

\$26,833


WHAT HOUSEHOLDS WITH \$2 MILLION OR MORE PAY THEIR ADVISORS ON AVERAGE PER YEAR (SMALL HOUSEHOLDS PAY ON AVERAGE \$2,098)*

WHY IT'S SMART TO

DISCOUNT!

Many advisors cut rates for households with more than \$2 million in investable assets. Here's why you should, too

BY MELISSA SHIN



FEWER CLIENTS. MORE PRODUCTIVE ASSETS. Following those two principles usually means you'll be successful. Yet there's a third principle many advisors don't talk about openly: discounting fees to attract and keep wealthy clients.

According to PriceMetrix, which collects and crunches North American retail wealth management data, the average discount off the firm's equity schedule for households with more than \$2 million in investable assets is 49%. For households with less than \$2 million, the average discount is 33%.

The numbers show this makes sense. On a \$1 million account, 1% is

\$10,000. On a \$5 million account, it's \$50,000—but serving that \$5-million client doesn't take five times the work. These clients' transactions are also larger: the average trade for households with more than \$2 million is \$51,515, versus \$14,438 for everyone else.

Your high-net-worth clients are doing the math, too. They know the difference a few basis points make for millions in assets under management, and they're ready to switch advisors to save that kind of cash.

As a result, most advisors we spoke with opt for a tiered fee structure that favours wealthier clients.

For example, six years ago, Mawer Investment Management in Calgary introduced a Class O fund that doesn't charge management fees directly. Fees are tiered, and drop below 1% ▶14

0.54%

OVERALL RETURN ON ASSETS FOR \$2-MILLION+ HOUSEHOLDS
(IT'S 0.90% FOR EVERYONE ELSE)*

◀ 12 on a weighted-average basis after \$2 million is invested. “That’s where we’ve found economies of scale,” says Greg Peterson, director and portfolio manager. “The cost of servicing, travel, opening accounts, and investment management get covered off by that point.”

David Bluteau, a Halifax-based Wellington West advisor whose clientele are largely physicians, will discount separately managed accounts for his wealthier clients. “The standard is about 2.75%, and we bring it down to 2%,” he says. “We try to be more competitive than a mutual fund, but at 2%, people still say that’s costly.” If affluent clients still express concerns, he puts them in a fee-based brokerage account that charges a flat 1%, which is oftentimes tax-deductible.

“For a smaller client, I’m less inclined [to do that],” he says. Instead, he’ll enumerate the services his clients get, such as investment advice and assistance with cash-flow management.

Desjardins Securities advisor Rock Pelletier follows his firm’s schedule, which charges incrementally lower percentages for fixed-income and equity investments as a client’s assets rise. The scheduled percentages stay constant after \$2 million at 1% (stocks) and 0.6% (fixed income).

“We have leeway to give a [further] rebate, but we don’t do that often,” says Pelletier, who’s based in Brossard, Quebec. “I’ll discount if it’s an account above \$4 million.”

For Mark Starratt, a Richardson GMP advisor in Calgary, “There is a certain amount of flexibility as the value of the portfolio gets higher. But normally the introductory pricing is the pricing we will do throughout the relationship.”

A client moving from \$2 million to \$10 million wouldn’t get a discount, says Starratt. “There’s a minimum fee based on size of the assets, and then all other services are value-added. We don’t discount because of the value we believe we bring.”

Desjardins Securities advisor Marie-Andrée McSween prices with a view to the future. “Especially on mutual funds, the rates are going to [decrease],” so she’s trimmed her fees accordingly. “We’re acting as if we’re ten years ahead. I don’t want clients to ask for discounts [later].”

As a result, she doesn’t deviate from her fee schedule. “It’s scrupulously respected, because our clients know and have referred one another,” she says.

McSween also isn’t afraid to raise the price when she performs additional services. “We have clients with more than \$5 million who have other brokers. We do performance comparisons, so we’ll add a couple points to their fees.” ▶ 16



“WITH A \$100,000 CLIENT, SOME ADVISORS TAKE THEM ON AND NEVER TALK TO THEM AGAIN. I CAN'T DO THAT.”

David Bluteau, Wellington West



DEALING WITH SMALLER CLIENTS*

In Firm X, many advisors rarely get to their “C” clients. That’s bad, because most complaints come from clients who aren’t well-served. So Firm X set up a small household service centre consisting of salaried and variable-compensation advisors. The centre offers a limited product line, including mutual funds, bonds, ETFs, money market funds and managed portfolios. If a household generates less than \$500 in annual revenue, advisors have three options:

- › They may keep the household and charge the client a \$250 annual fee. The advisor gets no portion of this fee.
- › They can refer the household to the service centre and charge the \$250 fee. Advisors get a payout.
- › They can refer the household to the service centre and waive the first-year fee (and forgo the payout).
- › Advisors can hold on to ten of their smaller households per year at no charge to the clients.

Between August 2009 and August 2010, Firm X reduced its small household concentration from 35% to 30%.

CHRIS GEWORSKY

DO THE MATH

THE AVERAGE ADVISOR PRODUCES \$320 PER HOUR
HOUSEHOLDS UNDER \$100,000 ACCOUNT FOR 52%
OF THE AVERAGE ADVISOR'S BOOK

EACH OF THESE HOUSEHOLDS ONLY
PRODUCES \$352 A YEAR*

That means more than half your book is paying for just over an hour of your time each year—but you're likely spending more time on those households.

