THE GLOBE AND MAIL

April 1, 2011

Does your investment adviser put you first?

By ROB CARRICK
From Saturday's Globe and Mail

Some advisers are focused on selling products to generate fees, while others do what's best for the client

A killer interview question for an investment adviser: Who do you work for?

The golden answer: You, our client.

The probable answer: You, our client.

Unless an adviser is a complete deadhead, he or she is going to say that you come first. But it's not always true. Some advisers are in business to flog mutual funds, wrap accounts, closed-end funds and other products that have been power-injected with fees and commissions for the people who sell them.

This edition of the Portfolio Strategy column is all about how to find an adviser who works for you in something like a fiduciary relationship. In other words, an adviser who puts client needs above all.

Advisers in Canada are required to exercise a duty of care with clients, but that's not as tough as the fiduciary standard. Australia is moving toward a fiduciary standard and the United States already requires it of people who work as investment advisers. The U.S. government is currently looking at extending this standard to brokers.

The best advisers in this country already work to a fiduciary standard, but they're not easy to spot in a financial industry where generating revenue from clients is the main objective. One approach is to look for advisers who have earned the Chartered Financial Analyst (CFA) designation.

CFAs are the paratroops of the investment advice industry. They're trained to a higher standard and more is expected of them. Each year, they're required to sign off on a code of conduct that includes a clause saying CFAs "have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests."

The word "fiduciary" is not used here because it has different meanings in the many countries where the CFA is in force, said Marg Franklin, chairwoman of the board of governors for the CFA Institute, which oversees the CFA designation. But she's comfortable if people expect a fiduciary kind of relationship with advisers who have the designation. "It's part of the code of standards," she said.

The CFA training emphasizes portfolio management, but places it in the context of serving a personalized financial plan. Candidates must complete three different levels to earn a CFA, each with a tough six-hour exam. Ms. Franklin said it takes five years to complete the program on average, and only one person in five who starts the program completes it.

Codes of conduct are only worth something if there's oversight of the people bound by them. Ms. Franklin said that CFA charterholders must annually sign off a Professional Conduct Statement (PCS), where they disclose any professional-related litigation or arbitration, customer complaints, and/or disciplinary proceedings. "Failure to complete, sign, and submit the PCS can result in suspension of CFA Institute membership and/or the right to use the CFA designation," she wrote in an e-mail.

The institute also has a disciplinary process in case a CFA holder is alleged to have not lived up the code. Possible sanctions range from a reprimand to a revocation of permission to use the designation.

A less common and newer designation suggesting an adviser works for you as a fiduciary is the Accredited Investment Fiduciary (AIF), which is offered through a U.S. company called fi360. The fi360 website shows only about two dozen or so Canadian AIF designees, but that number could rise now that the Toronto-based advisory firm Weigh House Investor Services has become the Canadian agent.

Weigh House's view is that acting as a fiduciary will benefit clients and in turn help advisers build their business. "The main element of fiduciary duty is that you need to look after your client's interests first and foremost," said Beat Guldimann, chairman of both Weigh House and fi360 Canada. "Whatever you do, you do for the benefit of the client."

The AIF course teaches advisers how to act as fiduciaries through a curriculum taught online and in the classroom. Paige Maclean, an investment adviser with Macquarie Private Wealth in Markham, Ont., said she completed the course in a week of non-stop studying back in late 2007.

Ms. Maclean said the course involved a self-assessment of fiduciary excellence and helped her bring her practices up to global standards. "I felt I acted with fiduciary principles before I had the designation, because we've always put our clients' interest first," she said "Taking the course didn't get me to think differently, but it did give me more tools to use."

Ernest Biktimirov, an expert on global financial designations, said the AIF means someone knows how to ethically put clients first. However, it doesn't speak to an adviser's ability to build diversified portfolios and other investing basics.

"It's still a useful designation because I think ethics is very important for a financial professional," said Mr. Biktimirov, an associate professor of finance at Brock University's Faculty of Business.

A third option for finding advisers who work to a fiduciary standard is to look at fee-only advice, also known as fee-for-service. These advisers don't sell products, only advice, and they typically charge flat or hourly fees for financial plans. On top of that, they may charge a percentage of the money in your account for continuing investment management.

Working with fees out in the open like this rather than having them buried in mutual fund commissions does not guarantee an adviser's ethics. But it does remove the potential for conflicts where advice is given to generate commissions for the adviser rather than to benefit the client.

"For many years, I have believed that if you're going to accept a fee, there's a higher standard of care because it's very clear you're working for the client," said Marc Lamontagne, a founding partner at the fee-only advice firm Ryan Lamontagne in Ottawa.

The simplest way to spot advisers who don't mean it when they claim to put clients first: The client-adviser relationship is all about selling mutual funds and no mention is made of a financial plan. If it's all about selling stuff, it's not about you.

How to find an adviser that works for you

1. Consider an adviser who has the Chartered Financial Analyst (CFA) designation.

Why: CFAs must pass a demanding course and adhere to a code of ethics that resembles a fiduciary standard.

How many are out there: about 11,500

How to find them: CFA Institute [http://bit.ly/djyatj]

2. Consider an adviser who has the Accredited Investment Fiduciary (AIF) designation.

Why: This add-on to more broad designations such as the CFA or Certified Financial Planner (CFP) teaches advisers how to work for clients as fiduciaries.

How many of them are out there: Roughly two dozen, but more are coming.

How to find them: fi360 [http://bit.ly/h5hz5d], which administers the AIF. Use "Canada" as the search term.

3. Consider a fee-only adviser.

Why: By accepting fees from clients and not commissions buried in investment products, these advisers have a more transparent, less potentially conflicted business model.

How many of them are out there: A few in most communities, but only a tiny fraction of total advisers.

How to find them: Two websites allow you to screen for advisers by compensation method.

- Institute of Advanced Financial Planners [http://bit.ly/hlickf] oversees the Registered Financial Planner designation.

- Fin [http://http://bit.ly/e4rztc]ancial Planning Standards Council [http://bit.ly/e4rztc] oversees the CFP.

There is also a directory of fee-only advisers compiled by MoneySense [http://bit.ly/cqn79c] magazine.