



WEIGH HOUSE

Straight answers for investors



Choosing the Right Advice Channel

A Comparison of Investment Advisors and Investment Counselors

May 20, 2010

Weigh House Investor Services
4141 Yonge Street, Suite 304
Toronto, Ontario M2P 2A8
416.640.0550
www.weighhouse.com



Table of Contents

1.	Abstract	2
2.	Executive Summary	2
3.	Introduction	3
4.	Organizational Focus	4
5.	Side-by-Side Comparison	5
	5.1. Standard of Conduct	6
	5.2. Focus	7
	5.3. Investment Philosophy and Process	7
	5.4. Service Offerings	8
	5.5. Managed Products	8
	5.6. Customer Interface	9
	5.7. Performance and Performance Reporting	9
6.	Making a Choice	10
7.	Conclusion	10
8.	About Weigh House	11
9.	Disclaimer	11



1. Abstract

Most investors understand what investment advisors do, and the role they play in wealth management. Fewer investors appreciate what investment counselors do. This paper outlines the differences between these two ‘advice channels’, and provides guidance for those contemplating a change in their advice provider.

2. Executive Summary

Most investors regularly consult with an investment advisor to support investment decisions. While advisory services are offered by banks, investment dealers, distributors of mutual funds, insurance companies and financial planning firms, Canadian investors have two fundamental options when establishing an advisory relationship. They can choose to work with an investment advisor or an investment counselor. Most investors do not appreciate the difference between these two roles.

Investment advisers are typically licensed sales representatives. While some are bound by professional standards (e.g. Certified Financial Planner¹), their standard of care is one of ‘investment suitability’ to clients’ requirements. As long as an investment meets a client’s objectives and risk tolerance, it is deemed ‘suitable’ for that client and may be recommended for purchase.

Investment counselors have much greater responsibility, as clients empower them with discretionary decision-making authority. Specifically, investment counselors make investment decisions on their client’s behalf. With this additional responsibility comes greater accountability – investment counselors are held to a much higher duty of care, the ‘fiduciary’ standard.

As a general rule, investment counselors are the most experienced wealth management professionals and hold the highest accreditations in the securities industry. They are licensed and governed by the provincial securities commissions. To deal with Ontario investors, counselors must be registered with the Ontario Securities Commission (OSC).

‘Investment Counselor’ is a true designation, while ‘Investment Advisor’ can be a euphemism for a licensed dealer representative. The ‘Investment Advisor’ title is bestowed on money managers of the highest caliber, as well as the most junior sales persons.

Advisors typically offer a range of services – financial planning, tax planning or estate planning – not available from investment counselors. In addition, most advisors have a

¹ Professional standards such as Certified Financial Planner (CFP) and Chartered Financial Analyst (CFA) impose the suitability standard in some situations and the fiduciary standard in others.



wide range of investment and insurance products to sell. Consequently, advisors are compensated in a variety of different ways.

Counselors' service offerings are much more limited in scope as they tend to focus strictly on investment management. Within this arena, investment counselors are more solutions oriented. They create and manage investment solutions for investors to address specific sets of requirements. These solutions are formalized in investment policy statements (IPS) that inject considerable discipline into the investment process.

Advisors are not required to follow an IPS, and as such may have a variety of approaches they employ with varying degrees of rigor. They tend to sell investment products that others create.

Investors with \$500,000 or more in investible assets have the option of hiring an investment counselor. The minimum threshold is only a 'rule of thumb' however, as many counselor firms are willing to take clients with smaller portfolios, if they see potential for significant growth.

Regardless of the advisory relationship they choose, all investors should clearly understand the licensing, professional qualifications and compensation of those dispensing advice. When evaluating a professional, be certain to ask about his or her registration, as it provides significant insights into the services offered, their education and experience, the nature of compensation, and the biases that are present.

It is important to recognize that conflicts of interest can and do exist regardless of the how advisors are paid. Conflicting interests cannot be entirely eliminated, but can be mitigated through due diligence in the manager selection and monitoring processes.

3. Introduction

'Investment Advisor', 'Wealth Advisor', 'Financial Planner', 'Retirement Planner', 'Financial Advisor', 'Wealth Management Specialist'.

These are just a few of the many titles given to those who make a living dispensing advice on topics related to personal finance and investing. In many cases, the individuals behind the titles are investment sales representatives, whose predominant role is to sell investment products, thus generating revenues for their firms.

Although many such salespeople are intelligent, well-intentioned professionals, their job description and the manner in which they are compensated, means they have influences and motives that may not align completely with their clients' needs and objectives. This conflict of interest is systemic, built into the incentives prevalent throughout the investment advisory industry.



