

## High Net Worth

### A watchful eye on emerging fortunes

*Investment counsellors do not earn commissions.  
But you may need a minimum of \$250,000 to get in the door.*

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From Friday's Globe and Mail  
Published on Friday, Feb. 26, 2010 12:00AM EST

When Derek Moran gets a call from someone who needs help investing a large chunk of money, he doesn't send them to a traditional investment adviser or mutual fund salesperson. Instead, the Kelowna, B.C., financial planner always recommends a private investment counsel firm.

"I want to put them in a very safe environment," he says. Investment counsels, which specialize in the discretionary management of portfolios for high-net-worth individuals, estates, foundations, pensions and endowments, "are the best combination of competence, reasonable costs and few, if any, conflicts of interest."

#### **WHAT'S THE DIFFERENCE?**

Investment counsels range from small independent boutiques to large bank-owned firms. Some have a minimum account size of \$250,000 or \$500,000, while others won't take your call unless you have \$2-million or more to invest. But they all share certain attributes that set them apart from traditional investment advisers.

For one thing, unlike most advisers, investment counsels do not earn commissions from trading stocks, bonds and mutual funds. Nor do they collect "trailer commissions" on funds. Instead, they charge a flat annual management fee based on a percentage of your assets - usually 1 to 1.5 per cent, which is lower than most mutual funds.

"It's very transparent. You know exactly what you're paying," says Constantine Kostarakis, portfolio manager with Piffner Management, an investment counsel firm in Montreal. Another key difference is that investment counsellors have discretion over client accounts, meaning they can buy or sell securities without first seeking the client's approval.

While that may sound like a recipe for "churning," it isn't. Because portfolio managers don't work on commission, they have no incentive to overtrade, Mr. Kostarakis says. Rather, the goal of the client and firm are the same - to build the assets.

"If I can get you from \$1-million to \$2-million, it's in your interest and it's in our interest," he says.

Clients also get detailed performance reports so they can see how they are doing against relevant benchmarks.

## **FIDUCIARY DUTY**

By law, investment counsel firms have a fiduciary duty to act in the best interest of the client. Based on the client's goals, risk tolerance, age and other factors, the portfolio manager draws up an investment policy statement that guides the investing process. The vast majority of portfolio managers hold the chartered financial analyst designation, which is the gold standard of education in the investment industry.

With traditional advisers, on the other hand, credentials vary widely. And while some advisers use an asset-based fee model, most are still compensated via trading commissions and mutual fund trailers, which creates a conflict between the adviser's interest and the client's.

This underlines a key difference between investment counsellors and advisers: Whereas counsellors must put their clients' interests first, advisers merely have to recommend products that are "appropriate," says Kelly Rodgers, president of Rodgers Investment Consulting in Toronto.

"Advisers don't necessarily have to recommend what's most appropriate," she says. "They advise you as to what they recommend you do, and then you either agree or disagree, but you are making that decision, not them. So there is no fiduciary duty attached. That is really a key distinction."

## **HOW MUCH DO YOU NEED?**

It used to be that a seven-figure account was the price of entry into the exclusive investment counsel club. But nowadays, \$250,000 will open some doors. At that level, however, the client would likely be put into pooled funds, which are similar in structure to mutual funds.

For larger amounts- minimums generally range from \$500,000 to more than \$2-million- firms will manage a fully segregated and personalized account on the client's behalf. (For a list of investment counsels, minimum account sizes and tips on selecting a firm, see the Investment Counsel Association of Canada's website at <http://www.investmentcounsel.org>.)

## **THE DOWNSIDE?**

Garth Rustand, a former broker who now runs the Investors-Aid Co-operative of Canada in Vancouver, says one drawback of investment counsels is that the choice of mutual funds is limited to the in-house products at each firm. Also, he says investment counsels often lack expertise in international or emerging markets. But these are minor drawbacks, he says. "You'll get more choice with a broker, but you'll pay twice as much, too," he says. Investors with a large sum of money are better off using an investment counsel firm, he says.

"The costs are really good," he says. The firms "are also extremely risk averse. They don't seem to screw up too much."

## **CRITICAL QUESTIONS**

- Is the firm registered with the provincial securities commission?
- What is the minimum account size?
- Are client assets held with a third-party custodian?
- How long has the firm been in business?
- How does the firm define its style?
- Do the investment professionals carry the Chartered Financial Analyst designation?
- Will the firm develop with you an investment policy statement that reflects your objectives?
- How often are representatives of the firm available to meet?
- On what basis are the investment management fees calculated? How frequently are they charged?
- Will the firm provide you with names of clients for reference purposes?

*Source: Investment Counsel Association of Canada*