourly, annually or quarterly, for advice and portfolio management. Some advisers take commissions on the sale of financial products, such as specific bonds. Still others charge clients a percentage of their total assets under management. You may get to choose how you'd like to pay.

Some people prefer advisers who charge hourly fees or a percentage of assets under care to advisers who make commissions, believing that fee-based advisers are less likely to push certain products.

Some advisers may have an incentive to sell you particular products, so ask whether the firm pays them an in-house bonus for pushing a certain bond, annuity or other product. An adviser should be upfront about any bonuses he or she receives for sales.

If a prospective adviser gives you details about other clients' names and financial information, you can assume that your information will be treated the same way. An adviser's description of his clients' average risk tolerance and portfolio size – as well as their financial goals – will tell you whether this adviser is a good fit. "One size does not fit all," John Gannon, Senior Vice President for Investor Education at Finra says.

Some financial advisers cater to the financial needs of physicians. Others deal with actors. Some zoom in on estate planning. Do a personal inventory of your needs to make sure the person sitting across the table is suited to your personal and financial goals.

Depending on your needs, specialization may or may not matter to you. If you're a small-business owner, an adviser who works with mainly corporate employees will probably get the job done, but may not be the best possible fit.

Some clients meet an adviser whom they like, only to find that someone else at the firms is handling most of the hands-on work. Ask about the other people at the firm, their qualifications and their level of involvement in the day-to-day life of your investments. It's likely that others in the office, such as an assistant who aids with paperwork or another adviser, may see your account, so try and meet them, too. If you prefer that only your adviser see your information, say so and be sure it's clearly stated in your contract.

SIPC can't protect investors from losses in the markets. But it does help recover investors' money in a firm in cases of fraud, theft or a firm's closure. As we saw during the financial crisis, SIPC-registered firms can offer investors of all sizes peace of mind. (SIPC was the group helping people who lost money in Bernard Madoff's Ponzi scheme.) If a firm is not SIPC registered and goes under, your assets could vanish with it, so think long and hard before putting your money there. Go to sipc.org for more information.

Firms and advisers that manage $25 million in assets or more must file a form, called an ADV, with the Securities and Exchange Commission. Firms that handle less than $25 million must file with the local securities agency in their state. These forms can be dry reading, but an ADV can tell you much about a firm, including how it is organized and how many people are on staff. The first part of the form has information about an adviser's education, business history, and, if applicable, a record of problems with regulators or clients. The second part has information about an adviser's fees, services and strategies. If an adviser says the firm doesn't have an federal or state ADV form, walk away. "The worst type of fraud involves unlicensed or unregistered professionals," Mr. Gannon says.

Investors need varying levels of guidance depending on their needs. Someone with an IRA might only need an adjustment to her asset allocation once or twice a year, whereas someone with complex tax and estate-planning issues might need more time. Ask about lead time for scheduling appointments, access via e-mail and phone, as well as how many times a year you plan to meet. Most advisers touch base with clients on a quarterly basis, with periodic checkups via e-mail.

You should know ahead of time whether an adviser also doubles as a lawyer or an accountant. One-stop shops are a great fit for many, but consider whether you're paying for a service you might already have. If you already have an accountant or lawyer, ask the adviser if he or she is willing to collaborate with outside professionals, and whether he or she has done so before. "You want to make sure that the adviser is working you're your best interest in mind," Mr. Gannon says. Don't invest in anything that you don't understand or that your adviser cannot satisfactorily explain to you. For example, non-high net-worth clients – also known as most of us -- should probably steer clear of hedge funds. Complex instruments like credit-default swaps are seldom suitable for individual investors.

Even now, there are risky hedge funds masquerading as mutual funds and complex instruments that might not be a good fit for everyday investors. Be sure that both you and your adviser know where your money is and how exactly it grows.

Any adviser who promises steady, meaty returns from the stock market is irresponsible – you can assume returns, but you cannot promise them. You want to hear that your adviser is concerned with how best to manage your assets in both boom times and bust. Many advisers will cite historical data, the most common factoid being that the stock market has returned 7 percent on average for the last 30

How to Pay for Financial Advice?

From robo advisers to full-service professionals, investors have more choices than ever in getting, and paying for, financial advice robo

Deciding what kind of financial advice to pay for, and which fee structure is right for you, can be daunting. The advice market is evolving rapidly, and investors today have more choices than ever before—from expensive, highly tailored advice to more impersonal services that cost next to nothing.

