WATCH YOUR STEP!

Given the risk to an advisor's book, moving clients from commissions to fees can be a bumpy road. But as **Justin da Rosa** discovers, fee-only veterans are more than willing to share insights on how to steer clear of danger

There's nothing quite like learning from your own mistakes, but it may be sweeter to learn from the missteps of others. Wealth Professional speaks with trail-blazing fee-only advisors for their tips on how to transition transactional business to the fee-for-service model, an increasingly popular move as the industry faces growing pressure for commission transparency. That advisor-to-advisor counsel, we hope, will help you avoid transitioning pitfalls.

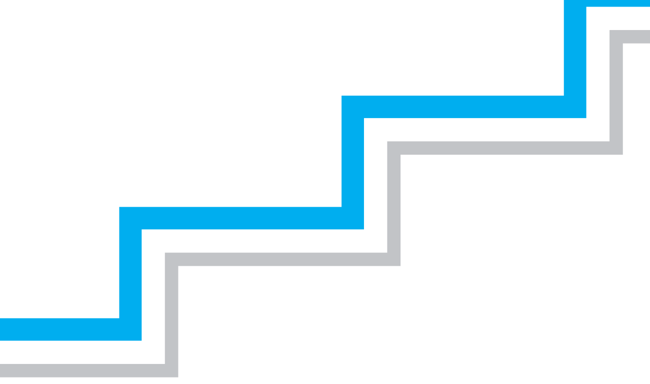
"I chose to work on the fee-for-service side to avoid the conflict of having to sell a product to make an income," Ron Graham of Ron Graham and Associates tells Wealth Professional. "My preference was to get paid for providing advice and that's what I do."

For Graham, who has 26 of years' experience as a fee-only financial planner, transitioning to that model was guided by his experience in another field operating along similar lines.

"My background is a chartered accountant so when I worked as a chartered account it was a familiar process: You would keep track of your hours and charge your client based on the number of hours you spend (on their file)," Graham says. "I was in the commission-based financial planning for just over a year, (but) I found I was providing advice and I wasn't always getting paid for that advice or the amount of payment wasn't in a good relationship with the amount of time I spent to get that payment.

"So I decided that I would rather get paid a reasonable amount for my time as opposed to a large commission for some and a small commission for others – I'd rather just charge for my time."

It was a different path that led Tom Feigs of Money Coaches Canada to set up a similar practice for himself. But the impetus driving his decision-making was much the same as Graham's; namely, the optics around the fee model and its ability to provide clients unbiased financial advice.



"I worked in the oil and gas business for 20 years and then decided to make a career change and went ahead and took some time off and wrote all the CFP exams," he says. "I decided that I wanted to be an unbiased, professional, independent planner because I didn't want to be biased by certain sales of products and being biased by commission."

They are two members of a very select group of financial advisors, those who only provide a fee for service and refuse to sell any products. But the move to introduce more fee-based relationships into a commission-based book is only expected to grow in 2014 as advisors cede to client pressure and advisors look for a hedge against any coming ban on embedded commissioning.

According to the website for Objective Financial Planners, a fee-only financial advisory firm, there are only 150 fee-only financial planners in Canada. To put that into perspective, there are an estimated 18,000 Certified Financial Planners (CFPs), 25,000 financial planners and 90,000 financial advisors. "That means about one sixth of one per cent of Canada's financial advisors provide fee-only financial planning and even less are completely independent, selling only their advice," suggests the admittedly biased website.

Still, while fee-only advisors and their transactional counterparts may be on the opposite end of the financial advising spectrum, the vast majority of industry players are now developing hybrid models for themselves, using both approaches to cater to the preferences and needs of all client types. But the momentum is greater in one direction over the other.

"Our analysis indicates that fee-based accounts are more attractive for advisors almost across the board," says Patrick Kennedy, VP product and client services for PriceMetrix. "The average fee-based account is 46 per cent larger than the average transactional account (and) it generates more than three times the revenue, an average of $2,900 per fee-based account compared to $870 for a transactional-based one."

So how does an advisor go about transitioning to fee-based?

