THE GLOBE AND MAIL

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Why having two financial advisors isn’t better than one

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Investors are always told to enlist the services of a financial advisor, but it’s not uncommon for them to have more than one. Some disclose this to the professionals handling their investments, and some don’t. Yet while there are pros and cons to having multiple advisors, doing so can result in some expensive oversights, as Sheila Walkington can attest.

Before Ms. Walkington became a fee-only advisor, the co-founder of Money Coaches Canada worked at a firm that sold investments. A client learned the hard way that having more than one person handle her money could come at a cost.

The woman was widowed, and the two agreed that she should max out her registered retirement savings plan (RRSP) contributions. Several months later, the woman took the advice of an advisor at her bank – also to max out her RRSP contributions. She put in another $50,000, not realizing that she had already hit her top allowable limit for the year.

“She totally overcontributed,” Ms. Walkington recalls. “She forgot; she was widowed, she was grieving, she was distracted. He [the bank advisor] was trying to do the best thing for her, but I had already taken care of the RRSP contribution.

“It was a bit of a nightmare,” she adds. “There was a big penalty and it was a very costly experience. If you’re working with more than one advisor, somebody’s got to be in charge.”

Forgetfulness aside, many Canadians are using multiple advisors. According to Environics Research, almost a quarter of investors report working with more than one. It found four key reasons why.

It often happens when people who already have an advisor, change jobs to one with a group savings and retirement plan. They begin working with another advisor assigned through their new group plan, considering that plan a separate entity from their personal savings and investments.

Other times, people have one advisor handle their RRSPs but their registered education savings plans (RESP) or tax-free savings account (TFSA) with another; people marrying later in life may keep their accounts and their investments separate, resulting in a household having multiple advisors. And sometimes people fear putting all their eggs in one basket. If we're taught to diversify our investments, why not diversify the people handling them? After all, given a client's goals and risk tolerance, no two advisors would set up identical portfolios.

There are other factors that explain the desire to have more than one financial expert in the picture. Dreadful stories of advisors who have mishandled or stolen their clients' money are one. The rise of robo-advisors is another: With new rules (Client Relationship Model – Phase 2 or CRM2) now making advisors' fees more transparent, some may keep investments with a financial planner to get the advice but take a chunk of their money to a lower-cost alternative.

Then there's the need for those who work with a fee-only advisor to seek the advice of investment advisors who sell products and other professionals, a strategy Ms. Walkington recommends. "A fee-for-service planner can provide unbiased, comprehensive advice on all aspects of one's financial situation and help create an integrated plan and co-ordinate discussions and plans with all other financial advisors, including accountants, bankers, and investment and insurance providers," she says.

"Fee-for-service planners are not licensed to sell any investments but can make recommendations as to where and how to invest, such as what types of investments to hold, so this type of planner pairs well with an investment advisor who can provide specific investment advice tailored to the client's plan."

Nancy Grouni, a certified financial planner at fee-only Objective Financial Partners Inc. in Markham, Ont., says about half of her clients use this approach, while another 10 to 15 per cent use more than one investment advisor.

In some cases, she notes, having more than one advisor may make sense – say, you want to make use of different investment management styles. "A robo-advisor could be used to implement a passive approach with a portion of one's portfolio and a more active management investment style with the balance," Ms. Grouni says. "These two styles can complement one another nicely.

"Or, to try out a new manager or new investment approach, you might wish to do this [use two or more investment advisors] with a portion of your portfolio first before making the decision to transfer all assets."

Ryan Kerr, a fee-for-service planner with Astrolabe Financial Group Inc. in Ottawa, says it may make sense to have more than one advisor if someone needs specialized advice or in the case of very large portfolios, where individual advisors are responsible for specific types of investments.

"This is traditionally how large institutional investors operate: one manager responsible for Canadian equities, one to manage the fixed-income investments, etc.," Mr. Kerr says. "However, for most individual investors the costs would outweigh any incremental benefits to the portfolio."

In fact, there seem to be fewer pros than cons when it comes to using multiple advisors.

Besides the possibility of overcontributing to RRSPs or TFSAs, tax planning may be more difficult, especially if various advisors aren't aware of the status of a person's investments, income and contribution room, Ms. Walkington says.

It may also be challenging to have a clear picture of your overall asset mix, fees and performance, especially if advisors aren't communicating with each other. Investors may find themselves owning duplicate products or holdings that can skew the allocation of their portfolios.

"There could be the lack of a holistic approach to your overall portfolio," Ms. Grouni says. "Each advisor may only concentrate on the holdings you have with them and make recommendations regarding asset mix and security selection without considering assets held elsewhere. This can result in an overall asset mix that ends up being too aggressive or too conservative as well as concentration risk of individual positions.

“Administratively speaking, managing your assets can become a little more complicated when you use more than one advisor unless you have a financial planner acting as liaison and providing holistic oversight,” she adds.

If people are determined to use more than one advisor for their investments, Ms. Grouni urges them to ensure at least one of them is keeping an eye on the big picture so that recommendations are made within the context of your overall financial plan. Be transparent about all of your investments, Ms. Walkington suggests, so that advisors know their role and how to integrate their strategies within your broader plan.

Mr. Kerr says he remembers an advertisement touting the certified financial planner designation several years ago that said “with an army of specialists, you need a general.”

“I think that’s good advice,” he says. “It’s great to be able to access specialists when dealing with complex financial planning issues but I believe it’s important to develop a relationship with an advisor who has visibility on your entire financial situation. If your advisor doesn’t see the whole picture, they may make recommendations that aren’t suitable to helping you achieve your goals.”