Financial experts say investors should shop carefully, while considering these questions: Do you have a complex financial life, where paying a premium for advice could produce lasting benefits? Or are your needs more basic—such as crafting a starter financial plan—where fees could be much lower?

The Wall Street Journal invited three people to discuss this issue: Terrance Odean, Rudd Family Foundation professor of finance at the University of California at Berkeley's Haas School of Business; Micah Hauptman, a financial-services counsel at the Consumer Federation of America; and Antoinette Schoar, the Michael Koerner '49 professor of entrepreneurial finance at the MIT Sloan School of Management. Edited excerpts follow.

Traditionally you paid a broker commissions for buying and selling stocks. Many people now use fee-only advisers, who charge a percentage of assets under management, often with a scale. It may be 1.25% a year on a portfolio with less than $1 million and lower if you have more assets than that.

Investors also can pay by the hour, or by engagement—where an adviser provides a complete financial plan for a fixed fee. Or people may pay a monthly retainer.

The questions financial advisers ask clients to get at the answer actually measure something completely different—often leading to misguided investment strategies.

People say they hope to keep earning income. But the facts tell a different story.

Many financial professionals market themselves as advisers, using titles like financial adviser or financial consultant. They may be dually registered as broker-dealers and investment advisers. If you don't know which you want, you might be directed toward their brokerage platform, in which case you would be paying for the transaction, not the advice.

Mutual funds and ETFs contain embedded financial advice, though it isn't tailored to the individual.

Funds in a sense do contain a form of advice in that they provide portfolios that have been preselected. But in itself, that is only a small step toward getting good advice. Many individuals use index funds as passive investment strategies and pay advisers separately for add-on services such as tax advice and estate planning.

With mutual funds, there's sometimes a compensation structure where a fund company gives money to a broker. This can create a significant conflict of interest, because a fund might be charging a high management fee and paying a significant commission back to the adviser or broker who sold the fund.

Every model can have conflicts of interest. Transaction-based professionals may provide quality advice, but their firms may set sales quotas or offer bonuses or other rewards that encourage them to put their own self-interest ahead of the client's.

The commission structure creates this incentive where brokers would like to see their clients trade more often. But one advantage is that if you are a buy-and-hold investor, you don't incur the commissions very often.

The fee-only adviser has an interest in capturing assets. They might recommend rolling 401(K) assets into an IRA that they would manage. Doing that may not be in the investor's best interest. And many advisers require a relatively high minimum level of assets.

The biggest potential worry is that the adviser doesn't have as much at stake in the

GO IT ALONE, WITH HELP

Learn to work with an advisor without surrendering your sense of control.
JENNIFER MARCONTELL makes a case for an advisor as partner approach.

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Self-guided investors are the best type of clients, since they understand the dynamics of markets and their investing goals.

– MARK WOLCOTT, MORGAN STANLEY

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TOP ADVISORY TEAMS – NORTHEAST

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IT'S NOT ME, IT'S YOU

Leaving an advisor is never easy, but sometimes it's the best option.

Jay Rattien had a problem. He couldn't get his adviser to pay attention to him or his portfolio. The adviser barely returned Rattien's calls. Finally, Rattien called the adviser's boss — the president of the company — and asked for a conversation.

The company president told him to meet him at his office. "First of all, he was 20 minutes late, and he told me to drive to his office. Incredible. So anyway I told him the situation," said Rattien, an IT consultant in a New York suburb.

He outlined how much money he had, and how much he was about to have available to invest after the sale of his house in the Hamptons. "I told him, 'At least once a year let me hear from you. That's not much to ask,'" said Rattien.

Did he hear from the president, or from his financial adviser? Nope – not for an entire year.

"I finally called them up and told them I was taking my money," said Rattien, who had employed the adviser for six years. "Then the president did call me back, and I let him have it. I told him all the things he did wrong."

So five months ago, Rattien moved his money to a new adviser, J.J. Burns, president of J.J. Burns & Co. in Melville, N.Y. Rattien's reaction now? "I'm so lucky to have met him."

People leave their financial advisers for lots of reasons, experts say: when they move; when they no longer feel a connection to the adviser; when they go through a crisis; when they don't want to pay the fees anymore; when they suspect they've been fleeced.

Or in Rattien's case, when they've been repeatedly dissed.

"The reasons vary," said Eleanor Blayney, a financial planner in Washington and the consumer advocate for the board of Certified Financial Planners. "Unfortunately abuse does happen, but there are other reasons. For example, we know that women often fire their advisers, after a husband dies. It's probably because they haven't been listened to (by the husband's adviser). Or sometimes the children want mom to work with another adviser."

