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Greg Pollock, president and CEO of Advocis
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Adviser-fee options for floundering millennial investors

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It's a classic Catch-22 for young do-it-yourself investors who want professional guidance: You can make more money with good advice, but paying for good advice leaves you with less money.

Take heart, millennials. You can find affordable advice that could drastically reduce risk and lead to bigger long-term gains.

Studies have shown Canada is a costly place for investment advice compared with other developed nations. Just how costly is hitting home as new rules force advisers to start expressing fees in dollar amounts, beyond just percentages. A typical 2.5-per-cent fee on a $100,000 portfolio of mutual funds, for example, is $2,500 each year.

Seeing a dollar amount next to a percentage fee might come as less of a shock for wealthier investors, who have enough leverage to negotiate smaller percentages. But for younger investors with a mishmash of unrelated investments, perhaps purchased ahead of registered retirement savings plan deadlines over the years, the price of advice can gobble up returns.

Financial adviser Karin Mizgala recognized a problem with the annual percentage-fee model in the two decades she sold investment products for one of the big Canadian banks.

"Linking financial planning to investments is really where we've gone wrong," she says.

Ms. Mizgala is a co-founder and chief executive officer of Money Coaches Canada, a network of fee-for-service investment planners. It links investors to certified financial planners across the country who charge a fixed dollar fee for an initial visit and financial plan, and smaller dollar fees for subsequent visits. “We work with our clients on an ongoing basis, much like a doctor,” she says.

She compares money coaches to general practitioners who can diagnose a problem, write a prescription or refer the patient to a specialist. Services include budgeting, debt management, reviewing existing holdings to be sure they are properly diversified, tax strategy, insurance and estate planning.

“My job as a fee-only, fee-for-service planner is to get to know my client and their profile so I can make an appropriate recommendation,” she says.

What Money Coaches Canada won’t do is recommend specific investments or collect investment fees. “We can go right up to the tip of telling a client which specific investment they should be in,” she says. “We don’t take any commissions or referral fees. We want to stay completely independent, unbiased and conflict-free.”

Ms. Mizgala says her service provides a human touch that could complement robo-advisers – the automated investing platforms that are popular among millennials for their ultra-low fees and advice based on algorithms. “We work very well with robo-advisers. We work well with a lot of low-cost investment solutions,” she says.

The initial cost for a money coach can be steep – $2,500 to $5,000 for an assessment and plan and $150 to $350 for each subsequent visit to review and update plans as needed. While that may seem like a lot to start off, embedded fees based on a percentage of assets in a portfolio of mutual funds could amount to thousands of dollars a year, and they would grow as the portfolio grows.

Money coaches are a good option for some millennials, depending on the size of their portfolios, says Greg Pollock, president and chief executive officer of Advocis, an industry association for financial advisers.

“If they only have $5,000 to invest, spending $3,000 on an initial plan means more than half of their investment is already gone,” he says. “On the other hand, if you’ve got $60,000 or $70,000 to invest, getting that more fulsome plan may just be the ticket. The thing is, you must implement that plan.”

Those looking for advice should shop around, he says, and find a fee structure and service that suits them. “Everyone is a little different, and that’s why you need to speak to financial advisers,” he says.

Mr. Pollock says the percentage-fee model will survive despite the new dollar-disclosure regulations as long as clients are satisfied with their advisers.

“If the statement arrives in front of the client and the fee is larger than imagined, that client is going to have some questions and those advisers are going to have to defend the fee. If the client is not satisfied they are going to move on to someone else,” he says.

That doesn’t change the fact that the percentage-fee model tends to push the best advisers to the wealthiest clients, but Mr. Pollock says millennials with steady incomes can appeal to good advisers by committing to regular contributions.

“A lot of advisers are prepared to work with you over the next five years, probably at a loss because you’re going to build a long-term relationship,” he says. “If that financial adviser is providing good advice and is responsive to you, that individual is going to stick with that financial adviser. From the financial adviser’s perspective that’s a good long-term prospect.”

Above all, millennials should understand that all qualified advice comes at a price, says Tyler Fleming, director of the investor office at the Ontario Securities Commission. “You’re going to be paying regardless of where you’re getting that advice,” he says.

Adviser fees come in a variety of models and combinations, and he says the onus is on the individual to find which is right for them. “An informed investor makes a better investor.”

He encourages investors to visit getsmarteraboutmoney.ca, an OSC website that provides unbiased information on investment fees.

He also cautions investors to check the registration of advisers at checkbeforeyouinvest.ca to ensure they are qualified and find whether they have been involved in any disciplinary action. “Every adviser is required to be registered with their securities regulator if they are going to be offering advice or selling investments,” he says.

“If they are not registered, that’s a big warning sign of fraud.”