

The surprise factor that kills adviser-client relationships - no, it's not stock market plunges or high fees

ROB CARRICK PERSONAL FINANCE COLUMNIST
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The investment portfolio review service that Money Coaches Canada set up a year or so ago has revealed the secret of what makes clients unhappy with their adviser.

“The big takeaway is that people want more clarity,” said Karin Mizgala, CEO and co-founder at Money Coaches Canada. “We thought that it would be largely fee-driven.”

About 35 people have used the On Your Side Investment Report Card service from Money Coaches, a financial planning firm that charges a flat fee for advice and does not sell or manage investments. Seventy per cent of report card clients had advisers, while 30 per cent were do-it-yourself investors. Of the people with advisers, 80 per cent indicated they were going to move their account after receiving the Money Coaches report card.

A common theme with this group was that they felt dissatisfied with the answers they received when asking questions of their adviser. “There was a sense they weren’t being heard or responded to appropriately,” Ms. Mizgala said.

The report cards cost \$1,500 for individuals and \$2,500 for couples. They consider fees, performance, investment mix, tax optimization and alignment of client portfolios with their goals. Fees, while not a major irritant with report card clients, generated some surprising observations.

Ms. Mizgala estimated that fees in many cases were 0.5 to 1 per cent higher on average than they needed to be, in large part because of the common use of high-fee mutual funds. Money Coaches says these fees can be reduced through the use of low-fee mutual funds or exchange-traded funds.

Most clients had a fairly good idea of what their fees were in percentage terms. But Ms. Mizgala said many were shocked to see the fees show in dollars. The investment industry is required by regulators to disclose advice fees in dollar terms in an annual statement to clients, but Ms. Mizgala said these documents leave certain fees out and, in any case, are often ignored by investors.

High fees largely explain Money Coaches’ finding that clients with mutual funds sold by an adviser underperformed their benchmarks by 0.82 of a percentage point on average.

Half of the clients who used the second opinion service had portfolios valued at \$1-million or more and 20 per cent were worth more than \$5-million. “I was surprised [the second opinion service] would attract those kinds of portfolios,” Ms. Mizgala said. “The higher net worth category isn’t necessarily as well served as we might think it is.”