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How to choose an Investment Adviser

For many of you who are about to inherit some capital or are fed up with their current adviser, I have several suggestions to make your decision a little easier. You all know that my preference is to manage your own monies, but completely understand why many of you do not want this responsibility.

There are numerous companies that want to manage your capital in order to receive a fee. Financial planners, stockbrokers, life insurance companies, bank branches and bank owned investment counsellors and independent investment counsellors are a few examples. This list is endless with many other types of companies not even highlighted.

Each type of firm has inherent strengths and weaknesses that I would like to bring to your attention. Some companies use only mutual funds, while others use both pooled and exchange traded funds and individual stocks and bonds.

Many investors are fed up with the fees they are paying and the highly volatile investment returns they are receiving. In addition, many of you are invested in some type of wrap account that makes it very difficult knowing exactly what your consolidated asset mix and equity sector weights are. Despite the regulators requesting more transparency, the requirement to list the top holdings of a fund or ETF is clearly not sufficient for the investor. The end result is that many investors feel somewhat trapped in that they are paying high fees, receiving inconsistent highly volatile investment returns accompanied with very little transparency in terms of their investment holdings. But comparable to being in a bad relationship, many individuals are too embarrassed to do anything about it, preferring to focus on other things.

I want to encourage all of you to take charge of your financial affairs before it is to late. This does not necessarily mean managing your own monies. But it does mean not putting up with mediocrity when you can do better.

Several years ago, in the middle of the last recession, a friend received a lump sum in her bank account, representing severance from her employer. Once the lump sum had been credited to her account, she received a phone call the next day from her bank requesting a meeting to discuss her investments. At the meeting she was encouraged to invest it all right away into a bank mutual fund. There was no discussion about easing in to the markets. The bank rep was totally motivated by receiving brownie points from their boss about attracting more assets into the bank's management. Over the following year equity markets fell sharply and it took her many years to breakeven on the initial investment. She was very upset and this was to be expected. The same lady is about to receive a substantial inheritance from her deceased mother. I recommended that she not invest this capital with her bank in mutual funds, but to consider investing with an independent investment counselling firm.

Non- bank owned independent investment counsellors are a great choice for many people once you have a sizeable amount of capital to be invested. There is absolutely no risk for the investor if the counselling firm should ever go bankrupt as all their clients' investments are held separately with a custodian such as a bank or insurance company. The client signs a separate custodial agreement with the custodian and their investments are kept in the name of the client only, not in the name of the investment counsellor.

Independent investment counsellors have no profit incentive to sell you bank products and are consequently much more objective with their recommendations. Many of these individuals are partners in their firms and are very experienced in terms of both their academic knowledge and work experience. Secondly their investment fees are fully tax deductible for non registered accounts with the exception of TFSA's where there are no tax implications. The fees mutual funds charge are partially tax deductible within the fund itself but are not nearly as transparent.

One of the major differences I see is how independent investment counsellors manage their clients' assets. Resulting from a combination of their independence and their focus on individual securities as opposed to funds, investment counsellors can tailor a portfolio to specifically match your personal needs for income, growth or low volatility. On the other hand, mutual funds of all types tend to be more generic in nature and not designed differently for every client. This is a major difference in my opinion.

In terms of overall fees, investment counsellors charge an asset mix fee representing a percentage of your assets under management. This fee is tapered depending on how much capital you have invested with them with a lower percentage on the higher market values. In addition, there is a safe custody fee charged to the client separately from the custodian. Mutual funds charge the same percentage fee regardless of the amount of your assets managed. Secondly many bank advisers also charge an asset mix fee over and above the management fee of the funds held. In my opinion, once you have amassed a material sum of capital, the total fees charged by a counsellor, including the safe custody fees, are usually lower than most other managers.

Recommendation

For any of you who either do not want to manage your own capital or are fed up with their current adviser, I strongly advise you consider switching to an independent investment counsellor. Independent does not mean owned by any large financial institution, but exclusively owned by the partners. Do not be discouraged if some investment counsellors have very high minimums, over $ 1 million before they will manage a portfolio consisting of individual stocks and bonds. Many of these same firms will invest your capital in either exchange traded or pooled funds, that are most likely much lower fees than traditional mutual funds. While it is still preferable to have a portfolio of individual stocks, the level of personal care and attention to your unique needs will still be clearly evident with the investment counsellors that use pooled funds and ETF's.