

YOUR PRACTICE



KANUPRIYA VASHISHT AND PHILIP PORADO

The value of advice

Five industry veterans weigh in on how their roles have evolved over time.

Q: *Where do you see the value of advice today, as opposed to four or five years ago?*



VASHISHT

William Jack: My partner and I serve a niche market and brand ourselves “independent retirement advisors.” Countless people are moving toward retirement, and a lot of them are very anxious about their financial well-being.



PORADO

Given the current situation, the big question on their minds seems to be: “Can I continue to live this lifestyle? Do I have sufficient resources to last me into the next 5, 10, 15, 25 years?”

But the good news is: When you take the longer view—we use life expectancies of 85 to 95 years—and the government benefits

to pay a consultancy fee for a monitored financial plan. We don’t think it’s there yet, but we do see promising signs.

Janet Freedman: I’m not sure we’ll ever be a profession. I sort of see the professions as being lawyers, doctors, dentists, engineers etc. We can be a compassionate, responsible and ethical business industry without necessarily having to become a profession. We do, however, need to raise the bar in terms of minimum qualifications, whether it’s financial planning or selling mutual funds. There needs to be some base level before people can qualify to take the CFP.

Tony Mahabir: The industry is moving in a direction where the product is becoming just a supplement to the advice. The advice model has more cachet right now. Clients today expect a greater level of transparency and are more sensitized to advice and actively seeking it. It’s a difficult change, and advisors are trying to grapple

a lot more attention given in the last five years to promoting the CFP. The media also tend to seek a CFP spokesperson rather than going to another organization.

KC: People are becoming familiar with the concept of financial planning and beginning to ask for credentials. Has the CFP become the credential synonymous with financial planning? Not yet. A lot more work needs to be done.

NK: In the past, I was rarely asked about my CFP designation, but during the last year or so about half a dozen clients have asked, but that’s because we took over a new business recently. In the general market, it is getting more prevalent but not so much.

WJ: I’ve never been asked for credentials. They’re listed on our business cards, letterhead, Web site, but no one’s ever asked. The CFP and FPSC are working hard to make the CFP a professional designation. I would like to see that happen. And I want to see the use of the title, certified financial

apples. There’s no such thing as insurance against moral risk. However, the financial planning profession is coming of age. Most people still use some part of the financial planning process to sell products. We’re getting to a stage where financial planning needs to be recognized as a profession, just like accountants or actuaries. Strong rules and regulations are required. The sooner we professionalize this industry, the better off we’ll be.

Q: *What type of client needs to work with a CFP?*

NK: People with less money are the ones who need more advice. But can I afford to give them that advice? I can’t afford to have an entire client base like that, but we also have a lot of moneyed clients.

KC: All clients need to work with CFPs. The people that our members enjoy dealing with most are the people prepared to go into the trusted-advisor relationship on an ongoing basis. Giving peace of mind to people is the most heartwarming part of this profession.

JF: While I resent people asking me for free advice, for the most part I agree most people could use the advice. One of the areas of financial planning that often gets neglected is cash flow. What are people spending their money on? To me, knowing this is far more critical than knowing the exact amount their mutual funds are worth on any given day. If you don’t know where the money’s going, you can’t do anything for them.

TM: Whether or not they can afford it, everyone needs financial planning. It’s like everyone needing a family doctor. The doctor gives an assessment of your physical health; the financial planner assesses you for your financial health. It all starts with money management.

Financial planners can offer financial planning to everyone if they choose to be creative in terms of compensation. I could provide fee-only advice to high-net-worth clients who can afford it; use an asset-based approach with clients who can’t afford the fees; and commission-based compensation with clients who can’t afford either the fees or the asset base. It’s a personal decision: I can focus on the high net worth or I can focus on everyone.

Q: *What do you do to communicate the value of advice to clients? What sets you apart from your peers?*

WJ: We tell people we want to build a model of their financial situation that’s conservative and fits their situation. At the end of the process we leave them with five or six rules that allow them to manage their finances.

NK: Financial planning is about one word: Enough. Our job is to help each person find their enough. People have two finite resources: lifetime and money. We don’t have control over the lifetime numbers, so we help people control the money and prioritize what’s important to them. Life’s too short to be spending money, energy and resources on the wrong things.

TM: Financial planning comes before product for us. We use the qualified approach, which is a six-step financial planning process. We didn’t invent it, but we tend to use it better than anyone else.

JF: My approach has been that the large fee-only firms can fight for the top 5% of the market share; I’ll take the other 95%. It’s much easier to bring in new clients at that level. Another thing with being fee-only is that you have to do tax returns. You’re not going to give very good advice to your clients without a sound knowledge of taxes.

Q: *How do you see the proliferation of credentials from a qualitative and quantitative perspective?*

KC: The industry is evolving to a professional advice model. You can’t have it both ways: If you’re going to give product advice and investment advice you’ve got to be prepared to delineate. You’ve got to be prepared to say this part of the process is financial planning and belongs in the professional model. You can’t have a CFP saying I’m a professional because I have a CFP designation, but I’m just doing product selling. Product and advice are separate, from a disclosure point of view.

