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FROM THE ARCHIVES: August 7, 2002

Some Advice Worth Paying For: Most Planners Cost Too Much

You need a hand, but you don't want to pay an arm and a leg.

The bull market of the 1990s gave many folks the confidence to invest on their own. Now that confidence has collapsed along with share prices, and battered investors are looking for help.

But even if you hire a talented adviser, you could do more harm than good, because the cost of the adviser may offset any improvement in your portfolio's performance.

CHIME IN

Whom do you rely upon most for financial advice? Participate in the [Question of the Day](#).

Indeed, if you're going to use an adviser and still earn healthy gains, I believe you need

to stick with one of the low-cost alternatives. True, you may miss out on the heavy-duty handholding that traditional advisers offer. But given the cost savings, that seems like a small price to pay.

For years, fee-only financial planners have disparaged commission-charging brokers and planners. Their argument: Commissions give advisers an incentive to trade clients' accounts and to recommend those products that pay the fattest commissions.

But as much as I agree with fee-only financial planners, these folks have a problem of their own. They are just way too expensive. Fee-only advisers typically snag 1% of a client's account each year, equal to \$10,000 on a \$1 million portfolio.

Moreover, these advisers often recommend mutual funds, which might charge 1% in annual expenses, bringing the

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total cost to 2% a year. Result? If your pre-cost annual return is 8%, you will lose a quarter of your gain to investment costs.

What to do? You could look for a firm that charges less than the standard 1%. Consider, for instance, the investment-advisory service offered by Vanguard Group, the giant Malvern, Pa., fund company.

Vanguard will take on portfolios of \$500,000 and up, charging 0.65% on the first \$1 million and less on larger accounts. Your money will be invested in Vanguard's funds, which might cost 0.25% a year. Add that to the 0.65% advisory fee, and your total tab would be 0.9% a year.

In addition to managing your money, Vanguard's advisers will help with broader financial-planning questions, including estate planning, tax management and figuring out how much you can safely spend in retirement. But some folks may get less pampering than they are looking for. Vanguard's advisers rarely meet clients in person, instead conducting business over the phone and via e-mail.

If Vanguard is cheap, Portfolio Solutions in Troy, Mich., is the bargain basement, charging just 0.25% a year. Most of the firm's \$125 million under management is invested in low-cost index funds, so that a client's total annual cost might be 0.5%.

Richard **Ferri**, the firm's president, reckons clients get everything from his firm that they could get from a financial planner who charges 1% a year, including help with building a portfolio and reducing taxes. But his firm won't actually do your taxes for you and, as with Vanguard's service, clients shouldn't expect to get wined and dined.

"We could have the fancy office with the Oriental rugs and the grandfather clock in the corner," quips Mr. **Ferri**, author of "All About Index Funds." "But we'd have to charge our clients three times as much."

Instead of forking over a percentage of assets, you could offer to pay your adviser an annual retainer. That can turn out to be far cheaper, especially for folks with large accounts.

For instance, Steven Evanson, an investment adviser in Monterey, Calif., charges a retainer that might run \$1,000



ABOUT THE AUTHOR

Jonathan Clements has written the Wall Street Journal's Gett personal-finance column since October 1994. Born in Los Angeles, Jonathan is a graduate of Emmanuel College, Cambridge University, where he edited the student newspaper. He was a writer and researcher for Eurom magazine in London before moving to the New York area in 1991. After joining the Journal in January 1990, he covered mutual funds for Forbes magazine.

Jonathan is the author of "You've Got to Avoid -- If You Want to Manage Your Money Right" and "Funding Your Future: The Guide to Mutual Funds You

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to \$2,000 a year. He has \$170 million under management, most of it invested in index funds and individual bonds. He will also offer clients more general financial-planning advice, including help with when to exercise stock options and how much to spend in retirement.

Need." He has won a number of journalism awards, including 1996 "Articles of Excellence" from the Certified Financial Planner Board of Standards and the American University/ICI E Foundation's 1992 award for personal-finance writing. He has three children and lives in Metairie, La.

But once again, Mr. Evanson may offer less handholding than some investors are looking for. "Probably 90% of my clients I've never met face to face," Mr. Evanson says. "If you have to play golf with clients and you have to go out to lunch, that raises the amount of time involved and raises the cost involved."

If you want help but you aren't willing to turn over complete control of your portfolio, look for an adviser who offers financial counseling on an hourly basis.

"I don't believe most Americans need a full-time financial adviser," says financial adviser Sheryl Garrett. "But they do need somebody whom they can call for advice on occasion."

Ms. Garrett is founder of Garrett Planning Network in Shawnee, Kan., a group of independent advisers who charge by the hour. She says new clients might initially buy five to 10 hours of an adviser's time, at a cost of maybe \$150 an hour. Thereafter, these clients typically need just a few hours of help every year or two.

Detractors carp that charging by the hour doesn't work, because clients are reluctant to pick up the phone. Ms. Garrett's response? She argues that the ticking clock makes clients more focused. "What I have found is that people get their act together before they call," she says. "We don't waste time on idle chit-chat."

Updated August 7, 2002

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