



ADVICE

Doug Macdonald, MBA, R.F.P.

Macdonald, Shymko & Company Ltd.

Vancouver

DOUG MACDONALD, our Career Achievement Award recipient this year, is the godfather of financial planning. He was practising it long before the phrase became commonplace.

His firm Macdonald, Shymko & Company Ltd. (MSC) was conceptualized in a local Vancouver bar. A mutual fund representative had once told Macdonald that reps should look at the client's total financial situation. Macdonald liked the premise but he and partner David Shymko decided to take the idea a step further. Instead of selling product, why not charge the client on an hourly basis for financial advice? "The best idea is a borrowed idea," he explains. "We modelled MSC after accounting, law, engineering and architectural firms—basically professionals who charge for their time."

In May 1972, MSC was born—the first fee-only advisory shop in Canada. In the early days, the partners worked out of Shymko's apartment, whose cat Patches was the firm's first receptionist.

Macdonald's peers told him MSC would fail because it wasn't product-specific. "Nobody will pay you," was the common criticism. But 34 years later, clients are still writing cheques. MSC has 10 financial planners and over 300 client accounts—mostly high-net-worth individuals—since that's who can afford MSC's \$260 hourly fee.

Macdonald himself deals directly with 50 clients, whom he estimates have combined assets of about \$80 million.

Professionalism is important to Macdonald, so he requires all his advisors to have a financial planning designation (R.F.P. or CFP).

MSC has even become a family business, although that wasn't Macdonald's intention. His daughter Gina is a partner and financial planner, son Hamish runs the firm's technology operations, while Macdonald remains the managing partner/president.

Since the 1980s, Macdonald has also been an active member in various financial planning associations, notably the now defunct Canadian Association of Financial Planners (CAFP), the Institute of Advanced Financial Planning (IAFP, home of the R.F.P. designation) and the National Association of Personal Financial Advisors, based in the U.S.

I spoke to Macdonald recently in Vancouver about fee-only advice and his views on the industry, professionalism and disclosure.

Continued on page 16

Photography by Robert Karpa

BY THE : HOUR

Failing a move to charging clients fees, Doug Macdonald thinks advisors should at least **RAMP UP** the disclosure. **By Deanne N. Gage**

Continued from page 15

Advisor's Edge: What's your definition of fee-only?

Doug Macdonald: Fee-only means the client is the only person who pays us and the client controls that payment. If the client wants to stop it, he stops it. Whereas with some fee-based compensation, the advisor gets a trailer and the client doesn't have control over that. I mean, I'm still paying trailers on my RRSP to people I haven't seen for five years because that's the way the industry is set up.

AE: How much would an average financial plan cost with you as the advisor?

DM: Somewhere between \$2,500 and \$10,000. We offer highly personalized advisory services; we're not trying to fit people into boxes, and so the way I will react to one client is totally different than the way I would react to another client.

AE: Do you offer one-off financial plans for clients?

DM: We do financial checkups, where we get together with people for two hours and that's it. Some long-term clients wanted to give their kids a head start, so for \$600 I spend time with John and Susie and get them going in the right direction.

AE: Do prospects already know you're fee-only?

DM: The vast majority know we're fee-only because that's important to them. But there are people who come to us because they've been specifically

recommended to us and have no idea how we operate.

AE: How do you bill the client to justify you spent four hours of work as opposed to two hours?

DM: We just track the time. Unfortunately it tends to go the other way. You spend the time on the plan and you look at the time and go, "Holy mackerel! I can't bill that amount!" It very seldom happens the other way.

AE: How would you respond to the argument, "You're either an ethical advisor or not. How you are paid has nothing to do with it."

DM: I would agree. You can be an ethical advisor regardless of how you are paid. But there is a perception that if you just worked on commission it would be harder to be a comprehensive financial planner. Many aspects of what we do have nothing to do with product placement and there's no basis for remuneration. That's unfair to the planner. If a commission-based advisor is helping a client own a house, they don't get paid at all for providing that service. There's something wrong with that. At least with fee and commission you would get paid for giving that advice. If you're commission-only, the only way you're going to get paid is if the client doesn't buy the house and invests in something.

AE: How does the product implementation process work, since you aren't licensed to sell product?

DM: The landscape has changed significantly over the years. In the very

beginning, all products were acquired through outside sources because that's the way they had to be acquired. But there was a change in the B.C. Securities Act that said you couldn't be involved in the advising part of it unless you were registered or licensed. That's when we became registered as investment counsellors/portfolio managers, which allowed us to be a little more proactive in the advising and transaction sort of thing. For example, we can get clients access to F-class, and we can facilitate client activities through discount brokerages and trading authorities.

AE: You were a founding member of the CAFP and are now heavily involved with the IAFP. Why is it such a problem to create one united association for financial advisors?

DM: I was adamantly against the concept of a merger between the CAFP and the Canadian Association of Insurance and Financial Advisors (now Advocis) because it wasn't a merger, it was a takeover. None of the principles that I thought the CAFP stood for and were founded on would remain if we merged. They would all get lost, which they did, by the way. Advocis is a good organization and it's heavily grounded in insurance. There's nothing wrong with that but it's not what the CAFP was or wanted to be. My firm deals with a highly respected life insurance person and he's a member of Advocis. He says, "I'm not a financial planner and I don't see this organization as a financial

Continued on page 18

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Continued from page 16

planning organization—it's a life insurance organization." You can't be all things to all people.

