

GREAT GREAT EXPECTATIONS

If you don't ask, you don't get. But sometimes your mutual fund dealer says no for good reason.

By Philip Porado

Advisors manage their clients' expectations every day. They tell them what returns are reasonable, explain market realities, give them the good or bad news about their retirement expectations, or other investment time horizons. It's just part of the job.

And, if those advisors sell mutual funds, pooled funds or retail hedge funds, the dealers that build the shelves from which they pluck products for client portfolios are doing the same thing. Those dealers know the knee-jerk answer to the question "What do you want?" will be, "Everything." So, no matter if he's at a bank or a small boutique, an advisor should be aware his dealer is running that business with an eye toward managing the expectations of the firms it serves.

Frequently, advisors have beefs with their dealers—and often with good reason. But some of the complaints boil down to communication issues.

To avoid them, a good dealer will establish the parameters of the business relationship upfront, says Scott Sinclair, president of Toronto-based Aegon Dealer Services Canada. Every dealer has a slightly different business model, so explaining the core philosophy goes a long way toward helping an advisor determine if the operations will mesh. He notes his firm is not prescriptive about branding, preferring to let advisors establish a public presence that suits the way they interact with clients. While some advisors like that level of freedom, others prefer to work with dealers that offer a directed approach to brand identity—up to, and including, establishing specific requirements for signage, office furniture and the types of sales software the advisors have to use during client meetings.

Likewise, Sinclair's dealership hand-picks the fund products it makes available to advisors, and that's not right

for firms in search of a smorgasbord. "We try to avoid getting into relationships with people who want things we don't provide," he explains. "It sounds like a dating service, but it really does come down to, 'Here's what we do. Here's what you do.'"

To that end, he goes to lengths to explain the product approval process. That way, when a request falls outside the firm's comfort zone, there's a transparency to the refusal. "If it's a single product, the cost of due diligence can be high, so we explain that if we're going to get a \$10,000 placement on a product and it's going to cost \$8,000 to do the due diligence, then that's not viable," he says.

For some, product selection isn't an issue. "I've had clients ask me for things that are approved by the dealer that I wouldn't sell them," says Brenda Pullen, a financial advisor with Assante Finan-

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cial Management in Edmonton, noting there's a wider range on the shelf than she'll ever use. "I have to feel comfortable with a product; and I've got my own screening that I do." And, recent hedge fund scandals have made it easier to tell advisors that a product isn't going to reach the shelf, says John Armstrong, vice-president of Manotick, Ont.-based dealer Armstrong & Quail Associates Inc. "As a result of Portus and Norshield, they're OK if you tell them they can't sell something," he adds.

As for advisors, they certainly notice when they're on the receiving end of expectation management. ScotiaMcLeod associate portfolio manager David Bruce says the bank, which acts as the dealer in his arrangement, does a good job of listening, although it sometimes takes multiple requests to get things moving. "I think they feel that if you don't ask more than three times it wasn't important anyway," he jokes.

For example, he wanted to move his practice to fee-based billing, and specifically to establish the type of tiered fee schedule that's used by investment counselling firms. The change was important to the way Bruce wanted to do business, and even though they laid out the budget and compliance considerations related to the request, he stayed on top of his bosses about the issue. "I just kept asking," he says. "Our compliance department is tough but they're fair. They're protecting me as well as the firm and the client and I appreciate that."

Outside of product requests, Sinclair says advisors most frequently ask

I have to **FEEL**
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Brenda Pullen, advisor,
Assante Financial Management, Edmonton

for help with financing either the retention of business or capitalization of a new branch operation. "Someone will come to me and say, 'I want much more to stay, or to join you,'" he explains, adding it's generally a 'No' conversation, but a transparent one because he spells out the related costs, i.e. paying the compliance team, overseeing administrative staff who do nightly trade reconciliations, doing his own accounting, performing all trust work and reporting to the regulators.

"And, we're not a bank," Sinclair stresses. To make that point stick, he and other dealers say, it's crucial to avoid cutting special deals with any one advisor firm. Doing that damages the credibility of the dealer and will set off justified rumblings about favouritism within the advisor community.

One of Bruce's requests that took nearly a year to materialize was the obtaining of his portfolio management licence—although the advisor does acknowledge it was a huge step for his

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firm. An entire program had to be set up and ScotiaMcLeod needed to hire additional people to run the training component and supervise the newly licensed portfolio managers. “Moving from a non-discretionary to a discretionary arrangement is a big leap in terms of compliance,” says Bruce. “They took 25 people in the initial program and probably had two or three times that many people who wanted to sign up. The fact that you’re protecting advisors’ fiduciary responsibilities means you take the time when you implement these kinds of changes.”

Meanwhile, adoption of MFDA regulations covering how advisors hold out to the public raised some relationship-management issues for Armstrong. After the 2004 rule implementation, the regulator began insisting that business cards, websites and other collateral used by mutual fund advisors include the name of the

DANK

We're **NOT** a bank.

registered dealer. Further, the dealer's name had to be equally prominent in terms of its size. That flew in the face of the way many firms had previously done business, and it fell to Armstrong and his fellow dealers to enforce the change. “We had some problems, because people were holding out as John Smith Financial,” he says, “but the rules say the public has to know who the member firm is.”