The various job titles listed above suggest ambitious mandates and broad accountabilities. Unfortunately, these titles are often designed to obfuscate the principal role and motivation of investment salespeople. Obfuscation is never helpful, particularly since choosing a capable, compatible financial advisor is one of the most important decisions investors make. In addition, an ideal advisor-client relationship should last for many years. A relationship that begins under potentially false pretences seems destined to fail.

In most industries, clients know when they are speaking to a salesperson. Familiarity with the job title makes his or her motivations evident. Since both parties know where the other party stands, the rules of engagement are well understood.

'Investment advisor' and other euphemistic titles tend to give clients an incorrect perspective of the salesperson's objectivity. Clients may mistakenly believe the salesperson's prime function is to help them.

4. Organizational Focus

In spite of the many titles common in the investment advisory industry, advice professionals typically fall into one of two categories:

- Investment advisors (formally registered as 'Dealing Representatives'); or,
- Investment counselors (formally registered as 'Portfolio Managers').

On the surface, it can be difficult to distinguish these functions, and indeed many of the differences are subtle.

The most fundamental difference stems from organizational focus. Investment counselors emphasize the design and implementation of investment solutions to address an investor's (or group of investors') specific requirements. The 'solution focus' of an investment counselor firm brings a stable of qualified resources to bear on a requirements set.

Investment advisory firms are 'product centric'. They focus on selecting products that best fit the indentified needs of clients. Large advisory firms have large product sets to choose from, so they are able to address a wide variety of product needs.

To put it another way, investment counselors generally create solutions for investors while investment advisors sell products that others create.



5. Side-by-Side Comparison

ATTRIBUTE	INVESTMENT ADVISOR	INVESTMENT COUNSELOR
Registration	Dealing Representative	Portfolio Manager
Education	A typical advisor is university educated (bachelors degree), and often holds a Certified Financial Planner (CFP) designation. Other popular designations include Canadian Investment Manager (CIM), Personal Financial Planner (PFP), Registered Financial Planner (RFP), Chartered Life Underwriter (CLU) and Financial Management Analyst (FMA).	A typical counselor holds a Master of Business Administration (MBA) degree, Chartered Financial Analyst (CFA) designation, or both.
Accreditation	Advisors require the basic Canadian Securities Course and Securities Handbook, plus 180 days of supervision. They must complete a financial planning course within 30 months.	Counselors require a CIM or CFA designation, five years experience managing portfolios, and the approval of the Ontario Securities Commissions (OSC).
Experience	Modest financial experience is required, as an advisor's principal responsibility is to make sales.	Counselors typically have 10 more year's experience in portfolio management, investment analysis or a related discipline.
Discretionary Management Authority	To limit their liabilities, brokerage firms restrict discretionary management authority to those advisors with a CIM or CFA designation, and three or more years' experience. Discretionary authority sometimes manifests through WRAP ² programs.	Yes
Oversight Body	Most are governed by the Investment Industry Regulatory Organization of Canada (IIROC), a self regulatory body comprising industry participants. Others, with a smaller scope of responsibilities, are governed by the Mutual Fund Dealers Association (MDFA)	OSC
Standard of Conduct	Suitability Standard. Legal requirement to 'know your client' and his or her stated tolerance for risk. Advisors must recommend investments that are consistent with this risk tolerance.	Fiduciary Standard. Legal requirement to act in the best interests of the client at all times.
Fair Dealing Requirement	Trades can be allocated to select clients. (Allocation is often determined by account size.)	All accounts (for which the trade is suitable) must share in trades proportionately.

² A WRAP account is an account in which a brokerage manages an investor's portfolio for a flat quarterly or annual fee. This fee covers all administrative, commission, and management expenses. Sometimes this also includes funds of funds. The advantage of a WRAP is that it protects you from overtrading. This is when your broker trades your account excessively to make more commission. Furthermore, because the broker gets a flat annual fee, then he or she only trades when it is advantageous to you. A traditional WRAP typically requires an initial investment of at least \$50,000 to \$100,000. From: <http://www.investopedia.com/terms/w/wrapaccount.asp>.



Audit Requirements	The investment firm's compliance department. The firm will have additional audit requirements from IIROC.	OSC and independent financial auditors.
Client Type	Retail	Retail and institutional, such as pensions and foundations.
Account Size	Advisors typically take on accounts of any size, subject to their employer's approval. Some advisors have minimums on certain account structures (for example, a minimum of \$100,000 to enter a WRAP program.)	Counselors typically state a minimum requirement in the range of \$500,000 to \$2 million to open an account. There may be larger minimums for segregated accounts as opposed to pooled funds. Counselors often relax minimum account size requirements for those with higher incomes.
Fee Structure (i.e. what you pay)	Clients in relationships with advisors can pay several types of fees: 1) commissions on buy and sell transactions; 2) product management fees (e.g. the MER on a mutual fund); 3) fee for service, (e.g. an hourly rate); 4) a percentage of assets under management, as in a WRAP program; and, 5) any combination of the above. Fees are reviewed by the advisory firm's management. Some fees, such as the MER on a mutual fund, are well hidden.	Counselors' fees are determined by a percentage of assets under management. Occasionally, a performance-based fee is levied. Fees are audited by the OSC; all fees must be justified to the OSC as part of the mandate. Counselor firms must earn fees predominantly from investment management activities and fees must be fully disclosed.
Compensation Structure (i.e. what they receive)	The majority of advisors receive commissions derived from product sales. Some receive a percentage of assets under management. Others are on salary, with or without a bonus.	Counselors typically receive a percentage of management fees brought in. Sometimes they are salaried, with or without a bonus.

