PORTFOLIO STRATEGY

Solving the problem of well-intentioned investment advisers who give bad advice

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John De Goey, seen here in 2012, is a portfolio manager and certified financial planner (CFP) at Wellington-Altus Private Wealth.

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If you want better investment advice, ask tougher questions of your adviser.

That's the idea behind the latest book by John De Goey, an investment adviser who advocates for investors. Mr. De Goey believes most advisers are trying to do good work for clients, but they often fail because of misguided thinking. Selling high-cost investment products and chasing investments with great returns are all part of it.

The best way for investors to deal with these and other aspects of bad advice is to press their adviser with questions, says Mr. De

aim of disrupting the financial advice business.

Here's an edited transcript of a Q&A with Mr. De Goey about his book and what it offers investors who want better advice:

John, lots of investors believe fees are the biggest problem area in dealing with an adviser. What do you think about that?

I half agree with them. But it's about value. What are you getting for what you're paying for? Price is the conspicuous part – this is how much you're paying. What's less obvious and more circumstantial is what you're getting in return.

You've written four editions of a book for advisers (*The Professional Financial Advisor*) on how to provide good advice – is it fair to read the new book as a recalibration? An attempt to promote change by equipping investors to ask better questions and thereby get better results?

Exactly. Heaven knows, I tried to get advisers to be more professional, to wear the white hat, to be the good guys in the spaghetti Western of personal finance. And they ignored me because they were convinced that they were doing everything properly. The only way I can actually effect change – because, you know, I've given up on regulators – is to give investors the tools to do this. The problem is, Canadians are notoriously docile. They tend to accept whatever answers they're given, no matter how ridiculous they are.

You say in the book that Canada has too many advisers for our population – why is this?

The industry likes it that way, and the barrier to entry is very low. The industry has never had the gumption to actually say, we've overbuilt and we should get rid of the people who are more marginal.

You characterize advisers as largely well-meaning, but too often oblivious. Oblivious to what?

Oblivious to the evidence that advisers should be more diversified in the products they recommend and the asset classes, that cost matters a great deal and then, and this drives me batty, that mutual fund past performance has nothing to do with mutual fund future performance.

Can you give us an example of bad advice given with all sincerity and good intentions?

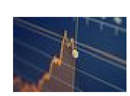
"This whizz-bang fund, which costs 2.4 per cent as a management expense ratio, has done really well in the past three years and it has a five-star rating from Morningstar." This is bad for two reasons. Number One, doing well in the past three or five years doesn't mean anything. Past performance isn't reliable. Also, this MER is expensive.

How important is financial planning to good advice?

The research shows that people who have a financial plan feel more comfortable, and so they sleep better at night. It's the peace of mind of knowing that as long as you continue to do what you're doing – saving regularly, paying down non-deductible debt – that you're going to be fine.

How big an issue is commission-based compensation for advisers? I'm thinking of trailing commissions for advisers and their firms that are buried in the cost of owning mutual funds.

The evidence seems quite clear, given what happened in the U.K. When the U.K. got rid of embedded compensation, there was a significant migration toward what I'm going to call a product meritocracy, toward better products. A person's business model should never drive their product recommendations, but that's what's happening in the industry. The industry is biased in favour of embedded compensation, and embedded compensation is part and parcel of high-cost products.



The way you do it collaboratively is to be explicit and emphatic when you start asking questions. You say, “Look, I’m not here to cast aspersions on your motives. But I am trying to get the best possible outcome for my portfolio and for my financial life. As a result, I need to have a full and frank discussion about certain things.” It’s difficult to do that without a little bit of discomfort, but it doesn’t have to be massively uncomfortable. There are about 50 questions to ask your adviser in the book and they range from the general to the specific [see sidebar].

One of the best parts of the book is a section titled “cutting through adviser bafflegab”– are there any examples that particularly stand out for you?

The one I think is most astonishing is, “It’s a stock picker’s market.” Whenever someone says this is a stock picker’s market, I say, “Oh, it is? That implies there are other markets that are not stock picker’s markets. Tell me, when was the last time we were not in a stock picker’s market, and what did you tell your clients about it?”

What can you tell investors to give them the will and courage to question their adviser about issues like fees and the products used in portfolios?

The questions you are asking are legitimate and anyone who is offended by them is probably not a person you want to deal with. No one is ever going to care more about your finances than you. If you think the industry is looking out for your best interests, you’re oblivious yourself.

When people have the conversations with their adviser that we’ve been talking about, do you foresee that most will a) end up with a better outcome with the same adviser or b) decide they have to move to another adviser?

Either outcome is a better outcome. As long as you move away from misguided advice. What we need to have happen is that advisers who steadfastly refuse to change lose business as a consequence of their refusal.

In his book *STANDUP to the Financial Services Industry*, adviser John De Goey offers a long list of questions to ask your adviser to see whether you’re getting good advice – and what to look for in the answers you get. Here are some excerpts:

Can you explain the differences between active management, passive management and factor-based investing?

What you’re looking for: “You’re testing for reasonableness (i.e., lack of overt bias). In reality, choosing between competing value propositions is not about active versus passive or mutual funds versus ETFs. It’s mostly about cost, which is a reasonable proxy for value.”

What per cent of your typical client’s portfolio is invested in Canada? Why?

What you’re looking for: “Canada represents only about 3 per cent of the world’s stock market capitalization. If you have little or no money invested outside of our borders, you might be missing out on opportunities.”

What would you say is your primary role as an adviser?

What you’re looking for: “There are many potential reasonable answers to this question, but you should try to see if the adviser will commit to some proactive form of behavioural coaching.”

What makes you different than other advisers that I might employ?

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