

Financial Advice: Worth the Price?

There are some investment products you just can't get without an adviser

By [Lauren Young](#)

How valuable is your financial adviser?

After seeing even carefully crafted portfolios devastated by the market turmoil, many investors are wrestling with that question. Yes, good advisers will hand-hold during rocky periods and can help you stick to a smart asset-allocation plan. But what kind of entrée, or break on fees, can you get from an adviser that you can't get on your own? Here are some answers:

MUTUAL FUNDS

Fund families put a lot of effort into building relationships with financial advisers because their clients' money is more "sticky" and usually more substantial than the average retail account. Advisers are rewarded by being able to give clients access to funds at the same low fees charged to institutional investors, says Stephen Wetzel, a certified financial planner at Prometheus Capital Management in Yardley, Pa.

The biggest leverage advisers have is that they can pool client assets to get those institutional share classes of funds, which can otherwise have a \$5 million minimum. Expenses are typically one-quarter to one-third of a percentage point below that of retail shares, says Ronald Deutsch, an adviser at Sage Capital Management in New York. He likes the PIMCO Total Return (PTTRX) bond fund, which has a five-year annualized return of 5.7%. Expenses for its institutional shares are nearly half those for its retail shares.

Some fund families primarily cater to financial advisers, so it can be difficult to buy their funds on your own. Austin-based Dimensional Fund Advisors (DFA) sets a high hurdle for advisers who want to sell its index funds, which rely on quantitative modeling. "They want people to understand the science of their funds ... and they want people who are going to be intelligent users of what they have to offer," says David Yeske, a certified financial planner at Yeske Buie in San Francisco. He sat through a two-day seminar at a Santa Monica (Calif.) hotel and, after additional vetting to make sure he had a buy-and-hold philosophy, got approval to distribute DFA funds to his clients. The lure for Yeske is DFA's microcap and international small-company value funds, which have below-average expenses and above-average performance.

One of the most popular fund families with independent as well as broker-affiliated advisers is Los Angeles-based American Funds, whose funds are only sold through advisers. It is now the nation's largest mutual fund company. The firm spends a lot of time educating advisers about its team-managed funds, which have deep investment expertise, low costs, and excellent long-term track records, says Russel Kinnel, director of mutual fund research at Morningstar (MORN), the Chicago-based fund tracker. "They have been good long-term stewards who have not burned investors the way a lot of the other broker-sold fund families have in recent years," Kinnel says.

SEPARATE ACCOUNTS

Separately managed accounts, at first glance, resemble mutual funds. At the core of the accounts, offered by asset management firms like Neuberger Berman and AllianceBernstein, are portfolio models representing a wide range of investment styles. But unlike a mutual fund, investors own the actual stocks and can remove those they don't want. The funds also give investors the ability to take gains or losses in ways that can minimize taxes. A client of Jonathan Bergman, chief investment officer at Palisades Hudson Asset Management in Scarsdale, N.Y., had 70% of his \$100 million portfolio tied up in the household-products industry. Since it didn't make tax sense to liquidate holdings immediately, Bergman worked with an asset manager to build a personalized separate account. It features a Standard & Poor's (MHP) 500-stock index portfolio that excludes household-product companies. Bergman has winnowed his client's stake in the sector to 6% by offsetting gains on those stocks with losses in other holdings and reinvesting in other sectors. When compared with fees on institutional shares of mutual funds, those for separate accounts are higher, with expenses ranging from 1% to 1.25% of assets.

HEDGE FUNDS

Sage Capital's Deutsch works with a group of smaller hedge funds that he has screened by meeting with management, auditors, and lawyers. The price of admission is usually \$1 million or \$5 million, but in some cases Sage has been able to negotiate minimums of \$250,000 for clients. (Clients still have to be "accredited"--meaning they'll need \$1.5 million in assets.)

Merrill Lynch (MER) clients may even get access to high-profile hedge fund managers. In February Merrill offered 400 clients a conference call with hedge fund giant John Paulson, of Paulson & Co. (BAC), who predicted the meltdown in the mortgage market. Paulson "really got it right over the past few years," says John Olson, a wealth management adviser with Merrill in New York. Paulson fielded questions from current and prospective investors on the call. Olson notes that a big firm has full-time staffers performing due diligence on managers.

PRIVATE EQUITY

Investors typically need \$5 million to get into a private equity fund, but advisers can pool accounts to get clients lower minimums. Due diligence is "enormously labor-intensive," says Bergman. His firm invests in one out of every 10 private equity deals it reviews. "It's not terribly difficult to access private equity, it's just not easy to access good private equity," he says.

MANAGED FUTURES

Managed futures funds buy and sell currency, commodity, and equity futures as well as other derivatives within a limited partnership structure that affords tax protection. They try to capitalize on volatility using computer models to identify trends that may last a few days or months. Costs are typically 2% of assets, and an adviser doesn't have much leverage to negotiate lower fees among the 100 or so funds available.

After fees, some of the better-managed, medium-risk futures funds have returns in the lower teens, says Louis Stanasolovich, president of Legend Financial Advisors in Pittsburgh. He likes the fact that investors can trade in and out of managed futures once a month. He thinks that gives managed futures funds an edge over hedge funds, which may let investors withdraw money only a few times a year.

STRUCTURED NOTES

Structured notes are derivatives for retail investors. While structures vary, these hybrid securities combine some type of underlying bond with an options contract. The option

bets on the direction of stocks, currencies, or other asset classes and can allow investors to benefit from up markets while receiving some downside protection. The notes are created and often backed by financial institutions such as JPMorgan Chase ([JPM](#)).

In a low-rate environment, such notes are popular with advisers because they offer yields as high as 8% and the potential to minimize losses. Costs for bank-sold versions range from 2% to 3%, though independent advisers such as Stanasolovich will combine client assets to get commissions as low as 0.5%. But sometimes an adviser's value is his advice about what not to buy. "We've evaluated hundreds of notes and only used three," Stanasolovich says. "Most notes we see, we don't like. There's not enough return, given the risk you are taking."

[Young](#) is a Personal Business editor for BusinessWeek .

Copyright 2000-2009 by The McGraw-Hill Companies Inc. All rights reserved.

The McGraw-Hill Companies