Blayney said the 2008-2009 financial crisis also was a catalyst for breakups. "The financial crisis crystallized skepticism of financial advisers in the broad sense," she said. "The Madoff scamand subsequent scams had many people questioning and coming to their advisers and saying, 'How do I know you're not that person?' To a lot of people we were all in the same category at that time, and it really was an abuse of trust."

Or it could be a simple reason: "The chemistry may not be there," she said.

Burns has been on both sides of the breakup. "I want to know if it's the right fit because I have a very specific client profile," he said. Sometimes, if the fit isn't right, Burns and a prospective client move on.

And sometimes, he takes on clients from other financial advisers. In addition to Rattien, Burns works with a 75-year-old trial attorney and his wife. They had spent more than 15 years at a large financial firm, in what Burns called a "culture of one size fits all."

After analyzing their portfolio, Burns used dollar-cost averagingto put fixed sums of money over a seven-month period into diversified equity funds. He added commodities, such as gold, plus alternative investments, to hedge the portfolio. Many of these asset classes weren't part of the clients' previous portfolio.

Had they stayed with the old firm, Burns said, their previous adviser would have kept most of the money in stocks and some in a one-size–fits-all bond fund — because large firms generally don't have multiple investment products available to them.

"I sometimes think the financial adviser doesn't really give the client a value-add to the relationship," Burns said. "Is it just money management and picking out mutual funds? I think that's a mistake some financial advisers make."

As a result, plenty of people break up with a less-than-stellar financial adviser.

So, once you've decided to pull the trigger, what next?

Lori Schock, director of the Securities and Exchange Commission's Office of Investor Education and Advocacy, outlined these steps.

First, decide what you're going to do with your money. Are you going to hire another adviser, or manage your own money? Either way, the receiving party (you or a new adviser) starts paper work that paves the way for the money to be placed in a new brokerage.

Do you need to tell the old adviser? "It all depends on how you like to break up with people," Schock said.

Most people email the adviser to obtain a form rescinding the old adviser's authority to trade the account. In Rattien's case, he called the company to fire them — and to give them a piece of his mind.

If you are dumping your old firm because you're suspicious of its activities, you need to get the form ending trading authority as soon as possible. "At that point the cat's out of the bag," Schock said. "They know the other shoe is going to drop shortly. If that's the situation, contact the SEC or your state securities regulator also, because we want to know about it."

Can a suspicious firm sabotage your account once they know you want to leave? Most likely not, Schock said, because state and national regulators are watching.

"If they decide to put your portfolio into, say, penny stocks, do contact us," she said. "We definitely want to hear about that individual."

For most people, though, the breakup isn't dramatic. "Your old adviser may try to talk you into staying because that's their revenue walking out the door," Schock said. "They might want to know what they did wrong and how they can make it up to you."

Most likely, however, there will be little or no conversation. You'll probably have to pay transfer fees to your new adviser, however — usually on the order of $75 to $100.

In general, you don't have to sell your positions because they will transfer from one brokerage to another. This is the case for stocks, cash, corporate bonds, municipal securities, 529 college funds and most mutual funds.

There are exceptions, however. These include funds that are proprietary to the firm you're leaving. For example, if you're leaving Morgan Stanley , its variable annuity product may not be accepted by, say, Vanguard. If that's the case, you'll have to liquidate those assets.

At this point, you or the receiving adviser contacts your old adviser to start the transfer process, which is done electronically.

You also need to find out whether cashing in any of your mutual fund positions violates holding period rules and triggers

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EXPLAINING THE FIDUCIARY STANDARD

Barron's ranked advisors, **MEG GREEN** details the new law and its impact on investors, good and bad.

Most of the discussion over the Labor Department's fiduciary rule, which took effect in June, has centered around the "duty of loyalty," which requires financial advisers to put their clients' best interest ahead of their own compensation.

But that, according to Michael Kitces — a prominent expert on financial advice and publisher of the Nerd's Eye View blog — has come at the expense of a focus on the fiduciary's "duty of care," an oversight that could expose financial services companies that don't sufficiently train their people, or hire skilled practitioners, to legal jeopardy.

The duty of care, in short, is concerned with fiduciary advisers' competence and commitment to thoughtful advice.

