



Investments: How Much Money Should You Have to Obtain Financial Advice?

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By: Joe the Investor

The question gets asked often: is financial advice worthwhile? Implicit in this question is: how much money should I have to make financial advice worthwhile? The answer is that it does not depend on how much money you have but what your needs are and whether the advice will provide enough value to justify paying for it. However, there are many common misconceptions about financial advice and what level of service you are getting. The financial services industry is tailored towards people with money – so the more money you have, the more and better quality advice you would get. If you have no money, you have few options which is where the expression comes from; “no money, no advice”. Why is this? Advice is not charged for on its own: its value is combined with products that get sold. If you don’t buy any products, there are limited avenues for getting any advice. If you use a non-traditional approach to obtaining advice like doing it yourself, a money coach or a fee for service planner, you will have more options.

General Trends in the Traditional Advice Model

The more money you have, the more customized your advice, the more investment choices you have and the lower the fees are per each dollar invested. The total dollars paid in fees will rise as you invest more money in most cases. The choices you have will also expand for products offered and which institutions you can choose from. You will also obtain more holistic advice. This means you would have access to services such as legal advice, tax advice, estate planning, money management or business advice. If the amount invested is below \$500,000, you may have to buy standard products which are the same for many people. This figure is a typical threshold for a “high net worth” client which means you have the best options of service above this amount. This limit will vary depending on who you invest your money with, but it is very common to segregate clients that are above or below this threshold.

Fees

In many cases, the fees charged are a percentage of how much money you invest. These fees can also be charged by how many trades you make, or a flat fee percentage based on how much money you have. There may also be fees for referring various products, or dealing with certain institutions. The time or work required to manage your money is usually not factored into the equation. As an example, if you have \$10,000 or \$1 million to buy into an individual

stock, you can either buy 100 shares or 10,000 shares and it is the same amount of work to execute. There is an argument that 10,000 shares can be a large order, and so some thought has to be put into timing the order to get the best price. There is also the argument that if you have \$1 million, there are many more options to explore which will require more work. There is truth to these statements, but there are also people with \$500,000 buying a few mutual funds or index funds that are paying the same fees as a tailored made list of individual securities. The fee would include execution of trades, rebalancing and advice on each particular holding. The key thing is to find out what you are paying and what value it is producing for you. You should understand all of the fees and what the total cost is at the end of the day.

Investible Assets

Keep in mind that the assets being referred to here are investible assets. An investible asset is money that can be invested anywhere and that is transferable or liquid. Another way to think of this is that an investible asset has the ability to generate fees for the institution holding your account. A house for example would not be useful as you cannot invest part of your house in your trading accounts. If you take out a loan against your house and invest the money, this is possible but this has different types of risks which need to be understood. Rental properties, land, businesses, collectibles or other assets that are not readily available to hold in a trading account are other examples of assets that are not investible. Even though you own these assets and they have value, they are not available to generate fees and therefore would be excluded typically. There are cases where your net worth in total is being asked for, and discussing these assets does give you some advantage because they can indicate to the institution how much wealth you have and can be used as collateral in case your investments do not perform well. In the case of fee for service planning, money coaching and doing it yourself, all of your assets would be included because they are part of your investment situation.

Advice is Not Free

The vast majority of financial advisors and financial planners work on commissions. They can also receive fees from trading, referral fees or a percentage charged on the amount of assets in the customer's account. These fees need to be calculated based on some quantifiable number. Advice is included with these transactions so its value is never itemized. Some institutions will tell you that advice is free. Advice is not free; it will be included in some other payment which is typically the products you buy or hold onto. If something is free and you cannot isolate how much is worth, it is hard to know if you are getting a good deal or if you are getting value for the money and time spent.

Assets Over \$500,000

If you have more than \$500,000 in investible assets, you can obtain some very detailed advice with a dedicated person. This \$500,000 will depend on the institution and their asset minimums as well as what type of investments they have available. A general rule is that the more exotic or complicated the investments are, the higher the minimum amount of money the company

would want. These minimums also depend on whether the company is managing your money by itself, or combining it with other people's money in "pooled accounts" or "pooled funds". Another variation on this theme is that the company will create some standard portfolios or "model portfolios" and you would buy units of these products. You would need to ask yourself if these pooled accounts or standard portfolios are much different than a product you can buy at a bank or a discount broker.

