

## FP ADVISOR

COMMENT

*Fee-only then, fee-only now*

MSC's long-held policy puts power in clients' hands

JONATHAN CHEVREAU  
Well advised

Founded in 1972, Vancouver-based Macdonald, Shymko & Co. Ltd. can rightly claim to be "Canada's longest established fee-only advisory group." Even today, according to co-founder Douglas Macdonald, MSC is the only

Canadian member of the U.S.-based National Association of Personal Financial Advisors (NAPFA).

While Macdonald and co-founder David Shymko are hourly-based financial planners, clients can still opt for a fee based on their investment assets, Macdonald says. Asset-based fees account for less than 20% of the firm's revenue.

For those who choose the firm's Strategic Asset Monitoring (SAM) program, the annual fee starts at 1.2% for accounts below \$300,000. Between \$300,000 and \$500,000 it's 1%, falling to 0.85% for accounts up to \$1.5-million, at which points the fee drops to 0.5%. For wealthier clients, it eventually drops to 0.25%.

That fee covers only SAM. Tax returns, financial plans and other defined tasks are typically billed out at an hourly rate. There is also a \$400

annual retainer, a throwback to its early days "for miscellaneous things so clients don't feel they're getting nicked and dimed."

Implementing and monitoring investments is part of the service but "it all starts with the concept of taking a comprehensive look at your financial goals." These are true in-depth financial plans that deal with the complicated situations of well-heeled investors and business owners.

You can get a sense of MSC's take on financial planning by looking at a Q&A entitled "Client conundrums" on its web site at [www.macdonaldshymko.com](http://www.macdonaldshymko.com).

In the beginning, Macdonald and Shymko used the term "fee for service" rather than "fee-only." But Macdonald isn't as fussed about the distinction between fee-only

and fee-based as he used to be, saying potential conflicts of interest can still exist under all types of compensation agreements.

Macdonald may charge a fixed fee of \$3,500 for a particular defined service but that just means he's calculated the number of hours it will take, which amounts to the same thing.

As NAPFA argues, the key is who controls the paycheck. A true fee-only arrangement means the client is cutting a cheque directly to the advisor. If the client doesn't like the work, "he's in charge and won't be paying the bill."

While perhaps ideal, hourly compensation doesn't always work, Macdonald says. "The one thing that is key here is the client is paying. Nobody else. My obligation is to them, not the mutual fund company or a myriad of other people."

The assets in SAM tend to be such low-cost, passively managed investments as exchange-traded funds (ETFs).

At the heart of its investment world view is the asset-class model described in Keith Matthews' book, *The Empowered Investor*, a book that is given to clients. Once they understand the approach, clients "can come to peace with their portfolios and they don't worry."

MSC wasn't always a believer in asset-class investing. Initially, "we actually thought if you're smart enough and do the work you could do better than the market. It took 10 years to figure out that's not true." It originally offered actively managed mutual funds or pooled funds, but by the mid-1980s was among the first to gravitate to TIPS — Toronto index participation units — precursors to the modern ETF.

"How wonderful it was to be able to buy the market. Then there were HIPs and SPDRs and Diamonds. But it's gone way too far now, in my opinion."

While still a fan of the cost-effective diversification ETFs provide, Macdonald also believes in the value and small-cap premium delivered by the no-load index mutual funds of DFA Canada. The market is merely the average of many smart people with great resources, so matching the market is a tremendous achievement in Macdonald's eyes.

By contrast, the average investment manager with annual costs of 2% or 3% will

typically do worse than the market over the long term.

"We just take what the market will give us because over the long run we know equities will perform better than fixed income."

So why aren't portfolios 100% in equities?

"Most people couldn't stand the roller-coaster ride. Fixed income provides portfolios with a degree of stability." A good example is calendar 2007, which wasn't a great year for equities but would have looked terrible if clients didn't have some fixed income. The firm's financial plans use a conservative 5% expected return with inflation at 2%, or 6% with 3% inflation.

Macdonald was just 23 when he co-founded the firm with Shymko and Doug Caldwell. The first office was in the second bedroom of Shymko's apartment. "It was a humble start but we had this concept. I landed the first client and told him I wanted \$10 an hour and a \$15 retainer."

At one point, the firm hooked up with T. E. Financial, with aspirations of forming a national financial planning organization.

It didn't work out but MSC's Calgary office remains as a legacy of that period. One early hire was Adrian Mastracci, who later started his own fee-only firm, KCM Wealth Management, also based in Vancouver.

Today, MSC has three senior partners in their late fifties or sixties, and three younger ones in their mid-thirties. It also has an affiliated company run by Terry Greene. All MSC's partners must have the Registered Financial Planner (RFP) designation as well as the more common Certified Financial Planner (CFP). The firm is registered as Investment Counsel.

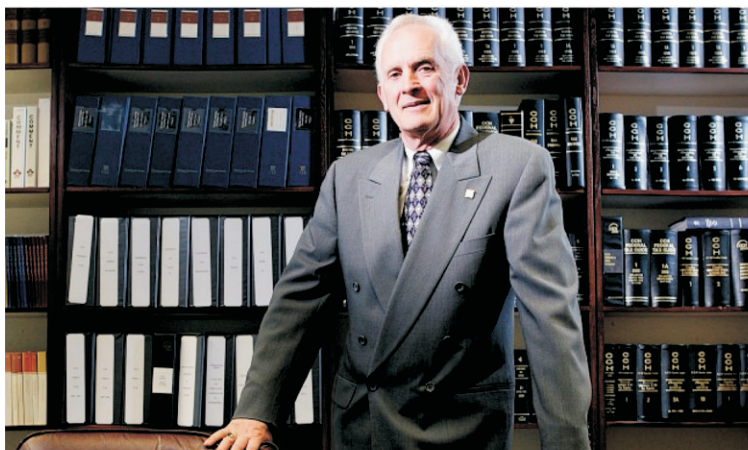
With a succession plan in place, Macdonald has commenced phased retirement, working three days a week "except during tax time."

In good times, grocery stores sell more steak but in bad times they sell more hamburger, Macdonald says. Since the subprime-mortgage crisis hit, MSC has been selling a lot more of its "fee-only" brand of advisory hamburger.

Financial Post  
[jchevreau@nationalpost.com](mailto:jchevreau@nationalpost.com)



Chevreau blogs at [www.wealthyboomer.ca](http://www.wealthyboomer.ca)



Doug Macdonald, co-founder of Macdonald, Shymko & Co Ltd., piloted the fee-only concept when the firm launched and he still believes in the principle.

LEILA STEARNS FOR NATIONAL POST