"What the duty of care essentially requires is that fiduciaries only give advice after conducting the appropriate due diligence, that they make sure they have a process to make decisions in a prudent manner," Kitces said in a video played at the Retirement Income Industry Association conference at Salem State University. "This means you really have to have a clear process for conducting that due diligence and making the decisions — and, more important, that the advisers have the expertise to be able to arrive at a prudent decision after going through that process."

That, Kitces said, is "a pretty big deal."

Why? Because, he said, too many financial advisers can't meet that standard. "The reality is still that financial advisers can hold (themselves) out as financial advisers or retirement experts to the public with really nothing more than a high school diploma and passing a two- to three-hour regulatory exam," he said. "And the high school diploma is optional."

Read: The best way for retirement-plan sponsors to hire a fiduciary

That, according to Kitces, means that many so-called advisers may try to meet the duty of loyalty but have little to no chance of meeting the duty of care because they lack the training and expertise. And that could lead to big class-action lawsuits against major financial institutions, according to Kitces.

"Some attorney is going to come along and say, 'So, explain to me how your thousands of retirement advisers would possibly know how to give 'best interest advice' to their retiree clients when only a fraction of them even have the training and education of a formal retirement designation program,'" he said. "It's going to be a very awkward conversation for that company's legal department."

Republicans in Congress and the Drumpf administration's Labor Department are fighting to relax the rule. "But at some point, the focus will shift from fighting about the rules to paying attention to how they are being enforced," Kitces said. "And when it does, I think you are going to see a new wave of scrutiny on who says they give 'best interest' retirement advice and who is a retirement expert."

Jeffrey Levine, the CEO and director of financial planning at BluePrint Wealth Alliance, agreed that advisers who deliver retirement advice under the Labor Department's fiduciary rule will need advanced training.

"There has to be more than just passing the series 6 or 7 or 66," he said, referring to the licenses for financial advisers. "It's been an industry problem for a long time, but now it may catch up to advisers in a more powerful way. Passing those tests are a minimum, baseline requirement. But to really act in someone's best interest, you need more."

What sort of training might that be? Levine speculated that industry bodies, academic institutions, or financial services firms could offer advanced programs, rigorous self-study curricula or advanced degrees and designations, suggesting that they include a method for staying current as laws, strategies and products evolve. In the blog referenced above, Kitces noted at least two designations that meet the sort of training he thinks is required.

Advisers can further protect themselves and their clients by working with their other service providers to make sure they're being comprehensive, Levine said.

"Don't be afraid to call for reinforcements," he said. "Part of meeting the duty of care is making sure you are only advising on matters to which you can provide competent advice. If you're not big into taxes, reach out to the client's tax preparer to make sure your proposed move doesn't trigger any unforeseen consequences."

The same goes for other areas, such as estate planning and asset protection. "There's nothing wrong with a team approach," he said. "It doesn't lower the adviser's credibility…If anything, it can help assure a client that when the adviser really is delivering advice, they are doing so with confidence."

The fiduciary rule, as it exists today, requires that advisers do more than the minimum in terms of getting to know their customer, according to Levine. That means learning about their goals, objectives, concerns and family situations, he said.

Lastly, Levine said advisers must not provide retirement advice in a vacuum. Instead, they need to become skilled at offering comprehensive advice, because doing less could mean they aren't fulfilling the duty of care.

"The old adage 'know your client' needs to become 'really know your client,'" Levine said. "To truly act in someone's best interest, you need to know more than some cursory info, such as their age, their risk tolerance, their income and asset levels."

The fiduciary rule requires that advisers not just provide advice, but monitor and revise that advice as needed. "Life happens and when it does, changes often need to be made," Levine said. "Ongoing monitoring of clients' lives should be stepped up."

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"At the end of the day, I think the duty of care is best served when a client is making decisions based on a complete financial plan," Levine said.

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What sort of training might that be?

TEACH KIDS THE VALUE OF MONEY

A boot camp for wealth management for the children of high-net-worth clients, illustrates how it's done.

Can wealthy parents instill a sense of respect for hard-earned riches? It's not easy but it can be done, sometimes by accident, sometimes by design. That was our takeaway from an exclusive look inside UBS's Young Successors Program, a boot camp for wealth management for the children of ultra-high-net-worth clients.

Jane Zimmerman, age 25, shared stories about her father, a hedge fund manager, who collects the Diet Coke cans he consumes at a high volume, and then, on the weekends, takes them to the local grocery stores' can-return center for a sum that never seems to break ten bucks. He is a "crazy bargain hunter," she says. While some of us on the outside might interpret this behavior as a tad compulsive, Jane says her father's determination to preserve his hard-earned wealth taught her the value of money.

