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## Curing Cluelessness

**Synopsis:** *A new service will help people find the planning help they need, and negotiate fees that they're overpaying to their investment managers.*

**Takeaways:** *Have you noticed that there are many articles on how to navigate specific financial challenges, but very little on how to find the right person to hire who will advise on those challenges?*

David Bromelkamp, founder of the new consumer-facing consulting firm AdvisorSmart, thinks that most financial consumers are (what's a delicate way to put this?) totally clueless. "When I worked at Alloodium [the fee-only advisory firm he recently retired from], I'd get calls from people who were interested in our services," he says. "I'd ask them what they wanted help with, and they would say, *well, we want financial planning help because we want to retire.*"

He'd probe deeper, but the prospects wouldn't know what services to ask for; they only knew what their challenge was, and had heard from somewhere that financial advisors might be a way to address it.

But more than that, they often didn't know even the rudiments of how to go about selecting

a good one.

*Do you know what a fee-only financial advisor is?*

No.

*Do you know what the fiduciary standard is?*

No.

"They typically didn't

***Bromelkamp argues that promoting 'fiduciary' is a dead end. Even brokers claim that they act as one.***

know anything about the different compensation models," Bromelkamp adds. "They didn't know what a certified financial planner is, or what a brokerage or life insurance license means. You have to talk at their level," he adds, "which is about a 10th

grade level, and explain to them that if they just bought an annuity for a million dollars, the life insurance agent made a \$50,000 commission. They don't know that until you explain it to them."

Frustrated by having to repeat these concepts over and over again, Bromelkamp wrote a consumer book called *AdvisorSmart for the Individual Investor: Your Guide to Get Better Financial Advice*. "I said, I'm going to write a book that will explain all this to the consumer," he says. "So that I could hand them a \$30 book and they could learn these things on their own. I thought it would help a lot of investors."

Part of the problem, Bromelkamp believes, is that there aren't a lot of organizations in the consumer space that are educating ordinary investors about financial planning services or how best to access them. He's publicly criticized the NAPFA organization (he's a member) for, in his mind, diluting its message that people should seek out a fee-only planner, and has met with the board to argue that they should be more aggressive in their consumer outreach efforts.

"All my planners [at Alloodium] are NAPFA members; we think NAPFA is a great organization," he says. "But the core dif-

ferentiator at NAPFA is written in their original articles of incorporation—that they want to promote comprehensive fee-only financial planning.”

And he believes that promoting ‘fiduciary’—which, in the

understand about the profession. “The average consumers are just doing their jobs,” says Bromelkamp. “They’re doctors, dentists, attorneys, all smart people, but they’ve been sandbagged by Wall Street.”

client interpret what he’s found. This might also entail helping the client find a more appropriate advisory relationship.

Cost: \$500. Bromelkamp estimates that the service would give the consumer a lifetime \$25,000 benefit, through avoided mistakes, better decisions and maybe by sidestepping high fees and commissions.

Level 2 is a “fee audit,” where Bromelkamp will review the brokerage statement and client agreement, helping clients understand the advisor’s fee structure, and also uncovering hidden, layered or embedded fees to deliver an all-in cost.

Cost: \$5,000. He estimates that a (typically wealthy) client will save \$60,000 by taking action on this report.

Level 3 is a fee reduction service, where Bromelkamp will negotiate directly with the firm that is managing the assets of a (generally wealthy) individual who, he says, often has an uneasy sense that he’s paying too much, but doesn’t know how to get a better deal.

Cost: \$10,000. Bromelkamp believes that people with large multi-million dollar portfolios could save a minimum of \$30,000 each year.

Finally, level 4 is a personalized search for an advisor, customized to the would-be client’s needs. The cost there is \$20,000, which includes coaching on how to communicate with the financial advisor, and a transition message to the account, attorney and any-

*If you think it's easy to select a competent fiduciary advisory firm, that's a sure sign you're out of touch with what ordinary people understand.*

consumer press, has largely replaced fee-only as the gold standard of an advisor—is a marketing dead end.

“Wall Street is doing a great job of saying that everybody is a fiduciary,” says Bromelkamp. “Saying you’re a fiduciary today is like saying you’re like everybody else.”