Figure 1: Investment Advisors and Investment Counselors

The following sections expand on some important differentiating attributes.

5.1. Standard of Conduct

A distinguishing characteristic of investment counselors is that they are held to the fiduciary standard of care.

A fiduciary is defined in law as 'a person who occupies a position of such power and confidence with regard to the property of another, that the law requires him or her to act solely in the interest of the person whom he or she represents. They may be



contrasted with persons in an ordinary business relationship, in which each party is free to seek purely personal benefits from his or her transactions with the other.³

A fiduciary must:

- Put the client's best interest first;
- Act with prudence – with the skill, care, diligence and sound judgment of a professional;
- Not mislead clients – provide transparent, full and fair disclosure of all important facts; and,
- Avoid conflicts of interest wherever possible and disclose conflicts that are unavoidable.

Investment advisors are held to a lesser standard of care – one of 'investment suitability' to clients' requirements. If an investment meets a client's objectives and risk tolerance, then it is deemed 'suitable' for that client and may be recommended for purchase.

As an example, investment advisors are not explicitly required to choose low cost investment alternatives when all else is equal. Investment counselors must, within reason, choose the least costly option from otherwise equal alternatives.

5.2. Focus

Advisors are usually responsible for both sales (prospecting through close) and service / implementation functions. Since their compensation structure rewards them more for sales than for service / implementation, advisors typically focus on sales rather than prudent portfolio management.

Within a typical counselor firm, the sales and the implementation functions are split. There is usually a relationship manager responsible for sales and a portfolio manager who makes investment decisions. This allows one person to focus on managing your portfolio (rather than attracting new clients).

5.3. Investment Philosophy and Process

Investment counselors manage investments in accordance with well-defined investment mandates. They take clients through a rigorous process to determine investment objectives, risk tolerance and constraints that are set out in an investment policy statement (IPS).

³ <http://www.britannica.com/EBchecked/topic/206124/fiduciary>



Investment counselor firms have defined strategies for managing money. These strategies guide asset mix decisions and security selection for both fixed income and equity investments. Many counselors manage money for large institutional investors, who demand rigorous processes for money management. This same rigour is extended to private clients.

Investment advisors are not required to provide or follow a specific mandate, and as such may employ a variety of investment strategies – or none at all. Advisors do not typically articulate strategies in formal investment policy statements.

While the lack of a formally-articulated strategy suggests an undisciplined approach to investing, this may not be the case. Advisors often employ simple processes which define how investments will be selected.

5.4. Service Offerings

Advisors typically offer a very wide range of services, depending primarily on what they are licensed to sell. Some are registered to sell mutual funds and securities, while others can sell insurance products. Some are licensed to sell both.

Many advisors provide financial planning services. These services are sometimes free, but typically limited in scope to those topics relevant to the products offered for sales. For example, an advisor selling mutual funds tends to focus on retirement and education planning, while an advisor offering insurance might focus on insurance needs.

Other investment advisors, particularly those that charge a fee for service, may prepare more comprehensive financial plans that incorporate retirement planning, insurance planning, tax preparation and planning, estate planning and business / succession planning.

Counselors' service offerings are much more limited in scope. Most firms offer only discretionary investment management services, while others offer basic financial planning and referrals to tax or estate specialists.

Most counselors prefer to work with clients' existing accountants, lawyers, insurance providers and financial advisors to remain focused on the investment management process.

5.5. Managed Products

Some investment counselors offer pooled investments without prospectuses. For these investments, counselors must draft a mandate document for the pool that is filed with the OSC. They are required to closely adhere to the established mandate and compliance is subject to audit. These pooled funds are similar to mutual funds. There



are usually no trailer fees, upfront fees or deferred sales charges associated with these funds however.

Most advisors sell mutual funds, new issue products, and other managed products such as principal protected notes. They often sell funds ‘managed’ by sub-advisors. These sub-advisors operate much like investment counseling firms in that the funds are managed to a set mandate. (Advisors do not have any control over the mandate of managed funds, but they may select from a universe of funds with a wide array of mandates.)

It is important to note that, through these ‘outsourced’ funds, investment advisors have indirect access to the same level of portfolio management expertise as investment counselors offer directly. For example, an investment advisor could offer a WRAP program or mutual fund comprising the same securities as a pooled or segregated fund offered by an investment counselor firm.

