

Navigating the **ADVISORY JUNGLE**

FINDING THE RIGHT FINANCIAL ADVISOR IS A DAUNTING BUT CRUCIAL TASK, AND ONE THAT REQUIRES BOTH TIME AND EFFORT.

The number of ultra-affluent individuals

in North America has grown by more than 7 percent each year since 2002. But the number of firms offering financial advice to the wealthy has ballooned by more than 13 percent per annum. There are

now more than 8,600 advisory firms registered with the SEC, and thousands more are overseen by state regulators. A dizzying variety of institutions—among them insurers, brokers, banks, trust companies, multifamily offices and, increasingly, independent firms—are aggressively pursuing financial advisory mandates. So how does one choose?

This is an embarrassment—and dilemma—of riches. Locating a capable and trustworthy advisor in a field boasting some of the best—



and, unfortunately, many of the worst—minds in the financial services industry often feels like hacking blindly through a dense jungle teeming with hidden perils. In the articles that follow, we attempt to shed some light on this thicket to help our readers navigate through it, and, with an investment of time and

effort (and a bit of luck) to find a talented advisor with whom to build a strong long-term relationship.

It is the nature of the financial industry to attempt to gain economic

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ILLUSTRATIONS BY JONATHAN BARKAT

efficiencies by creating one-size-fits-all products and services. But the advisory needs of affluent individuals can really be met only with bespoke solutions. Finding the right match is therefore crucial. An individual like Allan Avery, a pharmaceutical industry executive who needed to manage a large, concentrated stock position, may have very different problems than entrepreneurs such as Klaus and Jami Heidegger, who sold their cosmetics company, Kiehl's, several years ago. We recount how Avery, the Heideggers and several others went about their search for that ideal advisory relationship, beginning on page 69.

The first lesson to draw from their experiences is that affluent individuals should never settle for a one-size-fits-all relationship. "Look for an advisor specialized in working with people like you," counsels Chris Dardaman, a certified financial planner with Polstra & Dardaman in the Atlanta area, who works with affluent clients. "There's a big difference between planning for young doctors and retiring executives."

"People know their cholesterol levels really well, but if you asked them for their three-year return on their portfolio, few of them could provide that."

—JACK BROD, PRINCIPAL WITH VANGUARD ASSET MANAGEMENT SERVICES

Advisors' skills must be commensurate with the challenges posed by the financial goals of their clients. These are becoming ever-more complex, and clients are becoming more demanding. The most satisfied affluent investors expect to hear from their advisor four times in any six-month period, says Jack May, senior vice president with SEI Investments' Advisor Network, an Oaks, Pa.-based provider of wealth management systems to independent advisors. The quarterly client meeting is clearly a thing of the past. "There is really a growing gap between what advisors have historically done and what clients are looking for," May says. "And this gap seems to be growing wider."

The best advisors work hard to bridge that gap, but the responsibility for finding them remains with the client. Oddly, despite affluent individuals' often-voiced dissatisfaction with their advisors, many still do not invest the effort needed to find a good match. Recent research by the Spectrem Group, a Chicago-based consulting firm, revealed that most individuals with \$5 million or more in assets do not spend the time to conduct a careful search. "It seems ad hoc or random how some people choose an advisor," notes Catherine McBreen, a managing director at Spectrem. This lackadaisical approach can leave individuals at the mercy of the worst elements of the financial advisory world—mediocre firms seeking primarily to amass assets under management.

These types of firms cannot meet the increasingly demanding standards of today's private investors. Spectrem's research

shows that clients prize responsiveness and trustworthiness above all else: 42 percent of those surveyed cited a lack of confidence or trust as the primary reason for seeking a new advisor. The search for a trustworthy advisor leads many, like Avery and Phil Strongin, a retired commodities executive, to rely on personal recommendations. Indeed, nearly half of Spectrem's survey respondents picked an advisor based on a tip from a friend or family member.

Effort Rewarded

The first step is to evaluate what skills you really need—a client with aging parents might seek a firm with expertise in elder care issues, for example. Determine what problems you will face both now and in the future. A senior executive nearing retirement, for instance, should avoid an advisor who has little experience with concentrated stock positions. Do not be your advisor's tutor, or, worse, guinea pig.

Understanding your needs and knowing what you want

from an advisor is crucial to assembling a list of prospects, whether that list comes from tips from friends or colleagues, *Worth's* Top 100 Wealth Advisors list (published in our October issue) or discussions with like-minded individuals through groups such as the Institute for Private Investors (IPI). (For more ideas, see "Remunerative Resources," page 67.) It will also help to ensure that you are not inadvertently swayed by the increasingly aggressive marketing pitches many advisory firms make. Terrance Odean, professor of finance at the University of California, Berkeley's Haas School of Business, studies investor behavior and cautions clients against falling for pitches promising market-beating investment performance. "The biggest mistake that investors make is chasing performance, whether they're chasing the hot stock, hot mutual fund or ostensibly hot advisor," he says.