Bromelkamp thinks that the selection process—identifying the right financial planner—is actually more valuable to the consumer than articles telling people how to handle this or that financial challenge in a way that may or may not be appropriate for their situation. “[Canadian consultant and thought leader] Dan Solin says that selecting a financial advisor is the most important decision you’ll ever make,” he says. “Because if you select a bad financial advisor, it doesn’t matter what they’re recommending.”

To advisors, the selection process seems trivially simple. But that might mean they’ve lost touch with what ordinary people

So where can ordinary consumers across the wealth spectrum go to find advice, not on what to do, but how to find that advisor who will help them know what to do?

“That’s what AdvisorSmart does for them,” Bromelkamp says.

#### *Searching and negotiating*

AdvisorSmart offers four levels of service, with increasing fees as a consumer moves from level 1 to level 4. Level 1 is described as a checkup. Bromelkamp (and, presumably, staff members) will help interested consumers evaluate their current advisory relationship by pulling BrokerCheck data, reading through Forms ADV Parts 1 and 2, reading Form CRS and evaluating the advisor’s professional credentials and designations. He’ll look for biases and conflicts of interest. Then he provides an ‘investor protection report,’ and will subsequently spend an hour helping the

one else on the would-be client's support team.

Level 1 seems to be the most flexible service. Bromelkamp offers the example of a woman who called him, saying: *'Dave, I'm retiring right now and I've got to decide whether or not to take my pension by October 31st.'*

True to the company mission, Bromelkamp didn't offer to take her on as a client. "I told her that she needed to hire a financial advisor to help her make those decisions," he says. "I gave her a short list of advisors in her neighborhood that fit her preferences."

More often, the engagement happens because someone has a sense that something isn't right in their existing advisor relationship. "People don't know if they've got a problem with their advisor or not," Bromelkamp says. "They have an intuitive sense that they're being taken advantage of, but they don't know how. That's when I do the checkup, looking at the government documents, explain what a CFP is and whether the credentials the current advisor lists are relevant."

The level 1 checkup may suffice; it confirms, or not, that the advisory relationship is beneficial.

For some, though, Bromelkamp envisions level one becoming a gateway to the second level. "Some people who are in the range of one to 10 million are going to start to wonder what they're getting for the money they're paying," he says.

Level 2 sounds a bit pricey, but Bromelkamp is confident that he can save people more than he's costing. "I had a friend who did audits of businesses," Bromelkamp explains. "He would say: *just give me 10% of the first year's savings.* I'm trying to do the same thing for the consumer. There are going to be a lot of people who are going to ask: *why are we paying 80 grand a year or 30 grand a year? How come my*

*esting.* "The guy says, *well, that should be against the law,*" says Bromelkamp. "I told him that it's not against the law because the 50-page client agreement he signed at the bank says that they can basically rip you off, cloaked in legalese. *They have lots of lawyers,*" he told the individual, "*and you can't sue them because you signed that contract.*"

The individual had no idea how much he ought to be paying

***An entrepreneur contacted Bromelkamp asking why he was paying \$700,000 a year in asset management fees. Turns out he was actually paying \$1 million.***

*Merrill Lynch broker is charging so much? What are we getting for this?"*

Bromelkamp says that some clients will go straight to levels 2 and 3. As an example, he cites a person who had hired a bank to manage his \$250 million portfolio. "He said to me: *Dave, I'm paying \$700,000 a year in fees to the bank,*" says Bromelkamp. "*Do you think you could help me out?"*

"I had to sort through a lot of documents," says Bromelkamp. "Finally, I got back to him and said: *the good news is we know how much you're paying. The bad news is that you're actually paying a million dollars a year in fees, because the bank is collecting fees from the manager—and those are hidden from you.*"

The response was inter-

or how to analyze the cost structure. "He's a really smart guy, a really smart entrepreneur," says Bromelkamp. "But then he says to me: *well, Dave, isn't everybody a fiduciary? Aren't all financial advisors a fiduciary?"*

The answer: the bank might act as a fiduciary with the trust accounts that it manages, which allows the bank to say that it serves as a fiduciary. "*You actually have a very good manager,*" Bromelkamp told the investor. "*But the bank takes a fee from the manager, and they want to get the most they can from the relationship. Their incentive is to charge you a high fee.*"

That's level 2. In level 3, Bromelkamp talked with the money manager directly, and negotiated the total fee down from 50 basis points to just over 12. "No

change in the account management,” he says; we just reduced the fee by negotiating.”

