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Dow Jones Newswires

Clients Still Want to Be in the Know

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--By some estimates, nondiscretionary advisers outnumber discretionary managers among fee-only planners

--Some see giving advisers full control over fund portfolios as adding more bureaucracy

--Calling first and trading later also can build more long-term discipline into the planning process

By Murray Coleman

A DOW JONES NEWSWIRES COLUMN

While a growing number of financial advisers are asking clients for carte-blanche control over their portfolios, even more prefer to do it the old-fashioned way: call first and trade later.

Heading into this year, about \$1.4 trillion in assets were held by fee-only advisers in nondiscretionary accounts, says Boston market researcher Cerulli Associates. By contrast, another \$1 trillion was estimated to be managed on a discretionary basis, meaning advisers don't need to ask for permission before making trades.

"It's definitely more work to build a client base on a nondiscretionary basis--there are times when I'd rather just make changes and move on," says Peter Haag, a Chicago adviser whose upstart firm manages about \$15 million in assets. "But I want them to learn from this experience. If I'm hit by a bus or something, ultimately they're going to need to know something about how to shape their own financial futures."

Much of his view about working with clients comes from personal experience. A former software developer for fund companies and other financial-consulting firms, Mr. Haag decided to switch careers after his mother ran into planning problems. "The adviser she was using raked in a ton of money, and it just struck us that I might be able to do a better job and save our family some money in the process," he says.

Talking over all of the various investment options first provided a stronger comfort level for his mother, Mr. Haag says. Now with his own advisory shop, he says it's important to stress upfront to clients that "portfolio management is just one piece of whole planning puzzle" and that nondiscretionary practices "are part of the learning curve" required to

build a sound, long-term financial plan.

Bill Simpson, an adviser in Portsmouth, N.H., worked for years at a large discretionary planning firm. After leaving about four years ago to start Azimuth Financial Planning, he since has moved in the opposite direction.

Targeting a younger base of investors, Mr. Simpson points out that his current asset base of some \$15 million is highly tied to nondiscretionary accounts. "Since they're still working, we often run into different complications relating to taxes or bonuses," he says. "They consider signing off on any transactions before pulling the trigger as a necessity, not a luxury."

As his business grows, Mr. Simpson expects retirees to become a bigger part of his customer base. "It's important to be open to both types of clients--discretionary and nondiscretionary," he says. "It just depends on individual needs, the resources available and what types of liabilities you want to accept in a practice."

Marge Schiller, an adviser in Sarasota, Fla., believes nondiscretionary planning removes at least one important conflict from the investment process for fund investors. She works in the advisory group at Goar, Endriss and Walker, an accounting and financial services firm that manages around \$100 million in assets.

"We're not comfortable charging fees based on assets under management when mutual funds already include their own set of management fees," Ms. Schiller says. "We don't like the double-billing that can be involved with fund portfolios managed by planners on a discretionary basis."

Advisers using individual securities don't face such issues, she adds. But since her client base is made up largely of "do-it-yourself" mutual-fund investors, Ms. Schiller says "they just aren't interested in hiring an adviser on a discretionary basis."

"A lot of the newer planners favor charging clients based on retainers or flat fees as a percentage of assets managed," she notes. "But we prefer to work with clients who are looking for a second opinion from a trusted family adviser and want to be more involved."

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