AE: Why are you a proponent of the R.F.P. designation?

DM: I look at the R.F.P. as a continuum. If you joined my firm and wanted to get into financial planning, you would need a university education, then we'd get you to get your CFP and then you would eventually get your R.F.P. Most R.F.P.s also have a CFP. The media likes to say it's a CFP versus R.F.P. world. Well, it isn't; the R.F.P. is just a continuum beyond the CFP. I like to think a professional strives to get to the highest level [he or she] possibly can. That's the nature of being a professional.

AE: Let's talk about professionalism. Are you happy with where the industry is headed?

DM: Some people would like to take the whole industry and lift it up, which I think is an impossible task. I don't think we can lift. My concept is, let's take a group and raise it above and pull the industry up with us. It's two different concepts. The financial services industry, in many respects, has a long way to go. One of the biggest issues is disclosure. You solve a lot of ills if you disclose. But it's a very hard thing for a lot of people in this industry to do because they think it's going to affect their business, they think it's going to hurt them.

AE: So, disclosing what exactly?

DM: How you're paid, why you're paid. So, if you're paid by commission, for example, explain the deferred sales charge (DSC) and explain how you're getting remunerated from it. The more

information you give a client about yourself I think is a positive. The harder you bind a client to you, the more the clients will push away. It's a natural reaction. If you have a client and you make it so he can go anywhere, it's amazing how that client will reach out and cling to you. The more you disclose to the client, the greater trust the client will have in you. If anything we are in the trust business. Once you get that figured out, then you understand how to make this business work because the rest will fall into place. The trouble is financial planners fall into two groups: the people who use financial planning as a prospecting tool to sell product, and the people who are in the financial planning business. Unfortunately, there's probably more in the former category than the latter.

AE: How do we fix it?

DM: I don't know. I was at a conference and the first seminar was, "Financial Planning: A Prospecting Tool?" I thought, "It's all over. We've lost our way. We don't understand who we are." That's the influence of large selling organizations. But in many respects, it's good for my business and others who are in the business of financial planning because as clients grow and their assets grow, they look around and say, "This advisor is not really representing my best interests, he's representing his own best interests. Maybe I should be looking for someone else." And I'm not trying to say that all of these good financial planners are fee-only either. But they are usually a combination of fee and commission as opposed to being very product-oriented.

AE: There is a perception, though, that consumers should—and can—

receive financial advice for free.

DM: You're right, the perception is that, "We don't want to pay for it," but they *are paying* somehow. Case in point, I had someone come to me a number of years ago with a \$1 million portfolio. I quoted him around \$7,000 for a portfolio review, but he ended up investing it all in DSC with another advisor. Whether he knew it or not, he paid \$50,000 for the advice. But he thought it was free. He approached me years later, wanting to come back.

YOU

can't be
driven by the
almighty buck
and it can't
be 100%
commission.

AE: \$50,000 is quite the payout.

DM: The highest-paid people in this world will always be salespeople. I don't care what they are selling. The product can be anything. If you work in the financial services industry and want to maximize your earnings, be a salesperson. But not everybody wants to be a salesperson.

In 2001, I happened to have six new clients knock on my door during RRSP season, all with investable assets between \$1 million and \$3 million. Between the six clients there was \$15 million. If I was a salesperson, I would have died

Continued on page 22

Continued from page 18

and gone to heaven! Even at 1%, that's \$150,000 I would have made. If I sold them DSC, it would have been \$750,000. "Wow!" I told a colleague at the time, because it just blew my mind. But he said, "Doug, if you were a commissioned salesman, they never would have knocked at your door." And that's true, probably.

AE: What type of compensation would you recommend for new advisors?

DM: To be an advisor, I don't think it has to be on a fee-only basis but you can't be driven by the almighty buck and it can't be 100% commission. I wouldn't have the integrity to be a comprehensive advisor if I was 100% commission. We here, at times, get very idealistic. But if we weren't idealistic

we wouldn't have survived. I would say to new advisors, "Do fee and commission." Have the ability to charge fees. Try to balance your business so it's not 5% fee and 95% commission, but more 50-50. Then, you have yourself a pretty decent business.

AE: You've been an advisor for 34 years. Are you thinking about retirement?

DM: Theoretically, I'm working 80% and I have been for three years. Boy is that difficult! It's just not my nature. I supposedly don't work Wednesdays. It's very difficult for you to take a day off without having some specific reason for taking the day off. But I think I've figured it out now. **AE**

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Need another reason to consider switching from a commission-based business to fees? Findings in the 4th *Annual Dollars and Sense Survey* revealed 11% of fee-only and 21% of fee-based advisors have clients with an average of \$500,000 or more invested—but less than 1% of commission-based advisors attracted these same high-net-worth clients.*

For a special report that will help you better attract, serve and keep HNW clients, please visit www.advisor.ca/interact/ beginning March 8th.

*Data derived from the 4th *Annual Dollars and Sense Survey* in response to: "What category would best fit what the average client has invested with you?" n=2,007; moe: ±2.1% 19/20