GETTING DOWN TO BRASS TACKS

Although both Graham and Feigs took different paths to becoming fee-for-service financial planners, their advice on growing that type of business by transferring existing transaction-based accounts starts with deciding whether to operate independently, by opening a practice, or to continue operating under the banner of a larger firm. Graham pursued the former strategy while Feigs opted for the latter – something he believes helped immensely from the start.

"I found it very valuable to be part of a brand like Money Coaches Canada; there is so much to build – you have to build your technical skills, you have to build your marketing skills, you have to build your brand, the back office, everything," says Feigs. "I found that if you're breaking into the industry it's better to associate with a group."

Of course, doing your due diligence when choosing a firm is required – especially concerning who the clients "belong" to. Some firms may not allow an advisor to take his book of clients with him if he were to leave and set up shop elsewhere. Feigs took a different tack.

"(My clients) would stay with me (if I were to leave). The way our association works (is) there's quite a bit of trust built into it," he tells WP. "We obviously pay a fee to the parent company for all the back office stuff and general marketing and training, but if I were to up and leave tomorrow I could take my clients with me."

DON'T RUSH IT

Once an advisor is established, actively marketing and getting the word out to the public is critical in the first few years. The same rule applies for advisors who already have an existing client base; it takes time to educate those clients about the merits of fee-only financial planning, especially if they have only ever been exposed to the transactional model.

"Allow yourself a number of years – three to four years – to build your presence in the market. How do you do that? First of all you need to allow yourself time; you need to have enough of a nest egg to make this work," Feigs explains. "You need some residual income to make that 3-4 year transition work.

A PITFALL TO AVOID

A recent survey of 2,300 advisors is identifying a pitfall many are blind to – one nonetheless guaranteed to trip up those switching commission clients over to fees.

Accord to the study from the FPA Research and Practice Institute, financial advisors struggle to define who they serve, with a mere 25 per cent of those surveyed having a formal definition of their ideal client. Of those who have defined their ideal client, only 38 per cent can say that a majority of those in their book fit the bill.

Clearing up that client profile and making sure reality reflects it are key first steps for advisors as they move to transition clients, say researchers. Those advisors generally struggle to identify existing clients best suited to make the change to fees. Knowing your ideal client may allow advisors to better pinpoint those investors most prepared to make the leap and those most likely to stick around after the move.

Number two is be aware that marketing is part of your business development and be prepared to market as much as you can.

"Network with friends, family, business partners and do things like (talking to the media) to get the word out, but be patient," he continues. "It's a multi-year process of building your client base."

In terms of very practical ways of organically growing the fee end of your book, Feigs believes in holding weekly drop-in seminars for people who are interested in learning more about the model. It allows potential clients to meet, face to face, their potential financial planner and discover exactly what the fee-for-service model has to offer.

"I find that word of mouth, face to face is the best way and it requires many 'touches': people will see you in articles, Google searches, and then they'll want to meet you to confirm what they're seeing," Feigs says. "As part of that, to break the ice, I offer complimentary public sessions – what we call Money Mondays – every last Monday of the month. They're one-hour workshops, giving people an opportunity to break the ice.

"People want more than one touch to understand what you're doing and it's hard to draw a direct line but I think it does contribute."

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F-CLASS SHARES

And those who want to move their clients over to a fee-based model – or even those who want to merely add a fee-based service to their transactional business – are one step ahead of the game if they already have an established business.

"It's helpful if you've been in the business for a little while and you can then just transition your clients. How some advisors do this is they use F-class shares," says Graham. "So we're still going to provide you with the same kind of mutual fund but the mutual fund is going to charge you less fees and in exchange I'm going to charge you some fees.

"The advisor has somewhat of a choice in what they can charge for fees; in that case the advisor still has to be licensed to sell mutual funds," Graham continues. "That's not the way I work, but it is certainly the way that some fee-only financial planners work."

However, advisors need to be cognizant of the very real challenges in convincing some, if not most of their clients to switch to the fee-for-service model.

"(At the beginning) most of that time is spent marketing and trying to get people to understand what service you are providing and why a client would have to pay you money when they can go to the next financial planner and get the advice for free because that is the perception," Graham says.