The founder of Dear World, Robert X. Fogarty, encourages UBS's Young Successors to find their own, special story.

The founder of Dear World, Robert X. Fogarty, encourages UBS's Young Successors to find their own, special story.

He didn't, for example, get her the Mercedes or Lexus she wanted for her sixteenth birthday, but a "beaten up old Jeep." Though frustrated at the time because he "could have theoretically bought me anything, but didn't," now, looking back, she is "grateful." Her first clunker was age appropriate, a reminder she was more than a "rich man's daughter." At the end of the day, Jane says the only regret she has is one rooted in her reality, not her father's, which she expresses as "financial trials teach life lessons that I won't have." But the fact she can express such a concern suggests to us she is conscious of the value of money—and that's a testament to both her father and the UBS Young Successors Program.

While Zimmerman's father instilled values through the quirks of his own personality, other parents seem to be effective with a more formal approach that establishes both boundaries and a pathway to financial maturity. Take, for example, Cullen Hitt, age 29, whose family runs a commercial construction firm. His father made him get a summer job, starting at age 13. "When your friends are playing baseball or hanging out at the pool, you're going to work," he told Cullen.

Cullen has worked every summer since, knowing he had to "work for everything," from buying his own car to his weekend splurges. The process was tough as a kid, he admits, but he is appreciative of it now. "You tend to have pride in taking care of things you've earned yourself," he says. At the same time, Cullen's father didn't squash his imagination, but told him he could pursue whatever career he wanted, as long as he put hard work into it. "Find something you're passionate in and work hard at it. Be the best in whatever you decide to do. It can be anything," was the prevailing mantra. He now works as a third-generation member of his family's firm after working for a large investment firm.

Building a series of shared goals can also help children intuitively pick up the family's legacy for hard work and decency. We spoke to 25-year-old twins, who prefer to remain anonymous, planning to join their father's startup beverage company. One of the twins tells us it's "very cool" to gain practical experience under the family's watch. But the twins are also part of the family's charity organization, where they can add a charity or two to the list of charities their parents donate to annually. They have to make a case for the charity, they say, and the parents have the final say, but "usually, there's no problem."

As Judy Spalthoff, UBS's executive director and head of family advisory, explains it, shared goals are important and much more effective than "parents making authoritative decisions without consulting the children. If decisions are made in a vacuum, then there is less chances of success."

In other words, if you want your kids to treat money with respect, start out by treating them with respect. That means letting them make (modest) financial decisions, and, as will happen, make their own mistakes. Your failures taught you invaluable life lessons. Give your wealthy children the space to make their own.

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SHOULD YOU SAVE FOR COLLEGE?

An adviser suggests some high-earning professionals might be better off focusing on the nest egg and not saving for college at all

For many people, their two main long-term financial goals are funding their retirement and paying for their children's college education. Conventional wisdom would suggest saving for both of those goals in tandem.

But would some investors be better off not saving for college at all?

Physicians offer a vivid example of why that question is so crucial. They have their earnings potential as a powerful long-term asset, but most don't come out of residency until they are in their early 30s, vastly limiting the time they have to save for retirement. Therefore, they need to save and invest more aggressively than someone with a longer timeline. Splitting their available savings between retirement and another goal makes the task even harder.

Let's say such a professional has $43,000 available to save each year. The traditional approach might have them put aside $7,500 annually for college and $35,500 for retirement. After 18 years (assuming a 5.6% average rate of return in a relatively conservative 529 college-savings plan) he or she should have enough to cover college and can start saving the full $43,000 for themselves.

The issue with this approach is that the investor loses out on much of the benefit of nearly two decades of compounding interest. The money put in the 529 could have been working harder in a retirement account. Assuming an average 7.4% rate of return in the retirement account (based on returns in a moderate-lifestyle portfolio), that amounts to an additional $350,000 after those 18 years.

When it comes time for college, the parent could simply use the $43,000 in annual cash flow for tuition. Even during the college years, when the parent isn't contributing toward retirement, the interest earned on the fuller savings is still working. In fact, at age 65—assuming the parent resumes saving once college is complete and continues to receive that 7.4% rate of return—he or she would still have $550,000 more than the investor who saved for school.

The questions financial advisers ask clients to get at the answer actually measure something completely different—often leading to misguided investment strategies.

