



Aug. 7, 2005. 09:10 AM

Fee-based advice has merits

ELLEN ROSEMAN

Martina Siegel, a management consultant, hopes to retire early. She wants to say goodbye to her job well before she turns 60.

This year, she moved her investments from a major bank and hired an independent financial adviser to help turn her dream into reality.

"Dealing with banks, I didn't think I'd get the attention, dedication and responsiveness I get now," she says. "I wanted a financial plan and someone to monitor it over time. Even when banks develop a plan with you, there's no follow-through."

She pays her adviser, Ted Rechtshaffen of TriDelta Financial Partners, a fee based on the size of her portfolio.

In her view, financial advisers should link their compensation to the performance of the assets they're managing.

"If my investments aren't doing well, Ted's absolute number goes down as well," she says.

How do you ensure the advice you receive is tailored to your needs? Is it better to find advisers who are paid fees or salaries, not commissions?

There's a common perception that commission-paid advisers may be tempted to sell products that provide the best compensation for them — not necessarily what's best for you.

Diana Salomas and Henry Dembicki, an Edmonton couple in their 50s, are making their own plans for early retirement.

Here's what they say about commission-paid advisers in their book, *Why Swim with the Sharks?* (\$24.95).

"It'd be like asking someone who sells time-share vacation condos for help planning your holidays. Do you really expect them to tell you about cheaper alternatives, like camping?"

Many clients lost their illusions after the 2000 tech wreck. They watched their mutual funds stay flat or shrink, while the people who sold them drove fancy cars and had big houses.

"I've become somewhat jaundiced in my perspective," says George Anastasopoulos, also a

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management consultant and a TriDelta client. "You throw your money at a fund company and it's guaranteed they'll make money. Meanwhile, you the investor are hoping like hell that something comes of it. This whole industry has got to get closer to customers."

Rechtshaffen started his firm this year, after working within the financial services industry. He was vice-president of strategic initiatives with a large bank-owned brokerage firm.

To create awareness of the conflicts that arise because of commission-based sales, he uses a quiz (see below).

"Just because a red flag is raised doesn't necessarily mean there's a problem," he says, "but it does suggest that more questions should be asked."

With deferred sales charges on mutual funds, there's no up-front fee coming out of your pocket. But you'll pay fees if you sell within the first few years, which means you're trapped in this fund or another fund from the same company.

"This is almost always a bad trade-off for a client," he says, adding that people are better off with no-load, low-load or front-load funds.

Likewise, it may be cause for concern if a financial adviser sells the firm's proprietary products. They may pay higher commissions — and be a worse choice for clients — than other products.

If someone claims that an investment product has no fees, don't believe it. Financial advisers always get paid, though you may not see the fee directly.

Top performers in the short term tend to be disappointments. Studies have shown you're better off buying underperformers.

Finally, a no-risk investment will pay you 2 to 3 per cent a year — not 8 or 9 per cent as some claim. Some guaranteed products are not really guaranteed, since they only give you back your initial capital after 10 years if stock markets decline.

Rechtshaffen hires people who have a certified financial planner designation and pays them a salary. They also get a bonus based on the amount of business they manage, not the type, and an annual survey of client satisfaction.

This better aligns the adviser's compensation with the client's interests, he says.

Clients must have at least \$100,000 in assets to invest. Their fees start at 1.95 per cent a year and go down to 1 per cent for \$1 million-plus portfolios.

Clearsight Wealth Management has a similar business model. Its clients start with \$75,000 in assets and pay fees of 1.3 per cent a year, scaling down to 0.4 per cent for larger portfolios.

An affinity marketer, Clearsight provides services only to graduates of 16 Ontario universities and their families (as well as some in British Columbia).

"We see people who are typically in their late 30s," says Graham Donahue, senior vice-president, who

has a chartered financial analyst designation.

"They've saved \$200,000 in the last 10 years and they're not happy with their current adviser because of service. Lack of contact is the No. 1 issue."

Clearsight's six advisers are all salary-based. Some left bank-owned brokerages because they didn't want to sell initial public offerings, which pay higher commissions than products on the secondary market.

To add balance to this debate, let's remember that fee-based and salary-based advisers are still rare (outside the banks and credit unions).

Commission-based compensation remains popular for a good reason: Clients don't like paying fees for financial advice.

It's good to have a variety of compensation structures, says Ann Bowman, communications vice-president of the Financial Planners Standards Council. This ensures that all Canadians, will get advice, whether their assets are \$50 or \$500,000.

People who are nervous about conflicts should ask about professional designations, she says. They should also look for referrals from trusted friends.

Another way to avoid abuse is to draft a letter of engagement, which clearly sets out what the adviser will do and what your expectations are.

Ellen Roseman's column appears Wednesday, Saturday and Sunday. You can reach her by writing Business c/o Toronto Star, 1 Yonge St., Toronto M5E 1E6; by phone at 416-945-8687; by fax at 416-865-3630; or at ellen@ellenroseman.com by email.

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