How To Fire Your Financial Advisor

Every week I get an email from someone who wants to fire their financial advisor. Sometimes they are upset about high fees, bad customer service, or bad advice, but often they just wish to "take control" and do it themselves in order to minimize investment costs and maximize investment control. It should be very clear to any reader of this blog that I have no problem whatsoever with using an advisor, so long as the advisor charges a fair price for good advice. If the advisor charges too much, or gives bad advice (or both as if often the case), you should fire them. You can then either hire a good advisor, or become your own financial advisor.

There's No Rush

For some reason, once people make the decision to fire an advisor, they seem to be in a big rush to do so. There's no reason to rush. If you spend a few months educating yourself, drawing up a financial plan, and writing an investment policy statement (all of which you should do before becoming your own financial advisor), that's not going to harm you any. You simply won't spend that much on commissions or fees in just a few months. Take your time.

Bad Advice

I have no qualms in recommending that you fire an advisor that gives bad advice. If your adviser recommends market timing, sector rotation, frequent churning of investments, mixing insurance and investing, high expense ratio mutual funds, loaded mutual funds, or individual stock investments, then he needs to be fired. This is an easy decision. If you've decided you want to do it on your own, then fine. You're probably not going to do worse than this chump, especially on an after-fee basis. Go for it without a second thought. Here's a good example of a typical email I get about advisors like this:

> *I had a financial planner (at least he is a CFP) who I thought had my best interest at heart. Then you opened my eyes to all the money I was losing: loaded mutual funds, 1.5+% expense ratios on actively traded funds, $50+ transaction fees for stocks that were trying to time the market. Needless to say, I've submitted paperwork to move all my money away from that account, and have created a portfolio of index funds (80/20 stock/bond) with a average expense ratio of 0.14%!*

Expensive Advice

However, I occasionally get an email about firing a fee-only advisor that I know is pretty good. The only good reason to fire a good advisor is that you would like to boost your return by avoiding the fees. This is okay too. I don't pay an advisor for financial planning or for asset management for exactly this reason. Whether the advice is costing me $1000 a year or 1% of my portfolio, I simply don't value it, so I don't pay for it. I feel like I can do just as good of a job for just a little bit of time that I would otherwise use playing video games or something. But I always pause before recommending someone else fire a good advisor because I don't know that that person can do it as well as the advisor.

For example, I had a reader write me a few weeks ago that wanted to fire a typical DFA-authorized advisor. He was being charged fairly typical fees (1% I believe) for a small and value tilted portfolio of low-cost DFA funds. The investor didn't seem to have much of a plan for his investments after firing the advisor, but seemed to be leaning toward something very simple, such as a three-fund portfolio or a target retirement fund through Vanguard. Is it possible his lower cost simple do-it-yourself portfolio will outperform a higher cost tilted one? It's possible, but it seems less likely to me. Even adding in the fees, it's quite possible that the investor could do worse investing on his own, especially if he falls prey to many of the common behavioral errors that investors are famous for, like selling low.

If you're firing a good, but expensive advisor to do it on your own, you'd better have an investing plan that is just as good (or at least close to as good) as the advisor's plan for you (feel free to steal it if you like it, since you already paid for it.)

Consider A Lower Cost Advisor

If you're just upset about the fees, and feel like the advisor is ripping you off, then consider going with a lower cost advisor. You can hire an hourly financial planner through the Garrett Financial Network for an occasional financial check-up for a few hundred dollars. If you want asset management you can get that for as little as $1000 a year through FPL (one of my advertisers), or for $3000 a year through Cardiff Park Advisors or as little as 0.37% (minimum of $3700 a year) through Rick Ferri's Portfolio Solutions. Some people like a "full-service advisor" and are willing to pay for it. If you're fee-conscious but still like having someone else manage your assets, all of these firms are much cheaper than the typical advisor.

You Don't Have To Meet With The Advisor To Fire Him

The physical process of firing a bad financial advisor is to simply contact the new custodian (such as Vanguard) who will send a form to the old custodian asking them to liquidate your retirement accounts and send them the money. You can request that taxable assets be transferred in kind. Your advisor will get the hint. If you're firing a fee-only advisor, a simple letter or email will suffice to terminate the fee arrangement. If your advisor has the right to place trades in your account, you'll also need to rescind that authority with a written notice. Many brokers, mutual fund salesmen, and insurance agents masquerading as advisors will go into full-on sales mode to keep your business, hounding you to no end. A simple, "No thank you, I've made up my mind" is all you need to say on the phone. It can be a little harder if you're firing a friend or relative (all the more reason not to use one.) Perhaps a more diplomatic "I value our personal relationship so much that I didn't want money affecting it so I've decided to move it elsewhere" would be appropriate. More likely, you'll have to wonder how good of a friend he can be if he's put you into all those loaded mutual funds and whole life insurance policies.

Expect A Few Fees

You'll likely be paying some money to transfer your account away, perhaps $100 per account. You may also have to pay commissions to liquidate some of your stocks and mutual funds in retirement accounts. In a taxable account, if commissions are high at your old brokerage, transferring them in kind to your new brokerage prior to selling can save you a lot of money. You may also owe some advisory fees, depending on your contract with the advisor. Read it carefully. You can ask for more money, but I wouldn't count on getting it unless they've done something illegal, which is unlikely given the "suitability standards" that most advisors work under. They see you (rightly) as lost business at this point, and are likely to charge you every dollar possible. You may be able to save some money by keeping your accounts at the same brokerage, and just eliminating the advisory relationship. Many advisors are already using low-cost brokerage services such as Fidelity, Charles Schwab, or Wells Fargo for your money.

Implement Your Plan And Stay The Course

As soon as your money arrives at the new custodian, or as soon as your advisory relationship is terminated, you can implement the plan you previously drew up. Don’t stress over it too much, it becomes much easier to do it yourself as the years go by. If you start managing your investments when they total a 4 or 5 figure sum, it’ll be just as easy to manage a 6 or 7 figure sum. Quick action is rarely needed in successful investing. Think of your portfolio like an aircraft carrier or a cruise ship – don’t make rapid course changes and stay the course through any kind of weather.