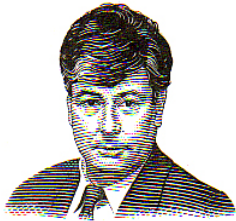


Advisors in hot seat as clients getting picky

Many affluent investors are on the move



Jonathan Chevreau
Financial Post

The combination of the stock market crash of 2008 and the subsequent unravelling of tainted investment schemes from Bernie Madoff to Earl Jones has an unprecedented number of wealthy investors looking to change their financial advisors.

In his blog this week, the advisor's advisor -- Dan Richards of Toronto-based Strategic Imperatives Richards -- says the post-Madoff investment climate features a new "level of paranoia that dominates the psyche" of North American investors.

Citing "three times a trend," Richards says recent articles in the press describing turmoil among high-net worth investors have "profound implications for financial advisors." Such coverage may

motivate investors who were sitting on the fence to conclude "if others are looking at moving, perhaps they should as well," Richards says. Some disillusioned investors are abandoning advisors altogether and choosing the do-it-yourself discount brokerage route.

The self-directed channel has "picked up significant share in both the U.S. and Canada," Richards says.

But more likely, clients will simply fire their current advisors and move to rivals perceived as more competent or trustworthy.

The first straw in the wind came from Business Week late in June when it reported the number of affluent Americans considering switching advisors had tripled in the past year -- with many investors seeking "second opinions" on their portfolios and financial plans. Then last week, the Wall Street Journal reported affluent investors are shifting from major Wall Street brokerage firms to independent advisors that use discount

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brokerage operations like Charles Schwab and TD Ameritrade. Such moves are motivated by the "perception that independent advisors will be more objective and more likely to put their interests first," Richards writes.

Independents operating as Registered Independent Advisors are held to a higher "fiduciary" standard in their advice -- meaning they are obligated to operate in clients' best interests.

By contrast, brokers at the big Wall Street firms are guided only by "suitability rules" that merely prohibit them from recommending inappropriate investment products. Richards says the Obama administration has made noises about extending the fiduciary standard to all financial advisors. The closing nugget of advice that investors should hone in on potential conflicts of interest is a "sign of the times," Richards says.

Finally, the New York Times looked at a study of 238 private banks and wealth managers catering to clients with up to US\$20 million in financial assets. The headline alone would be enough to put the fear of God in less-than-scrupulous advisors: In Search of Competent (and Honest) Advisors.

Here in Canada, it's also been reported that wealthy Canadians are rethinking relationships that may have lasted

decades. Richards points to a dramatic spike in aggressive marketing to high net worth clients by other advisors hungry to get their business.

Rather than complain about "know-nothing journalists, ungrateful clients and 'media whore' advisors seeking the limelight," advisors should focus on five things they can control.

They must first revisit their value and get defensive by making a special effort to identify and retain their top clients. They must tackle the trust issue by making it top priority, and address head-on any perceived conflict-of-interest issues. This may culminate by publishing a code of conduct and/or embracing a fiduciary approach. Finally, they must go on the offence to develop a plan to replace some clients that will inevitably leave.

Richards says the blog entry generated more response than anything else he's posted since launching it a year-and-a-half ago. "Clearly this has struck a nerve among advisors." The media are delivering a wake-up call and "advisors can either answer that call or hit the snooze button."

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