Assets Under \$500,000

If you have under \$500,000 in investible assets, you will likely be serviced by an "undedicated person". Examples of this would be the customer service person at your bank, a call centre or a mutual fund representative. They would basically help you choose from a more limited range of products and process your order. The amount of advice is more limited to investment options and these are limited depending on which institution you go to.

No Assets or Debt

If you have no money saved, have debt or very small investment amounts, you will likely not be able to get advice from traditional channels. If you have debt, you are likely dealing with a bank or whoever you owe the debt to, and the fees are being made via interest. If you have neither debt nor assets, you are not paying money for an institution either way, so you would be targeted for savings plans, credit cards or incremental payment options. Advice on what you need for all of your financial needs is likely not forthcoming.

Do it Yourself

Some people get discouraged with the lack of advice or lack of options and decide to manage their money on their own. This is a viable strategy, however, it is a lot of work and you need to learn a lot of things before you can feel comfortable managing all aspects of your money. Courses are available as well as books and semi-nars that can be attended. Another variation of this theme is "trial by fire". You can try various ways of doing something with respect to your money. When something works, you keep doing it and when it doesn't, you try something different. This method will take a lot of trials, and you may lose a lot of money and waste a lot of time. You can also learn from other people's mistakes and pay attention to other people's stories to steer clear of land mines. This is very helpful to do when learning anything new, but it is likely not as efficient as first seeing what options are out there before making the trials. There are no asset minimums when you do things yourself, but in some cases you would not have access to certain products, or trading fees might make it too expensive to entertain trading strategies that have a lot of frequency or expensive share prices.

Fee For Service Planning

Fee for service planning charges you for the advice provided and not for the products sold. This removes a lot of barriers like how much money you have and what type of assets you have. You

may have no money at all, but a sound financial plan may be what you need to obtain some savings and build that asset base. The knowledge may be more useful before you start handling the money than after a tirade of losses. It does not matter whether you have a business, real estate, a house or anything else – it is all part of the financial plan. Fees are not determined by the assets you have but by the work performed by the fee for service planner. This type of advice also may include tax advice, estate planning, budgeting and any other aspect of money depending on what the qualifications of the fee for service planner are. There is an element of “do it yourself” in executing the advice, because you would need to decide where you will put the money and what products to buy. There are ways of getting advice on this as well, but the customer would have to open the accounts and actually do the buying and selling of the products.

Money Coaches

If you want to focus more on the education aspect of your finances, you may obtain the services of a money coach. The name describes what they do very well in that a money coach will focus more time on motivation and education about your finances as opposed to the investing of the money. Retaining someone like this may enhance do it yourself efforts, or make you a more savvy customer if you follow traditional channels. There are also no limitations on what you have, how much you know or what specific areas you would need help with. There is also no issue with product selling as this would not typically be done with money coaches.

Combinations

Any of the above methods of handling money can be combined together. You may have a traditional lender, a traditional investment advisor as well as a money coach and fee for service planner. You may opt to do part of the work yourself, and leave some aspects to a professional. You may invest part of your assets yourself and have someone invest the rest of the assets. You may also enlist a money coach or fee for service planner as a starting point, a second opinion, or a double check of traditional channels. There is also a possibility of hiring a fee for service planner for advice with an investment firm for the investing aspect. This type of arrangement comes in many forms, so the relationship between the parties should be disclosed. In general, if you have multiple people engaged in your finances, make sure you understand what each person or institution is supposed to do and what you can expect. Arrangements can always be changed no matter how long they have existed.

Summary

The key to obtaining the proper advice for you is to understand *how you are paying for the advice and what value you are receiving*. Also make sure you know how much you are paying after everything is said and done and the return generated is in hand after fees and taxes. You would then explore the options for obtaining the advice and whether they are suitable for you or not. This is like shopping around for a household item – you will see different versions for different prices. You would ask what features are most suitable for you for the best price. You

want to see how much you are paying in total and what value you are receiving net of costs compared to what you would like to receive. Thinking in this way will reveal a lot to you and allow you to consider more alternatives.

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what your options are. **Note: This site is intended for people who want to learn about the world of investments and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**