Ye Merry Olde Planner

British advisers are eager to import American planning ideas, but some work better when you put some English on them

Mary Rowland

In mid-September, the Institute of Financial Planning—the primary professional organization for advisers in the U.K.—held its annual conference at Warwick University in Coventry. To prepare my remarks for the opening talk, I poked around to find out just what state the art of financial planning had reached in England. Most advisers I talked to told me that English planners are three to five years behind those in the United States in terms of their planning strategies and approaches to running a practice.

But that's not what I found—at least not across the board. On some issues, in fact, I suspect they may be a step ahead. As I reported in my Web column in October, the first thing that struck me about the way British advisers do business was the absence of tension on the issue of accepting both fees and commissions. British advisers have the same dedication to holistic planning and to the idea that a planner is a fiduciary. Yet, unlike some advisers in the United States, British planners—even those who prefer fees—are willing to use a commission product when it's in the best interest of clients. For example, David Norton—a planner from Bristol who spoke at the conference—says that 90 percent of his clients seek him out because he is fee based. His firm uses fees whenever possible. "But if we can't avoid a commission, we give the client credit," he says. "That money belongs to the client."

A sound approach, it seems to me. It made me suspect that the National Association of Personal Financial Advisors' anti-commission campaign has been something of a double-edged sword. On the one hand, as I told the attendees at the conference, we have NAPFA to thank for raising the standard of planning so much in so short a time here in the United States. Less than 10 years ago, advisers were struggling to achieve at least some degree of professionalism. Reporters viewed planners as no more than salespeople eager to get their hands in clients' pockets when they weren't looking and relieve them of cash. NAPFA was the standard-bearer for the idea that advisers are fiduciaries, and NAPFA's insistence on fees, fees, and only fees was an easy enough

Illustrations by Brian Raszka

message for reporters to pick up on. We bought it. “Look for a fee-only planner” became the media refrain.

But I think NAPFA—and the press—went too far in insisting that those who choose the high road must take no commissions. As British advisers point out, commission products can sometimes be in a client’s best interest. And when that’s the case, a planner should have the courage to use them. Barry Freedman does. Freedman, chairman of Freedman Financial Associates in Peabody, Mass., rightly argues that for young investors just starting out, paying commissions is often cheaper than paying a fee.

And on insurance products, commissions are tough to avoid. Unfortunately, I’ve seen advisers move in the wrong direction here, giving up the use of insurance products in their practice because they want to join NAPFA. Ross Levin, president of Accredited Investors in Minneapolis, comes to mind. Are Levin’s clients better served because he’s a fee-only adviser and a member of NAPFA rather than a fee-based adviser who offers them insurance—often one of the most complicated financial products clients ever purchase?

Now that *commission* is a dirty word here in the States, clients sometimes get the short end of the stick. Without NAPFA and the press, that couldn’t have happened. Fortunately for clients there, such thinking has yet to take hold in Britain, where “the press is happy to tell people to look for a fee-based planner,” according to Frank Klonowski, an adviser from Leeds.

Does the question of mingling fees and commissions really need to linger? The horse is dead already. We can stop beating it. If I couldn’t trust my adviser to be honest about the commissions he receives and count on him to use them to offset fees, I wouldn’t trust him with the most intimate details of my financial life either.

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One horse that often comes in lame for British advisers, however, is succession planning. They believe they’re far behind their colleagues in the United States in this area, many confiding that they don’t have a clue about how to value or sell their practice. “We haven’t institutionalized customer care the way planners have in the United States,” one adviser told me. “There’s no central way to do things. No two planners do the same thing.” Another admitted, “We know our business is unsalable, and there’s no forum for discussing it either.” Practices like Tim Kochis’s—Kochis Fitz Tracy Fitzhugh & Gott in San Francisco—come to mind and that of Jim Budros and Peggy Ruhlin in Columbus, Ohio, where institutionalizing the busi-

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ness—that is, identifying it not with an individual but with the services it provides—has been a priority for years.

The average adviser in the U.K. is 54, according to Julie Lord, a planner from Cardiff, who moderated the question-and-answer session. One of the most amusing responses in this session came when someone asked Simon Ainscough, a young planner from Manchester, what kind of business he was looking for. "We don't care," he said. "We'll do anything."

It's a cry I've heard before—countless times—as U.S. planners describe the way they felt when their businesses were starting. "If they could fog a mirror, we'd take them on," says Deena Katz, a planner in Coral Gables, Fla., who now, like many other successful advisers, makes dropping bad clients an annual year-end goal.

Apparently, it doesn't take long before young planners like Ainscough realize they've made a mistake. Ainscough will be sorry, one young planner insisted as we walked through the rain to a black-tie dinner. "I've been in business seven years, and I still can't get rid of those early mistakes," the planner said.

One mistake David Norton avoids are clients with unrealistic expectations about investment returns. Wise move. But I think the British expect less. Norton says he eschews people who think they're going to get returns of 15 percent a year. That percentage may be unrealistic in England, but when I did a recent poll of the on-line newsgroup I moderate to see if the bumpy market this year had reduced investor expectations, some investors said they still expect 100 percent a year. I guess they won't be looking for British planners.

The more-modest expectations these advisers hold also help explain a curious product I heard quite a lot about at the conference, an insurance product called a "with profit" scheme. Here's how it works: The product offers a guaranteed return each year—say, 5 percent—which is based on the insurer's investment performance and is reinvested into the product. The product also offers the client a variable terminal bonus that can amount to 60 or 70 percent of the initial investment, one planner told me.

But I'm afraid U.S. advisers would squawk about the transparency. After all, we complain about these issues with mutual funds, don't we? And in this case, there's a big pot of money—billions of dollars are invested in these products in the U.K.—controlled by the insurer.

Expectations notwithstanding, most of the British advisers I talked to say they rarely lose a client. Still, some, like Howard Gannaway, who practices in Doncaster, worries about the Internet as well as the efforts of the Labour government to simplify financial decisions so that everyone can do his or her own planning. For example, the upcoming stakeholder pension in Britain has a government-imposed cap of 1 percent for all fees and commissions. And the government is working out a decision tree that will show individuals how to make investment choices for the pension. Gannaway envisions the day when your computer reminds you to pick up a quart of milk and suggests what kind of life insurance to buy.

The competitive challenges of technology face advisers on both sides of the Atlantic. But when it comes to innovation, many of the British envy the Americans, and not just for their succession plans. One adviser told me that what he most admires is American ingenuity. Samuel Johnson killed British inventiveness with his introduction of the first dictionary in 1755, this planner insists. "Americans have still got the language of Shakespeare," the adviser says. "They have a totally experimental view of life. When they don't have a word for something, they invent it. They're always coming up with new solutions for everything."

Well, I've never thought of my fellow Americans as Shakespearean, but as long as we're on the subject of wordsmithing, let me say that one of the best things about the conference was that Bob Veres wasn't there. Veres, of course, is a journalist and longtime financial-planning guru who attends all the major conferences and writes about them in his newsletter, *Inside Information,* and for Morningstar, at www.morningstaradvisor.com. With Veres safely across the sea, I could write my own report without worrying that he'd beat me to the punch.

One noteworthy conference coming up is Morningstar's cruise to the Caribbean. Is it too much to hope that Veres might miss the boat?

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