The Perfect Financial Advisor

I am often asked for recommendations both on how to choose a financial advisor, as well as people asking specifically for recommendation for a specific financial advisor. My mantra with financial advice is “Good advice at a fair price.” However, when it comes down to specifics, I am often left with a conundrum of one sort or another. You see, I haven’t yet found the perfect financial advisor to send blog readers to.

The Do It Yourself Solution

Sometimes people asking for a financial advisor recommendation are simply asking the wrong question. Perhaps what they should be asking is, “Do I need to hire a financial advisor, or if I am willing to put in a reasonable amount of effort and discipline, can I do this on my own?” You see, although I often recommend advisors, and have sold ads to many of them, it is pretty easy for readers to see that I’m not paying anybody else to do my financial planning or asset management. “That’s fine,” you may say, “but you’re The White Coat Investor! Of course you don’t need a financial advisor.”

Well, the truth is that you don’t have to know everything (not that I do) about finance to take care of your own finances. You only have to know the parts that apply to you. For example, I would have never learned anything about how student loans or student loan refinancing works if I wasn’t writing this blog. It just doesn’t matter to me. Likewise, once you have a mortgage you don’t need to follow all the new developments in this space. Once you have a reasonable investing plan, you don’t have to learn a dozen other ways to
get to the same goal. Estate planning doesn’t have to be done every year and you don’t have to know the asset protection laws in any state but your own. Disability insurance and life insurance only has to be bought once in your life. You don’t have to know *how whole life insurance works* if you don’t want to learn, you can simply ignore it along with dozens of other optional financial products. The amount of knowledge you have to assemble in order to do your own financial planning and investing can be surprisingly minimal, especially when you consider two factors.

The first factor is that you want to make all your mistakes, especially your investing mistakes, when you’re young and have a small portfolio. Hopefully by the time you’re in your 50s and are faced with a decision about what to do in a stock market downturn, you’ve already been through 3 or 4 bear markets. Perhaps you went through your first one at 30 with a 4 figure portfolio.

The second factor is that it’s okay to make a few mistakes that cost you real money, because it isn’t like financial advice is anywhere near free. Good advice is pretty expensive stuff. For example, at a pretty typical 1% of assets under management fee, a doctor saving $50K a year for 30 years will
end up with $5 Million instead of the $6 Million he would have had if he had done it (correctly) himself. The way I look at that is that I can make up to a million bucks worth of mistakes and still come out ahead. I’m a slow learner, but I’m not that slow. That also assumes, of course, that the advice you are getting is good and that your advisor doesn’t make any of the mistakes you make on your own.

The Perfect Advisor

I have a list of recommended advisors (who are also for the most part advertisers on the site.) I think they’re all good people running a great business. However, none of them are perfect and I don’t think their businesses are either. Here is what the perfect advisor would look like to me:

# 1 A fiduciary duty

This means the advisor’s first duty is to do only what’s right for me. A Hippocratic Oath if you will. You would be surprised how many advisors are only held to a lower “suitability” standard instead of a fiduciary one.

# 2 An up-to-date academic understanding of the field

Financial advising and investing isn’t physics by any means, but there is an academic literature containing important concepts. The perfect advisor is familiar with all of it. He probably subscribes to a journal and reads a blog like Michael Kitce’s regularly. He could discuss the weaknesses of The Trinity Study, knows the difference between Fama and Bogle, and is an expert on financial history.

# 3 A meaningful designation

There aren’t very many designations in the financial field that mean much. My list is very short- CFP, ChFC, CPA/PFS, and CFA. The perfect advisor ought to have one. Heck, if I’m going
to pay someone for financial planning, they’d better have one of those first three designations. If he wants to manage my investments too, he’d better have a CFA. Personally, I think it’s criminal that someone can practice in the financial advisory field BEFORE getting what should be the minimal education. He certainly won’t be practicing on my investments. Even the CFA, probably the hardest of these designations to get (not counting the CPA portion of the CPA/PFS combo) only requires 15 weeks of studying over a 2.5 year time period. An advisor without one of these designations is telling me he isn’t committed enough to his profession to do less than a semester’s worth of studying about it.

# 4 A clientele just like me

Doctors have a few unique things going for them and the perfect financial advisor knows all about them. He knows the ins and outs of PSLF, has walked multiple clients through each of the student loan refinancing companies, knows what to look for in a physician contract, has designed retirement plans for many small practices, and does 8606s in his sleep. It would also be nice if the advisor had the ability to evaluate many of the alternative investments doctors are pitched- imaging centers, surgical centers, syndicated hospital shares,
practice buildings, life settlements, and other investments only available to accredited investors.

# 5 A reasonable investing strategy

Every advisor (and investor) invests a little bit differently. Maybe he uses DFA funds, or a combination of low-cost ETFs. Perhaps there is a little bit of an active management tweak based on valuations or momentum. Maybe he includes some alternative investment classes like peer to peer loans, commercial real estate, or (gasp!) some type of cash value life insurance. Fine. I can live with all that. There are many roads to Dublin. But the overall strategy needs to be reasonable. If the entire strategy is based on buying massive quantities of whole life insurance, avoiding “Wall Street” entirely, picking individual securities, or some market-timing scheme, beware! The perfect advisor is laser-focused on the cost of his recommended investments. Advisors who are not cost-focused like to preach that “Cost is what you pay, Value is what you get.” I disagree. Cost may be what you pay, but value is a fraction, with cost as the denominator and “what you get” as the numerator. In investing, you get what you don’t pay for.