Invariably there are cost differences – an investment advisor’s fee is usually higher than a counselor’s for the same portfolio because there are more parties sharing in the revenue. (The fund manager, advisor and the advisory firm all must be compensated.) If the advisor provides tax, estate, insurance or other financial planning advice not offered by the counselor, the extra expense may be warranted.

5.6. Customer Interface

Clients usually interface with an advisor or his or her assistant. Typically, there is no direct access to the portfolio manager (who manages the investments).

At a counselor firm, it is normal business practice for clients to have direct access to the portfolio manager in charge of their accounts.

5.7. Performance and Performance Reporting

Since investment counselors follow stipulated mandates, they are able to provide historic performance reporting that is highly reflective of the average account experience. Their performance reporting is overseen by the OSC and should comply with the Global Investment Performance Standards (GIPS)⁴.

In general, investors with a counselor can rely on the performance numbers as ‘evidence’ of the investment process. That said, portfolio performance versus a benchmark is typically not provided, but most counselors are willing to provide better reporting information to clients who request it.

⁴ The GIPS standards are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective clients. Compliance to the standard is voluntary. Firms must adopt the standard across their organizations to claim compliance.



Advisors are not required to follow any specific mandate and as such, different clients can experience vastly different performance. Advisors generally limit reporting information to listings of current holdings and transactions over the previous period. Most do not provide historic results or portfolio performance compared to a proper benchmark. Consequently, they are typically unable to provide ‘proof’ of their investment process. Like counselors, many advisors are willing to provide better reporting information to preferred clients who request it.

6. Making a Choice

When choosing between an investment advisor and an investment counselor, the fundamental question is not “which one is superior?”; but rather, “which one is better suited for my circumstances and preferences?”

There are situations in which investment advisors are better suited and others in which investment counselors are the better choice. A couple of these situations are described in the following table.

Investment advisors are best suited for ...	Investment counselors are best suited for ...
Investors with small portfolios or those who want to take an active role in managing their investments, with assistance from a professional.	High net worth individuals (and families) primarily concerned with prudent management of their investments. Counselors are well suited to investors who do not wish to be actively involved in the day-to-day management of their investments. These investors should not require advanced financial planning services (perhaps because they are receiving such services from another firm).

Figure 2: Choosing an Investment Professional

The first factor to consider is whether your portfolio is large enough to open an account with a counselor – usually \$500,000 is required, perhaps less for those with higher incomes or high income potential. Investors with small portfolios are generally limited to investment advisors.

7. Conclusion

Both investment counselors and investment advisors can be qualified, competent money managers with strong historic performance and high ethical standards. Those who have an extremely capable advisor should be confident in maintaining their relationship with that advisor.

As a general rule, we believe that investment counselors have better qualifications, more experience, stricter oversight, and results that are easier to both verify and duplicate. While utilizing an investment counsel firm will not guarantee better results, we believe it



will increase the probability of better results. As such, it is another risk control mechanism. The fact that the fees are generally lower is an added benefit that also increases the chance of investment success.

Hiring an investment professional – advisor or counselor – is one of the most important financial decisions that most investors will ever make, yet it can be difficult to choose. Important qualifying questions are:

- What is your registration?

This is the quickest way to cut through the ‘name game’ and discern if the investment professional is licensed as a sales representative or a fiduciary.

- What are the services you offer?

There can be advantages to consolidating suppliers for a variety of personal financial services. Single suppliers can become much more intimate with clients’ circumstances and needs.

- How are you compensated for those services?

Investors should be cognizant of the various compensation structures, particularly for investment advisors, and how they could influence the advice provided.

For investors looking for additional assistance, Weigh House offers consulting services to help clients identify, qualify and retain capable and compatible investment counselors.

8. About Weigh House

Weigh House Investor Services is the first choice for straight answers for Canadian investors. Certified by the Centre for Fiduciary Excellence (CEFEX), Weigh House provides fee-for-service personal financial planning, investment portfolio strategy and assessment, investment counselor searches, and ongoing portfolio monitoring for individual investors, employees and not-for-profit organizations. The company employs the proven strategies utilized by institutional money managers to improve investment returns, while reducing investment risks, management fees and taxes. For further information, please visit, www.weighhouse.com.

9. Disclaimer

The information and opinions contained in this document should not be construed as legal, investment or tax advice, and readers should consult with their own legal, regulatory, tax, investment, financial and accounting advisors to the extent they deem necessary to make their own independent investment decisions. This information,



WEIGH HOUSE

Straight answers for investors



including any opinion, is based on various sources that are believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. Weigh House Investor Services makes no warranties, express, implied or statutory, with respect to the information provided herein, and under no circumstances will be held liable for any decisions based on it.