Income share agreements, in which college students get help with their tuition in return for a percentage of their future salaries, seem poised to take off, as costs and debt loads rise.

This strategy could apply to anyone with substantial earnings who got a late start saving for retirement. The risk inherent in this approach is job security, and obviously it isn't right for everyone. But for some professionals, it might be worth considering Income share agreements, in which college.

For many people, their two main long-term financial goals are funding their retirement and paying for their children's college education. Conventional wisdom would suggest saving for both of those goals in tandem.

But would some investors be better off not saving for college at all?

Physicians offer a vivid example of why that question is so crucial. They have their earnings potential as a powerful long-term asset, but most don't come out of residency until they are in their early 30s, vastly limiting the time they have to save for retirement. Therefore, they need to save and invest more aggressively than someone with a longer timeline. Splitting their available savings between retirement and another goal makes the task even harder.

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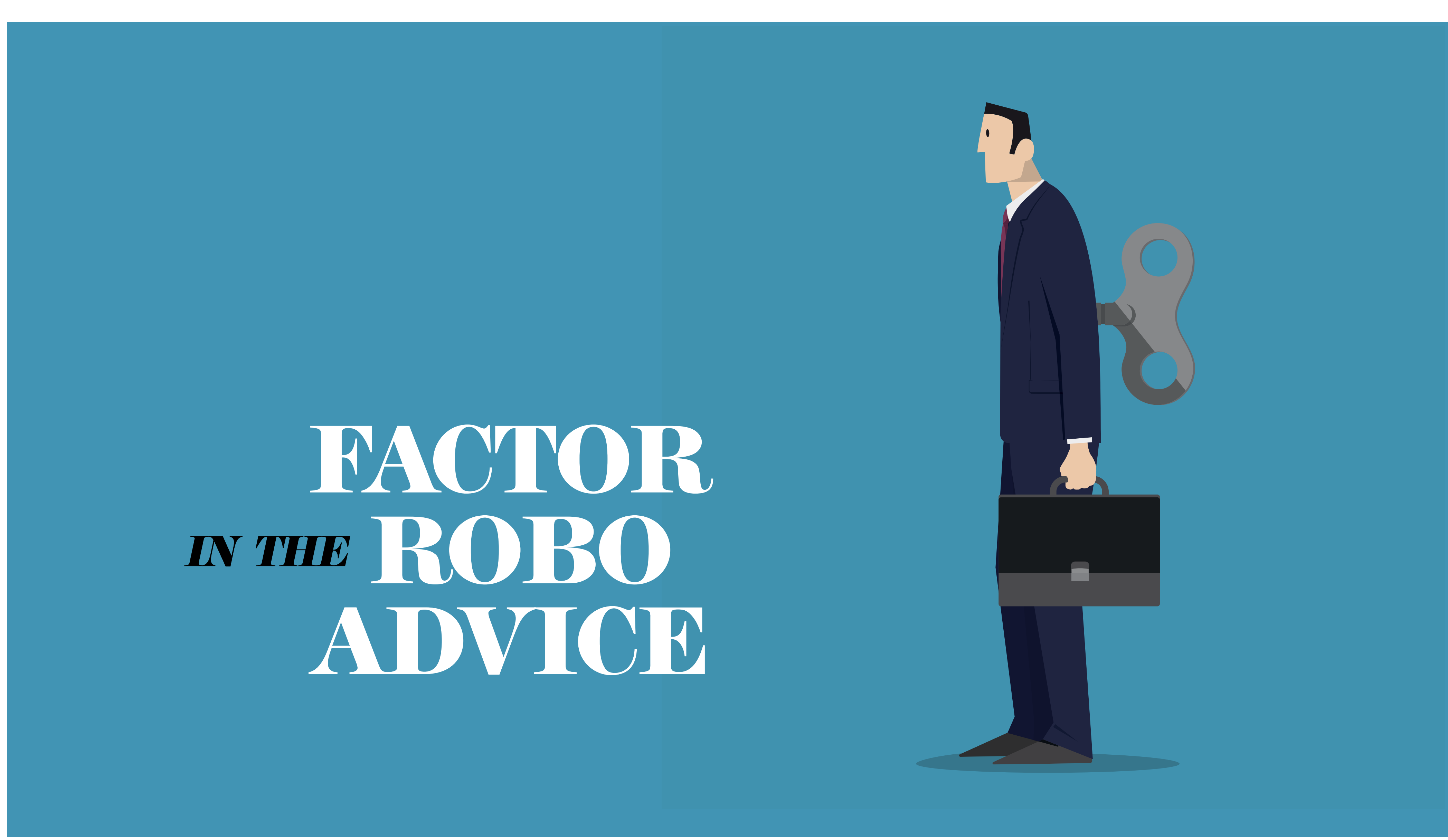


In this space, digital innovation is code for robo-advice, a catch-all phrase that offers the promise of cheap online investing services that can replace much of the work of financial advisers.