And the hard work doesn't stop at marketing. Advisors have to continue to build business after the initial portfolio of clients is established.

"I maintain it by (having) my current clients referring me, I get referrals from awareness with our articles and websites, presence in publications and also from business networks such as accountants, real estate specialists (and) business brokers," says Feigs. "Gotta get out there and get in peoples' faces and get the word out that you're available."

However, while a certain amount of public education is required, the transitioning advisor also has to dedicate herself to active learning.

The fee-for-service advisor "needs to be, in my

opinion, much more of a generalist and know a lot about a lot of different things rather than a lot of information about a very specific product," says Graham. "As an example, income taxes would be a good thing to know about; many advisors know a lot about income taxes, but quite a few spend very little time learning about it."

Advisors also need to learn about life insurance, including critical illness, disability and long-term-care coverage. It's an area of education that commission-based advisors may not worry themselves with because they aren't directly compensated for having that sort of knowledge and expertise, Graham believes.

"Somebody who sells stocks and bonds may not necessarily know much about insurance because, up to this point, they haven't been compensated for that, but if you move into the fee-only realm you may get questions about that and you'll need to know information to pass on to the clients," Graham says.

For Feigs's part, developing a deep understanding of how cash flow works is the most essential skill a fee-for-service advisor can add to his repertoire.

"Cash flow, retirement planning and tax planning are the top three to get started with," says Feigs. "You don't need to go as deep as an accountant but planning ahead and planning an investment approach over the course of someone's future (is essential). Cash flow is the underpinning of everybody's finances.

"It's boring because it's number crunching and there are no (products) to sell but cash flow is so important because that's the infrastructure to your personal finances or your business finances; you need the cash flow to ensure your plans work."

It's this required knowledge of a number of financial fields that sets fee-based planners apart from their transaction-based counterparts, argue advocates, suggesting that knowledge is essential to making the transition.

"Financial planning is a very detail-oriented, technical job whereas sales is more visionary and general," explains Feigs. "Some advisors may find it a struggle to deepen the details, so it's more about a personal preference and what you like to do. I like to work the details, which is why I like (fee-only) financial planning."

The skill sets between the two models really are different, he continues. "If you move from product sales to financial planning, you can call yourself a financial advisor right across because of the generality of the title but you're actually doing something quite different."

Both Feigs and Graham agree that it is essential for an advisor to carefully toe the regulatory line when it comes to developing a plan for clients. But how does an advisor counsel clients on which products to invest in if he isn't permitted to suggest specific products?

"I'm not licensed to sell any products so according to the securities commission, if you aren't licensed to sell you aren't supposed to recommend specific products," says Graham. "The reality is that everyone wants to know what to buy and so there is some fashion in which you give guidance in what the client should do."

In practice, Graham can suggest a number of mutual funds that have low fees and allow the client to make the ultimate decision. Graham also advises clients to invest in balanced funds and exchange-traded funds as a way to diversify a portfolio.

"I also tell them to have a balanced fund, which narrows it down pretty fast," says Graham. "There are exchange-traded funds for some of my clients, I will suggest they buy exchange-traded funds and they'll ask, 'what asset allocation should I have?'"

And he takes it one step further by advising clients to divvy up their equities between investments in Canada, the United States and internationally.

Being able to provide financial planning and sell specific products is a key factor recommending the hybrid approach, point out industry veterans. "There are some financial advisors, fee only, who are licensed," Graham says. "They may never use that licence, but they may choose to maintain that licence. It does, in theory, allow them to give more specific advice if they want to."

While fee-based advising has yet to gain the widespread acceptance of its transactional counterpart, advisors believe it is here to stay. And it will continue to grow as awareness spreads throughout the industry and the general public demands a higher level of transparency around advisor compensation. Those retail clients are also adopting a self-directed approach to investment planning, a trend fee-based advisors are well positioned to take advantage of.

"We're breaking the ice, we're sort of the pioneers – the first 150 people who are fee for service," says Tom Feigs. "That's a drop in the bucket compared to the (tens of) thousand financial advisors across Canada.

"It's not just a fad it's going to be a strong part of financial services. We're building the awareness and we're continuing to build." WP