Are you cheating on your investment adviser?

KIRA VERMOND
Special to The Globe and Mail
Published Tuesday, May 31, 2016 2:25PM EDT

Financial advisers don't secretly check clients' private texts and credit card statements for signs of two-timing, but maybe they should. That is, if Noel D'Souza's experiences are anything to go by.

The fee-only certified financial planner and money coach in Toronto says it's not uncommon for potential clients to want to hire him, even though they already use another adviser or broker.

Some people worry their current investment advisers are focused too much on earning their own commission, and they want a second opinion about how their portfolio is structured. Others don't feel valued – until it's registered retirement savings plan season.

"I'm the other adviser, in a way. I fill needs that aren't being served elsewhere," Mr. D'Souza deadpans.

But it's not only fee-only advisers who find themselves in the position of financial paramour. Investors routinely "cheat" on their investment advisers, brokers and planners with others of the same ilk.

Often, they keep these indiscretions quiet. A few years ago, a survey in the United States showed that 73 per cent of advisers working with high-net-worth investors thought they were their primary adviser – or "quarterback" in industry speak. Yet only 34 per cent of their clients agreed. Oops.

More recently, data from the financial research firm Hearts & Wallets LLC showed that, particularly as people grow wealthier, they tend to spread their money around. Almost half of investors with investable assets of $100,000 to $5-million who said they worked with advisers were also managing some funds using a separate brokerage account.

The main reason? A lack of confidence.

"Many individuals who come to us already with multiple advisers indicate either a lack of trust in the knowledge they're looking for, or they just don't have real confidence in what they're getting," says Ted Wernham, retirement income and asset manager with Wernham Wealth Management Inc. in London, Ont.

That ambivalence can run deep, he says. He points to stories of envelopes of cash being found hidden around the homes of those who have recently died.

Particularly during bear markets, or when fraudsters like former stockbroker Bernie Madoff make the news, wealthy investors are even more likely to want to diversify not only their assets, but their advisers and brokers as well.

Mistrust isn't the only reason investors look elsewhere or keep investments in different baskets. Sometimes it's by accident. They've bought into a group plan and change jobs, chat with a neighbour about a hot stock and decide to jump in, or sometimes they simply like two advisers and decide to hire both.

There are some bona fide reasons to stick with only one adviser, however, especially a great one.

"It's really important that if you're going to get good advice, the person advising you has a complete picture of your financial situation and is aware of all of your assets," Mr. D'Souza says.

If you have RRSP accounts or tax-free savings accounts you're not revealing, it's easier to go over the contribution limit and wind up paying tax penalties without a second set of eyes overseeing the big picture.

What's more, you could wind up paying more for services, too. People with higher investment balances often qualify for fee discounts. Spread too much of that wealth around and you don't benefit from reduced rates.

Some financial institutions and wealth firms are now going one step further in trying to become an investor's quarterback adviser. They're introducing what's called "DNA pricing." Family members who stick with one firm all pay lower management fees.

"I think it really makes a lot of sense," says Peter Andreana, partner and security adviser with Continuum II Inc., in Burlington, Ont. "As a financial planner, if I had three family members who have five hundred thousand dollars each in separate households, why wouldn’t I treat them as one client with $1.5-million?”

Splitting up assets could also mean receiving less focus from the adviser. Who will they be more likely to bend over backward for someone with $75,000 or $1-million?

Meanwhile, Mr. Andreana admits he doesn’t get too stressed out when clients reveal they’re investing a little on the side, as long as it’s not a large portion of their portfolio.

“We call it the ‘play’ account. They might pick a stock here and there, but really, it’s a very small percentage of their portfolio. We say, ‘If you lose it, no big deal. It’s not going to make a material difference to your future,’” he says.

Usually, though, clients won’t tell their advisers about these assets or about working with someone else simply because they want to avoid frustration.

“A lot of investment business is about asset gathering,” Mr. D’Souza explains. “People are nervous that if they tell their adviser what they’re doing, they’re going to constantly be harangued about bringing those assets over.”