The disruption is well under way in the US, where two giant companies – Betterment and Wealthfront – have emerged, each with a valuation of more than $5 billion. In recent months Betterment has seemed to outpace Wealthfront in terms of size and growth. Betterment, which has cheaper services, now boasts a client list of 188,000 while Wealthfront has 90,000.

However it is the long-term potential of Betterment, Wealthfront and a host of rivals such as Hedgeable and WiseBanyan that is fascinating. Several robo-groups are becoming active in related services such as retirement planning and college education finance. Wealthfront has even launched a new lending service offering loans on the back of investment portfolios held by customers on the platform.

Australia is in the "announcements phase", where a string of incumbents and start-ups have burst on the scene with a suite of promises that are yet to be tested.

But robo-advice, which can be applied in every area from mortgage comparison to pension fund plans, looks certain to take off. Already there have been two key moves suggesting that a new model is needed in financial planning. ANZ has put its $4.5 billion wealth advice unit on the block, in a move that followed UBS's decision to sell its wealth management arm in Australia a year ago. And Platinum Asset Management, the onetime king of specialist overseas fund managers in the local market, has announced a dramatic cut in its fee charges.

These corporate moves are unrelated, but together they highlight a key problem for financial advice in Australia: the struggle to build profitable advice businesses.

Inside the financial advice industry, operators say the ironic outcome of two decades of escalating regulation is that compliance in the financial advice sector is now exceptionally onerous. A detailed statement of advice must be provided to clients, and the average statement can run to 50 pages and cost perhaps $3000 to prepare. And this is before the client has actually invested.

In practical terms, it means many of the best advisers want to deal with clients with at least $500,000 to invest, otherwise the costs of servicing them are too high.

Enter robo-advice, which involves the efficient use of algorithms to allow retail investors a low-cost entry to investment markets. At its best it can attract mid-level clients and make these relationships worthwhile for the adviser.

A microcosm of the issues facing all players in the industry is the recent deal between BT, a wing of Westpac, and the roboadvice company Ignition Wealth. The BT Panorama platform is one of the best-known in the advice industry. However the economics of the enterprise meant that the platform was traditionally only open to institutional clients. In a new deal with Ignition, it will be opened to a range of advisers – the incumbent gets to have more funds under management on the platform but the customers of advisers who have smaller client lists are no longer excluded.

Ignition is a start-up but a key shareholder is Barry Lambert, the founder of Count, one of the biggest financial groups in the market. In turn, BT needs to distinguish itself from the larger armies of the financial advice world. It has a network of 800 advisers compared to the banks, which have thousands of advisers on their books.

The major players still dominate, but they are searching for new ideas. As John Shuttleworth, the general manager of platform investments at BT, said recently: "We've got a platform and if it makes good commercial sense to partner we'll work with different people distributing in the marketplace."

Shuttleworth's opposite number at Ignition, CEO Mark Fordree, makes it clear that the deal marked the first time a major institution selected an independent digital advice operator in the advice arena.

It's little wonder the incumbents are ready to do a deal. In the UK earlier this year, Mortgage Gym, a private equity- funded robo-adviser specialising in home loans, announced a new service in which a client could be matched with an appropriate mortgage product in 60 seconds. To top that off, Mortgage Gym also claimed that an application for a mortgage could be filled out in 15 minutes.

But while the sector sees robo-advice as the way to build a mass market, it is the wealthiest and more financially sophisticated clients in the US and the UK who are responding. Robo-advisers are chasing the millennials, but much of the time they are signing up self-funded retirees or pre-retirees.

In Australia, the SMSF Industry Association tacked a roboadvice questionnaire onto one of its recent surveys and found that 18 per cent of its members – higher than in the general population (13 per cent) – would be willing to try robo services.

The American experience suggests that the best formula may be when robo-advice is allied to traditional advice.