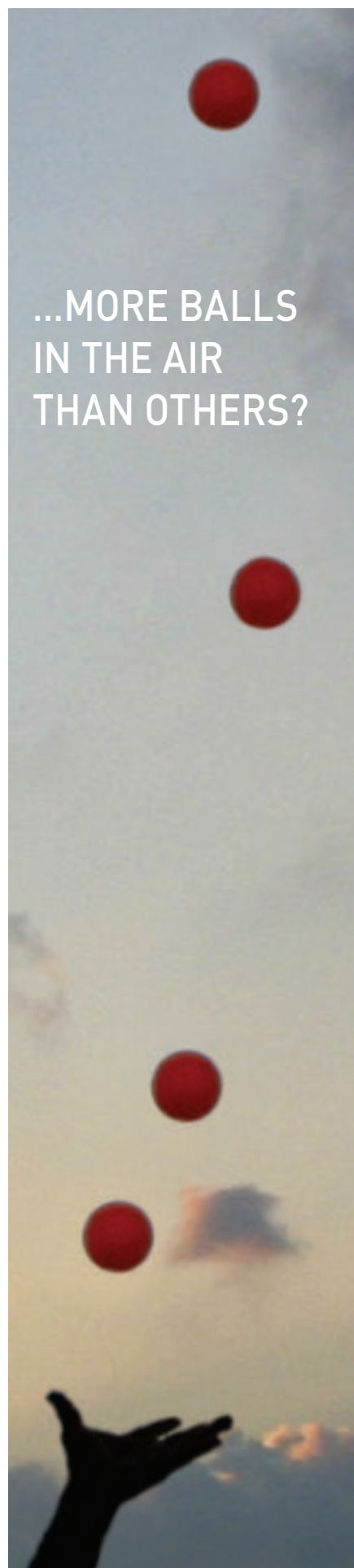
What advisors aren't asking for, but should be, says Armstrong, is better back-office data. “The advisors have lower expectations than they should,”

he asserts. “We make sure they can tell the clients what they have invested in and what it's worth today.” That's more difficult than it sounds because when a client moves funds from unregistered to registered accounts (such as RRSPs), and among multiple funds and account numbers, the trail becomes difficult to follow. “Having multiple funds leads to difficulties in reporting this data properly,” Armstrong says. “There are all sorts of switches going back and forth, but the clients have the right to ask, ‘How much have I invested, what is it worth today, and what has been my compounded rate of return over time?’”

Based on research conducted for the Advisor Group's “Changing Channel: The Future of Mutual Fund Dealers” conference held last September, it appears some advisors already get the message. A full 51% said their expectations for compliance and legal support from dealers are increasing, and 48% said they're looking for more technological support. Pullen agrees that help with processing is a key component and that she needs trained back-office staff possessing ‘can- and will-do’ attitudes. Or, as she explains, “People who will help me with any issues I'm having as opposed to throwing the problem back at me.”

For example, new MFDA rules regarding the transfer of assets from one dealer or institution to another mean one-time bulk transfers must now be handled on an account-by-account basis. That's far more time-consuming, and an advisor will rely on a dealer's back office to make sure the details are handled and the compliance requirements respected.

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As others have stated, the types of requests you get depend in large measure on your business model, and how clear you are about what you offer. Kostas Andrikopoulos, president of T.E. Wealth in Toronto, says the planners that work with his firm understand the value of accessing the pool funds he offers.

"We tell them it's a multi-manager approach; it's discretionary; we help them with the asset mix and off we go," Andrikopoulos says. The planners are charged with providing all the client information to meet the know-your-client rules.

Being receptive to advisor requests can also fatten the wallets of all parties involved. Sinclair was so frequently asked how his dealership could help advisors increase opportunities within their existing books of business that he created a "business X-ray" process to determine whether the clients' insurance needs warranted establishing ties with Aegon's MGA arm. "Someone tends to be stronger on either the fund side or the insurance side," he says. "To get their arms fully around the client and prevent someone else from coming in, it behooves them to service them more completely."

George Aguiar, president and CEO of GP Capital Management Group in Toronto, reports similar experiences and says they spurred him to create an advisor committee within his operation two years ago. The group is charged with keeping the lines of communication with advisors open, and ensuring they're familiar with the services his dealership offers.

Pullen says most dealers are also happy to help you acquire another advisor's book of business. "They're either building or retaining assets by doing that," she notes. "It's an important service they do provide." Sinclair says he's excited when advisors ask for help with recruiting, noting they've requested everything from advertising assistance to the design of an interview process, and putting together compensation packages to lure top people.

Frequently, that recruiting help extends to non-planning professionals. "The planners know their businesses cold, but when it comes to running a full branch, some don't have the experience," Sinclair says. "They may not know about accounting, or the right skill set for an administrator. We've got skills to help them find those types of people and can add value on those pieces that are part of running a business."

Indeed, it's the added value that can bring the symbiosis of the dealer/advisor relationship to new heights. **AE**

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