



Is My Advisor Worth the Money I Am Paying? Does Pricing Equal Value?

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How do I know if my advisor provides value for the fee he charges? This is a perpetual question on the minds of our clients. As with the attractiveness of one person to another, beauty is in the eye of the beholder. In this case, value is based upon what is received, and as importantly, on one's expectations. When you perform surgery, there is an expectation by the patient. Think of yourself as the patient when utilizing an advisor.

Fee-based advisors, in many cases, are fiduciaries. As fiduciaries, their responsibility is to you, the client. Your task is to spell out your expectations clearly and succinctly. Determine if the advisor is simply managing your money or is providing you with overall financial services and recommendations and taking on a larger role.

Know What Your Advisor Does

Registered investment advisors usually come in two varieties. The first are investment advisors, geared toward managing your money and your investment portfolio without the addition of comprehensive planning. In contrast, the financial planning-focused advisor will usually provide a comprehensive financial plan and ongoing financial analysis of that plan, as well as overall supervision of the investment portfolio. Determine in your own mind where the best value lies for you. If you use a broker, be aware that the broker is not required to take your best interest first. In most cases, the broker owes his allegiance to the firm and the shareholders of the company for whom he works.

Money management firms. If you are hiring someone strictly to manage money, know your objective. Is principal protection the most important, or income on the portfolio, or is overall growth key? Defining these goals early in the process means that you can now set a quantitative target and determine value compared to cost for the management. In some cases, money managers will charge one to two percent of the assets managed.

However, if the advisor is only supervising these assets, hiring specific managers and rebalancing, it may result in a lower fee. If you hire a money manager, be sure that you know his objectives.

Financial planning focused firms. This category of advisor may provide overall financial planning or ad hoc advice on a particular topic or area of concern. These advisors may supervise the entire group or a designated portion of your investible assets. Using this approach, the advisory firm will charge a flat fee or a combination of a flat fee and a percentage of assets supervised. In the final analysis, their service may have a higher value to you than simply managing the money. Fees for financial plans

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depend upon the complexity of your current position, the amount of implementation required and those services that are provided to you on an ongoing basis. You may compare this service to that of your Certified Public Accountant or attorney. In many cases, your advisor may have experts in accounting, taxes or legal issues, in addition to being a manager of money. Case in point – at our company, one of our advisors is also a surgeon with a Master of Business Administration.

In the category of financial advisory firms is the Multi Family Office or MFO. This type of firm manages all of your financial affairs. The MFO is almost like hiring a personal Chief Financial Officer and business manager all rolled up into one.

Now that you have an explanation of the service expectations of an advisor and can determine the cost/benefit, how do you quantify the overall benefit? First, you need to determine the amount of time saved by

utilizing an expert. For example, if your advisor saves you 50 hours per year or 40 hours per quarter, then you can quantify the value of that service. If you can do five more procedures or get in more time sailing, what is the value? If that advisor also provides a tax-efficient asset management strategy, then the potential benefit to you is increased even further. Finally, the expertise and knowledge required to manage your assets through difficult markets can be a significant advantage to your financial position. The final benefit is more often than not psychological, or the peace of mind that comes from using a qualified investment professional who can protect your assets from possible future financial threats.

One way to evaluate the value of the services you receive is to add the total of the following:

Hours saved x Rate per hour¹ + Percentage of Assets Managed² + Tax Saving Contributions³ + Hours of Advice⁴

Each of these is explained below.

1. Multiply the hours of time saved by your current rate per hour.
2. Asset managers get at least half of one percent of the assets that they supervise.
3. If the investments are now 50 percent tax efficient and you were only 25 percent tax effective, the tax savings is the value.
4. How many hours of one on one? Certainly, that is worth \$300 per hour.

We often ask clients how much time they spend on the items we manage on their behalf. Any amount of time saved has a tangible value and needs to be incorporated into the overall assessment. On the flip side, if you want to make investment decisions yourself, then little value may be accrued by hiring a discretionary investment manager. In this case, you should inquire about the services of a broker who is paid per transaction. How should you expect to be charged for services? The first step is knowing exactly how your advisor is being compensated. Is he paid on a fee basis, commission percentage or a combination of the two? And, what is the total amount of money you pay each year for the service? Most advisors today who strictly manage your money will charge a percentage of the assets supervised.

As a template for determining value, let's create a list of potential services to be provided by an advisor:

- a. Investment policy and asset management
- b. Financial accounting and portfolio evaluation
- c. Portfolio rebalancing
- d. Tax planning
- e. Estate planning

- f. Insurance and goal planning
- g. Cash flow management
- h. Tax and investment liaison
- i. Other

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The next step is to determine what you would pay for each of these services individually. Then, compare those costs to the group of services and associated fees from the advisor in order to reconcile the cost-to-benefit you would receive. In many organizations, this is a common formulation prepared by CFOs and other financial types. Often, advice may be given that is not desired or that does not concern your overall objectives. Therefore, regardless of price, the service lacks value.

The bottom line is that the true value of your advisor is based upon your individual needs and expectations. The basic question you need to ask yourself is, what is it worth for you to have more free time to concentrate on the things that you like to do, and have the expertise to perform? Not all advisors are created equal, nor will one provide the same level of expertise and services as another. Selecting an advisor is a careful process and should be based on the services you want and need, and your trust in their financial management abilities. Changing advisors is disconcerting, lengthy and quite expensive. Asking the right questions and doing it right the first time will save you valuable time in the long run.

Mark Germain, CFP™, MBA, is the founder and Chief Executive Officer of Beacon Wealth Management and has over 30 years of experience in giving advice to high net-worth individuals and organizations. His career highlights started with the "Big Eight" accounting firm of Touche Ross and Company (Deloitte and Touche). After completing his Bachelor of Science in economics and accounting, Mark completed his Master of Business Administration and graduate work in finance at Northeastern University and taught accounting. He keeps contemporary as an adjunct professor at Fairleigh Dickinson University teaching future CFP™ candidates the financial planning process. For more than 20 of the last 25 years, Mark Germain has provided financial guidance on investments, estate planning, insurance protection and ad hoc financial advice. He can be reached at mark@bwmlc.com.