NATIONAL POST

FINANCIAL POST

AUGUST 17, 2011

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Too many advisor cooks can spoil a portfolio

Uniting your accounts with one advisor can make a big difference

It's not unusual for investors to have several accounts spread over different advisors. For some, it reflects a desire to diversify their portfolios by bringing various perspectives to the table while for others it's a result of circumstances. Regardless of the reason, investors should think about the impact of "too many cooks" versus the advantages of consolidation with a sole advisor.

Superior portfolio construction is a primary benefit. When accounts are spread among different advisors, it is very difficult to get a true picture of asset allocation. Often the result is over-diversification and needless duplication, ultimately raising the risk to the investor. With all assets under one advisor, portfolios are built on a more risk-adjusted basis with better asset allocation.

Consider an investor who has several advisors and each is bullish on oil. If the advisors were all to take an overweight position on the oil sector, the result could be a significantly higher level of exposure than appropriate for the investor's risk tolerance. In volatile markets, such as we are facing, this can make a big difference.

Having multiple advisors can be like having a financial plan managed by a committee whose members have conflicting views. Where one advisor believes in active management, another may insist on buy-and-hold while a third disagrees with both. The inevitable debate, combined with the communications challenge, can cause a lot of stress for the investor trying to determine the best way forward.

Investors opting for one advisor benefit from effective and efficient management of information, both in tax issues and in evaluating performance. Consolidated accounts equate to consolidated reporting; ultimately generating less paperwork and fewer headaches at tax time. Similarly, performance tracking is more comprehensive and focused. The investor is not reviewing several documents, hoping to ascertain the big picture.

Fees are another component that generally improves with consolidation because economies of scale start factoring into the equation. As investors have more assets under management with an advisor, they often benefit by accessing more flexible fee schedules. Compounded over years, fee savings are an important consideration in any portfolio.

Retirement income will come from different sources and that requires planning, structure, and orderly withdrawal in order to gain the highest after-tax benefit. Such things as the conversion of RRSPs and calculation of RRIF payments need attention. It is far easier to manage cash flow when projected income reports are generated from a single source.

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Investors have subjects they'd rather contemplate than their final chapter but they do it because they don't want their heirs burdened by administrative hurdles. From an estate planning perspective, consolidation simplifies matters and executors can more easily administer the estate. Just as importantly, family members are less stressed with a single person serving them during an already difficult time.

Clearly, when choosing an advisor with whom to consolidate accounts, investors must begin with someone they trust. That advisor should provide frequent communication and investment updates; regularly review investment portfolios and financial plans; and be committed to the client's financial health. They should offer the right range of financial services, and investment solutions should not be limited to proprietary products.

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