For example, appropriate advice for a 45-year-old who wants advice on broad-scale investing with a view to growing a portfolio in the 20 years until retirement might be a balanced fund with a "growth" weighting in the portfolio. The advice would be different for a 63-year-old who intends to retire soon. In this case the solution would be a low-risk portfolio with a greater emphasis on income. But there is no need for an adviser to spend hours proving this case or filling out compliance forms.

Most of the robo-advice players tend to work along these lines, offering a hybrid service that frees staff to tend to the more complex or urgent issues facing clients. For example, in financial practices across Australia there is an urgent need to get clients across the key details of new superannuation rules – something a robo-advice platform or service could not be expected to deliver.

For the everyday investor, the prospect of lower fees makes a huge difference in financial advice. The idea of paying a traditional adviser $3000 before any tactical advice or indeed moneymaking has taken place must be a serious turn-off.

It seems the ideal interface with robo-advice is piecemeal, beginning with elementary work such as simplifying investment administration or allowing a client to enter areas of the market where they lack experience.

Figures from the tax office on SMSF (self-managed super fund) investment activity suggest investors would benefit from easier and cheaper access to overseas markets. In fact the early drift toward low-cost models such as Exchange Traded Funds has already prompted a response. One recent example is active fund manager Platinum Funds Management cutting fees.

Likewise, where previously access to small cap stocks or other specialist areas of the market was expensive and risky, the ETF or index fund emphasis of the robo-advisers offers a new doorway to diversification.

The advantage here is clear. Some areas of investment markets have been notoriously inaccessible to small investors. A standout example would be emerging markets where retail investors simply cannot buy individual stocks and traditionally the only option was specialist fund managers, who in turn often chased the same handful of high-profile stocks. In contrast, an emerging market ETF allows the investor access to a genuine cross-section of an offshore market.

On the negative side, ETFs offer just the market average and, at least on the ASX, anyone depending on index performance over the past decade would have been underwhelmed.

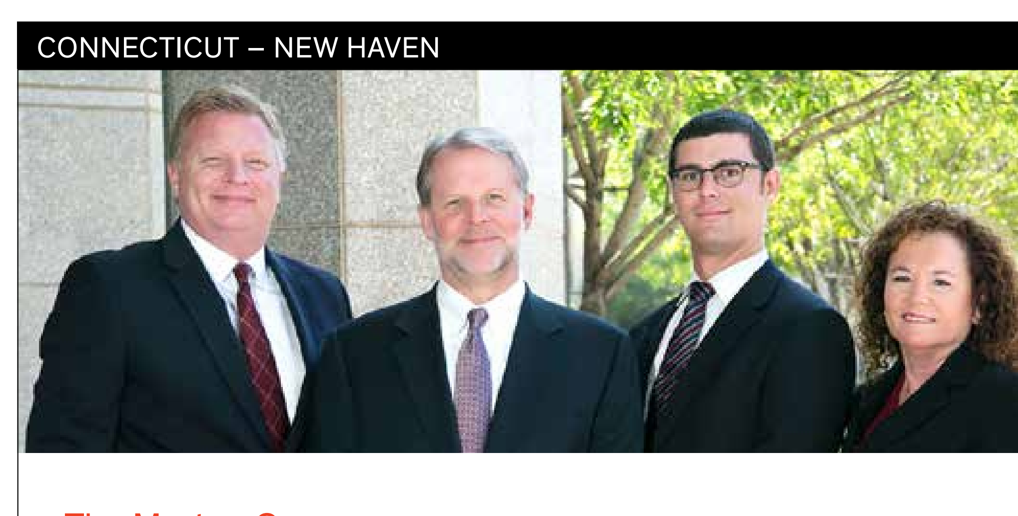
There are also ethical issues with ETFs. Are you interested in putting money into poorly managed, pollutant or even fraudulent stocks? ETFs do not discriminate.

Perhaps the outstanding risk for investors is that robo-advice can be read as an industry response to an industry problem: overloaded with compliance costs, the traditional model is now too expensive, so a low-cost basic service model with little discretion is put forward as the answer.

Not everyone agrees. UniSuper, the industry fund for the education sector, is moving in a different direction. The fund says it is becoming more dependent on the opposite of roboadvice and wants to build better financial relationships through personal relationships.

The $54 billion fund reports there has been a 20 per cent increase in face-to-face meetings between industry fund advisers and initial clients over the past year, and that the demand for face-to-face appointments between advisers and existing clients is up 70 per cent.

Run by Chris Brycki and now backed by financial markets luminary Graham Tuckwell (the billionaire behind ETF Securities), Stock-



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