Level 4 is more hands-on. “I coach them on the process of

finding an advisor,” says Bromelkamp. “Do they want to work with a man or a woman? Do they want to work with a solo advisor or a team? Do they want a virtual relationship or meet face-to-face?”

And... Bromelkamp has developed a 32-page list of questions that people might ask their

advisor that they’d be working with,” says Bromelkamp.

the process of evaluating costs or finding an advisor who works on a purely fee-only basis. “I’m completely working 100% for the consumer,” says Bromelkamp. “I try to be as objective as possible, and find out from the client: what do they want? What are their preferences? Do they want somebody who works on an hourly basis? What are the different compensation models within fee-only?”

*If there's a bias in AdvisorSmart's advisor search and evaluation process, it is that anyone with a sales license is unlikely to make the cut.*

Once the person (or couple) articulates some preferences, Bromelkamp will start a long process of elimination. “There’s probably 500,000 advisors who meet their initial criteria,” he says. “The first thing I do is eliminate any advisor with a license to sell them a product. That’s a series 7, series 6, 65 and 66. That alone will eliminate 80% with the first cut.”

And then? “I say, let’s eliminate anybody who’s not a certified financial planner,” Bromelkamp continues. “That will eliminate another 50% of them. Then if they want to work with somebody within a 50 mile radius of their home, kaboom! Now they’re down to maybe 20 advisory firms.”

AdvisorSmart does not select one of those firms. “I say that they have to talk to them. Ask them for the bio of the advi-

sor that they’d be working with,” says Bromelkamp.

advisors. Isn’t that a lot? “I don’t go in with all 32 pages,” he says. “I might give them 10-12 questions to ask.”

Such as? “The best question a consumer could ask an advisor is: *how will you serve me? In a legal fiduciary relationship at all times and with all of your advice?* A NAPFA advisor should be able to say yes to that,” he adds. “But somebody at the bank or the brokerage firms or insurance companies can say they’re fiduciaries, but if you ask them to put it in writing, NAPFA advisors would sign that document, while somebody who works at one of those other firms will not.”

#### *Missing education*

The interesting thing about AdvisorSmart is that there really isn’t anything else out there like it. There are services that match advisors with clients (with some up-front evaluation on both sides), who charge the advisors a platform fee or a fee if they land a client. But there isn’t any other service that educates clients on

the process of evaluating costs or finding an advisor who works on a purely fee-only basis. He finds it interesting that there’s so little in the press, or in the association campaigns, that tell ordinary consumers how to go about looking for a financial planner. And, despite his key first question about whether an advisor will work as a fiduciary, Bromelkamp believes that fee-only is the logical first point of distinction in a planner search.

If there is a bias in the search and evaluation process, it’s the fact that an advisor working within a broker-dealer or wirehouse structure is unlikely to make the list of recommended advisors.

The interviewer notes that the financial magazines were chock full of those ‘how to find a planner’ articles back in the 1990s, which brings the conversation back to NAPFA as the logical organization to educate consumers on this complicated topic. During that heyday when *Money* and *Kiplinger* were touting objectivity and avoiding sales, NAPFA was the leading voice in the conversation.

“I would like to see NAPFA promote fee-only to the public,

instead of promoting fiduciary,” Bromelkamp says. “Fiduciary is a law that’s now part of the Investment Advisers Act of 1940,” while, he says, fee-only is a real point of distinction.

Bigger picture, Bromelkamp thinks that the profes-

sion may be underestimating the level of confusion in the consumer marketplace. He’ll continue to field what he calls ‘totally clueless’ questions from people who can read countless blogs and articles about Roth conversions or year-end tax strategies, but have

no idea how much they are, or should be, paying for asset management, or who will give them unbiased advice in their best interests.

The fact that AdvisorSmart even exists is an indictment of our professional communications. ■

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