◀ 14 HOW TO KEEP THEM LOYAL

Of course, you've got to hold the line somewhere on discounting. That's when you tout your education and breadth of offerings.

To be able to advise on many topics, Marilyn Trentos, an RBC Dominion Securities portfolio manager in Richmond Hill, Ontario, has her insurance, options and commodities licences. Yet she deliberately refers clients to specialists.

"If my clients want to invest in commodities, I prefer they work with someone who deals with them specifically," she says. "I don't think you can be both [a specialist and a generalist]." Trentos obtained the licences in order to gain enough knowledge to have the initial conversation with clients, and then call in experts.

And if you aren't knowledgeable in a subject area, pound the pavement looking for answers.

For instance, McSween discovered her clients were bringing their accountants tax forms on a staggered basis, instead of all at once, resulting in extra charges.

"That summer, I visited

five accounting firms in the area," says McSween, who's based in Salaberry-de-Valleyfield, Quebec. She asked what they'd need to efficiently prepare tax returns, and used their suggestions to create a tax package for clients. It includes reports showing capital gains, dividends, fees and interest from all investments, as well as a customized letter outlining what tax forms to expect and when. That way, a client only has to make one trip, and "the accountants are raving fans," says McSween.

To uncover such issues, she allots time for feedback at the end of all meetings, and warns clients at the beginning she'll be asking for it. "If you give them time, they'll think of something."

THE NEXT HNW CLIENTS

To provide white glove service—and increase assets under management—you'll need to revisit the first tenet: fewer clients. According to PriceMetrix, advisors who reduced their proportion of small households (those with less than \$100,000 in investable assets) by 5% or more between August 2009

and August 2010 added four times the revenue as those who didn't.

Therefore, you need to know which clients you want. For Bluteau, it's married medical specialists whose busy careers mean they benefit from his one-stop-shop approach to planning. He then looks at specific behaviours for signs a client will increase investable assets.

"The savings rate is one," says Bluteau, who's helped many clients incorporate their medical practices and gain control of the cash flow. Some make \$25,000 per month after taxes; so if they

save at least \$10,000 each month, they'll be millionaires in less than eight years.

Loyalty also matters. "We look at if they've consolidated and got their insurance with us," says Bluteau. "Then I'm prepared to provide the time to get them to where they're going to be."

Pelletier agrees, but holds back on certain services until his clients reach his \$500,000 HNW threshold.

"If they're in our book, it's because they have potential," he says. "They're young entrepreneurs. We'll use different products to serve them, but show them what we do for high-net-

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"IF THEY'RE IN OUR BOOK, IT'S BECAUSE THEY HAVE POTENTIAL. WE'LL USE DIFFERENT PRODUCTS TO SERVE THEM." Rock Pelletier, Desjardins Securities

*All data courtesy of PriceMetrix.

PRICEMETRIX METHODOLOGY

PriceMetrix directly measures aggregated North American data representing 3.2 million investors, 503 million transactions, 1 million fee-based accounts, 4 million transactional accounts and more than \$913 billion in investment assets. The company combines its patented process for collecting and classifying data with proprietary measures of revenue, assets, and households.

REGIONAL DIFFERENCES

Conventional wisdom says a household with \$2 million qualifies as high-net-worth. But Canada's a big country and not everyone makes a Calgary salary. Indeed, advisors outside of major commercial centres set a lower baseline for their wealthiest clients.

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◀ 16 worth clients because we want them to get there.” He does, though, institute strict asset minimums for certain types of investments, such as individual stocks.

STAND YOUR GROUND

Instituting minimums and reducing the proportion of small households in your book will pay dividends. PriceMetrix found that every 1% reduction in small households yields \$7,700 more in annual production for the average advisor—an amount that’s likely higher for HNW advisors.

There are a few ways to make these reductions. Starratt, the bulk of whose book is made up of clients with at least \$2 million, only takes smaller accounts if they’re related to his wealthier families. That structure allows him to make an investment in the original relationship.

Bluteau takes another approach. Sometimes, he’ll spend an hour with a referral, make a few recommendations, and suggest he come back when he reaches the minimum. “With a \$100,000 client, some advisors take them on, place the money, and never talk to them again. I can’t do that.”

McSween individually reviews the 20% of her clients who are part of small households every six months.

“It’s important if we want to give good service to everybody,” says McSween, who refers small households

FOUR PRICING POINTERS

1. The initial fee rate sets a precedent that’s hard to rescind later.
2. Your clients talk. They’ll out you if you discount for some and not others.
3. Identifying extra services helps clients understand your fees and see value.
4. Regularly monitor your small households and find a cost-effective way to serve them. Otherwise, you risk a stagnant book.

to other brokers or a Desjardins branch. “We’re in a small community, so we have to do it diplomatically.”

For those who want to stay, she details the value of the services she offers, and sets a deadline for conversion to paying fees. One couple, longtime clients, had \$2.5 million with her, but didn’t want to pay the fees. She told them the fees weren’t negotiable and in two years, they’d have to find another advisor.

“They’re fanatic about our service, so they said, ‘In that case, we’re going to listen carefully to what we get for our money.’ And we finally signed them.”

Technology can automate reports for small households. PriceMetrix suggests assigning clients to a pool of junior advisors, or creating standard investment packages (see “Dealing with,” p. 16).

And the stats show removing small households makes a firm’s remaining assets more productive. That’s likely because advisors now have energy to devote to keeping wealthier clients happy.

As Bluteau says, “If you have a million dollars, you get whatever it takes.” ^{AE} **SHIN**