TM: There’s confusion about what a CFP is versus all the other credentials out there. I often tell clients a real financial planner is someone who provides you with a comprehensive financial plan and adheres to the financial planning process. Not all financial planners are the same. I explain I chose to be a CFP because it’s an international designation and widely acknowledged, and at the moment the superior one—there are more than 118,000 CFPs across 24 countries. I also explain, at the moment there are a lot of offshoots and look-alikes, so you have to be careful you understand how one gets these different credentials: Is it a half-day course or a two-year course?

What makes the CFP a superior designation is it’s a two- to three-year program, with four major exams, 16 assignments, and a final exam. Plus, in addition to two years of working experience as an industry practitioner, candidates need references from two

ROUNDTABLE

PARTICIPANTS (from left)

- > **Naguib S. Kerba**
BRANCH MANAGER,
INVESTMENT PLANNING
COUNSEL
- > **Keith Costello**
PRESIDENT AND CEO,
THE CANADIAN INSTITUTE
OF FINANCIAL PLANNERS
(CIFPs)
- > **Janet Freedman**
PRESIDENT, FINANCE
MATTERS LTD.
- > **William D. Jack**
INDEPENDENT RETIREMENT
ADVISOR, LONGHURST
AND JACK
- > **Tony Mahabir** (telephonic)
FINANCIAL ADVISOR,
CANFIN FINANCIAL GROUP

into account, people are generally better off than they expected.

Naguib Kerba: Our profession has been improving the value of advice for consumers. It’s a learning curve both for consumers and advisors. We’re nowhere near where we need to be. But we’ve come a long way from four or five years ago. Financial planning is like a continuum—the one end is what people want it to be; the other end is what regulatory bodies want it to be. We’re somewhere in the middle.

Keith Costello: We’ve experienced a marked shift away from product sales and toward independent advice. People are now seeing the value in advice and attaching a price tag to it. An alternative model is emerging where it’s becoming okay

with how they should charge for something they’ve given away freely over the last five or 10 years. They’re trying to understand the economic viability of it all. Commissions have been such a huge part of their past success; trying to transition into a mode where they can charge a fee for advice is a mental hurdle. I’ve been trying to position our advisors to run with both models.

Q: *What percentage of your clients understands the value of the CFP?*

JF: A lot of my clients come by referral; there’s an automatic trust. They don’t ever ask me my credentials. Credentials count more if people look you up in the phone book. There has been

planner, become as tightly restricted as the use of the title, actuary. And I want it to evolve till people like Earl Jones can no longer call themselves financial planners. The groundwork, ethics, code of conduct, continued education are all there, but it’s still going to take a lot of pushing and shoving.

TM: I too get most of my clients from referrals and have never been asked if I’m a CFP; clients do, however, ask if I’m a financial planner. I show them what a financial plan looks like and ask if they’ve ever had one done for them. That generally is a litmus test whether they’ve had a financial planner prior to me.

Every profession has its bad



The value of advice

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practising CFPs. Competency standards and a professional code of conduct are also important, in addition to a fiduciary standard of care.

WJ: FPSC and CIFPs are doing a lot of good work. The biggest thing we've got going for us is word of mouth. That momentum's going to win the day. A single regulator is also very important to strengthen this industry. Enforcement is currently very weak in Canada. Bernie Madoff is a classic example. He's going to jail for 150 years. What will happen to Earl Jones? He's going to lose his licence that he never had in the first place.

JF: That's so true. If you commit an act against the *Fisheries Act* you have a criminal record, and it's a criminal offence. But brokerage offences aren't treated with the same seriousness.

TM: There definitely has to be some intermediary or regulatory body. In the absence of a regulatory body, the advisor should be affiliated with a registered member who would be responsible. That's the only way we can ensure the industry gets a uniform standard. There isn't such a body right now.

Q: *What are your frustrations?*

NK: It's a real challenge for me because I come from a world where it isn't such a bad thing to make a commission, provided you put the client's needs first. Does that happen every single time, with every single advisor? The answer is NO.

I've actually hurt my business growth because I don't always look at the income aspect when dealing with clients. The client always comes first. Mine is a product-based world, so I've done everything I can to structure my business to not make it transaction-

oriented. I also fully disclose at every given opportunity.

KC: My biggest frustration is with our members being painted as criminals. Granted, we may now have better compliance, but the federal government must also move with proper laws to deal with criminals in the industry. It's not always a compliance issue, sometimes it's criminal activity and there has to be a better way to deal with white-collar crime.

Over-regulation is another big frustration. It's a lot of paperwork, a lot of money and very prescriptive. We're looking for less, but smarter, regulation.

Q: *How do you celebrate advice?*

WJ: I spend time in people's kitchens and dining rooms playing with their pets, chatting with their kids, solving their financial problems. When I give advice, people take it. I find that tremendously rewarding. The willingness of people to share

everything is incredible.

NK: In a lot of respects, I don't think I've worked a day since 1992. I've been living an incredibly fulfilled life. I've made a difference in a lot of lives. I've learned more from people than I've ever taught them. It's gratifying advisors are held at such a high confidence level. There aren't that many professionals who have access to so much confidential information. It's

an incredible position to be in, and I'm really grateful to be afforded that kind of trust by people.

TM: One of my favourite quotes is by Gandhi: "Be the change you want to see." There's a lot in this industry to be negative about, but for every one negative there are 10 things to celebrate. This industry is worth celebrating because there's so much impact we can make on the lives of people. ^{AER}

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