# 6 Unbiased

I often have “financial advisors” who are paid on commissions try to convince me that is an acceptable way to pay for advice. “How else can you get advice until you have a half million?” they say. “I only do what’s best for my clients.” I totally disagree. Commissions are a terrible way to pay for advice. Look at professionals you go to for advice. Lawyers aren’t paid that way. Accountants aren’t paid that way. Doctors aren’t paid that way. (Can you imagine if your only reimbursement were 5.75% of every lab, CT, and prescription you ordered?) Why in the world would you pay a financial advisor that way?
Don’t get me wrong. I like commissioned salesmen just fine. In fact, my business manager is paid on commission (plus an hourly rate for a lot of the behind the scenes work she does.) If she sells more ads for this site, she makes more money (and so do I.) But I think you’d be stupid to go to her to ask “Where should I advertise my business?” or “How much should I pay to advertise on The White Coat Investor?” It isn’t that these commissioned “advisors” are bad people (usually.) It’s that they are continually facing a terrible conflict of interest that even a highly ethical person cannot completely resist forever. They have kids to feed, and the worse the financial product, the higher the commission that the company designing the product must pay to get it sold. To make matters worse, even if they sold you a halfway decent product the first time, they’re constantly tempted to churn or at least tinker with your investment plan to generate a new commission. It is simply a terrible model that should be avoided.

Some fee-based (paid by commissions AND fees) advisors are less bad if the only thing they’re taking commission on is the life and disability insurance they are selling you. But I would much rather see them rebate the commissions (I’m told this is illegal, but I’m sure there is a way to discount your fees for someone who buys insurance from you, perhaps just a lower fee that first year or something.) Or at least refer you to an independent agent (making sure you only purchase what you really need.)

# 7 Fairly Priced

I’m not a huge fan of paying for financial advice based on your assets under management (AUM) for three reasons.

The first is that an advisor has a bias against recommending financial strategies that remove money from the pot they’re managing. This might be commercial real estate, a Roth conversion, paying off your mortgage/student loans, or simply spending more.
The second is that the advisor simply won’t take you until you have a meaningful amount of assets such as $500K-$1 Million. That takes many investors a decade or more to reach that point. You need the advice most at the beginning of your investment career, or you may never get to $500K!

The third reason I don’t like AUM fees is that they can become ridiculously big as your portfolio grows. It simply isn’t any harder to manage $2 Million than $200,000. It certainly isn’t 10 times as hard. Many advisors will give you a bit of a break as your assets grow, but it’s usually nowhere near as big as it should be. For example, you might pay 1% on your first million and only 0.8% on your second million. But managing that second million didn’t take any more work, much less 80% more.

A much better way to pay for asset management is with a flat annual fee in my opinion. I think a reasonable hourly rate is the best way to pay for financial planning. However, I can live with an advisor you pay using any of these three methods. The key is to actually add up the cost (whether it’s based on hours, a retainer, or your assets) and make sure the total price is fair. I could really care less if you’re paying $5K a year for asset management as an annual fee or 0.5% on a $1 Million portfolio. It’s all the same.

My idea of fair pricing is an annual fee in the $1000-10,000 range for asset management and $100-500/hour for financial planning. I like to see the fees as low as possible provided the advisor can still provide good service and stay in business. But if doctors are willing to pay $20-50K a year for financial advice, I can’t blame the advisors for taking it. I certainly don’t price the ads on this site or my fees in the ED based on what some random blogger thinks I should charge for them. I charge as much as the market will bear.
Many naive doctors think one financial professional can be their “money guy” and take care of all their needs. The truth is that they probably need 5 or 6 including a financial planner, an investment manager, a tax strategist/preparer, a practice accountant, an insurance agent, an estate attorney, an asset protection attorney, a healthcare attorney/contract negotiator, and a retirement plan consultant. Some advisors can do 2 or 3 of these things well, but nobody does them all. Ideally, all these people will be under one roof and are seamlessly tied together. Some of the larger firms are trying this, but I don’t think anyone is doing it perfectly yet.

**Recommending Advisors**

So, knowing all that, I’m now left with a dilemma when people ask me for a recommendation for a financial advisor. These are not usually people who read this blog (or any blog) religiously, nor do they have the time or interest to read even a handful of books on investing. Chances are very good that even if they were paying 1% a year for advice that they would be better off with an advisor. Look around your hospital, you know who I’m talking about.

My usual go-to is to use the list of recommended advisors that I have already vetted. I’ve swapped emails with them, spoken to several, followed up with clients who have worked with them, and even been to some of their offices. I’ve reviewed their website, and their filings with the SEC. Some of them have a had a formal complaint which I have had to ask them about. I also see comments and receive emails about these advisors from readers of the site. If I get significant bad feedback from clients, I remove them from the list.

Despite these occasional negatives, I still feel comfortable recommending each of these advisors to the right doctor.
However, not a single one of my recommended advisors meets all the criteria I have spelled out above. To make matters worse, many readers would like a recommendation for an advisor in their hometown. That’s easy in some towns with a quick internet search and a little time on the SEC site, but very difficult in a small town in the middle of nowhere.

So, at the end of the day, if you want an advisor at the lowest possible cost and with the fewest financial conflicts of interest, go take a look in the mirror on your way to the library to get some good investing books. If you’re not willing to do that, then realize that while I can help you get a very good advisor (especially if you’re willing to look outside your local area,) I can’t help you get a perfect one.

What do you think? What criteria did you look for in an advisor? How do you decide who you send colleagues to? Do you think objective investment advice can be given by an advisor paid with commissions? What about one paid with AUM fees? Comment below!