Clients should treat advisors who court them aggressively with a healthy dose of skepticism. When advisors present what amounts to a slick sales pitch, consider it a red flag, says Charlotte Beyer, founder and CEO of New York-based IPI, which provides advice and networking opportunities to affluent individuals. "They are generally better at selling than strategizing," she says.

A thorough background check of both the individual advisor and the firm is crucial. Those with credible professional credentials, such as a CPA, have already been screened by a professional organization (see "Credible Credentials," page 74). This may provide some comfort. "It's the same with other

professionals: Would you go to a tax preparer as opposed to a CPA?" asks Lauren Prince, a certified financial planner with Prince Financial Advisory in New York. However, it is best not to rely wholly on these credentials; even those that reflect rigorous standards cannot take the place of in-depth research. There are a host of free, often Web-based research tools offered by regulators and professional organizations that allow individuals to check on an advisor's background (see "Remunerative Resources," below). "A lot of problems could be avoided if everyone did their homework," says Mary Schapiro, NASD vice chairman and president.

Finally, for your face-to-face interviews, assemble your research and ask probing questions to determine whether or not an advisor meets your individual needs. Compensation schemes should be carefully weighed. Ensure you understand how fee-only, fee-and-commission and performance-based compensation schemes work, and what the advantages of each are. (For a primer, see "The Costs of Counsel," November 2005, page 54.)

Find out whether you will be working with an individual

or with a team, and whether the firm has all the professional expertise you will need in-house. How often can you expect to hear from your advisor? Request a list of clients with whom you can speak. You may be better off with an advisor who deals primarily with accounts of your size, so ask for his average client's net worth. Asking how the advisor suggests you grade his or her performance is also revealing, says Jack Brod, principal with Vanguard Asset Management Services, based in Valley Forge, Pa. "People know their cholesterol levels really well, but if you asked them for their three-year return on their portfolio, few of them could provide that," he contends. "How do I really know how I'm doing? If you can't get straight, clear explanations, that might be a signal."

It is equally critical to establish a rapport. Clients must bare their financial souls to their advisors. "Look for someone you think you're going to enjoy working with," Dardaman counsels. A little due diligence today may avert a disaster in the future.

Elizabeth Harris is a staff writer for Worth.

REMUNERATIVE RESOURCES

1) PROSPECTING FOR PROSPECTS

Apart from word-of-mouth recommendations, individuals looking for financial advisors may wish to consult these sources:

- *Worth's Top 100 Wealth Advisors* list is updated annually and published in our October issue.
- The National Association of Personal Financial Advisors' website (www.napfa.org) can be used to identify fee-only financial planning professionals.
- The Financial Planning Association's website (www.fpanet.org) has a database of advisors, many of whom hold the certified financial planner credential.

2) DETECTIVE WORK

- Web-based disciplinary databases are a boon for individuals seeking to vet potential advisors. You can see whether a certified financial planner, for example, has been disciplined by the CFP board at www.cfp-board.org.

- Advisors with more than \$25 million under management are required to file a detailed questionnaire, Form ADV, with the SEC. This documents everything from the volume of assets an advisor oversees, to the compensation scheme employed, to information on any violations or disciplinary actions. You can ask the advisor for a copy or check the SEC's website (www.adviserinfo.sec.gov).

- Advisors with less than \$25 million under management are regulated by state securities commissions, which can provide similar information. Contact information for state securities regulators is available from the website of the North American Securities Administrators Association (www.nasaa.org).

- Go to www.nasdbrokercheck.com or call 800.289.9999 to check backgrounds of NASD-registered brokers or firms. Visitors logged nearly 3.8 million searches and requested more than 190,000 reports in 2004, according to the NASD.

3) THE INTERVIEW

Trustworthy advisors do not mind answering detailed questions about themselves and their businesses. Some important areas to cover are:

- How do you get paid, and to what extent is your compensation scheme negotiable?
- Have you been involved in any client lawsuits or arbitration hearings? What was the outcome?
- Have you or your firm ever been disciplined by any regulatory or self-regulatory organization?
- Describe a typical client.
- What is your client retention rate?
- How often do you contact your clients?
- How did your model portfolio(s) perform last year versus its benchmark(s)?
- How much expertise do you have in-house and how much do you outsource?

You can find a list of other suggestions and additional questions to ask on the SEC's website (www.sec.gov/investor/pubs/roadmap.htm).