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Got $400,000 to invest? It's time to consider a broker

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If you have an investment portfolio worth about $400,000 and you want advice on how to manage it, it's time to consider moving beyond mutual funds to a full-service broker.

Brokers can help you with a far wider choice of investments than the typical mutual fund rep, and often for lower fees.

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"Mutual funds are great things. But as my account grows, they charge me too much for it," says Gordon Stockman, vice-president of financial planning at Efficient Wealth Management Inc.

Mutual funds generally charge you a percentage fee, regardless of the size of your portfolio, while brokers typically charge less for larger accounts. By the time your account reaches $400,000, mutual funds purchased through an adviser will typically cost you 2 per cent or more per year in fees for a balanced account, while a broker typically charges 1 ¼ per cent to 1 ¾ per cent per year for a portfolio of individual stocks and bonds.

Some brokers will still let you use the traditional method of paying them a commission for each trade, which could save you money if you're a buy-and-hold investor.

Brokers have largely outgrown their old reputation as fast-talking salesmen touting the latest hot stock tip. These days, they're more likely better-qualified and focused on helping you manage all aspects of your wealth. They typically refer to themselves as "investment advisers." They work with investment dealers affiliated with the major banks such as CIBC Wood Gundy and RBC Dominion Securities or with independent firms such as Canaccord Genuity and Raymond James. These firms typically support their brokers with extensive research and client services like financial, tax, and estate planning.

While someone with just a mutual fund licence is pretty much limited to selling you mutual funds, a broker can provide you with more choices, offering individual stocks and bonds, exchange-traded funds (ETFs), other types of funds and fund-like investments such as pooled funds and segregated accounts, as well as hedge funds and structured products. (Pooled funds are like mutual funds except they have high minimum account sizes and tend to have lower fees. Segregated accounts are managed much like pooled funds, except you actually own the individual securities instead of units of the fund.)

While most brokers are “advisers” only, some have acquired additional credentials to manage your money on a “discretionary” basis, meaning they decide what individual investments to buy and sell, subject to your overall direction.

Choose a broker carefully, for quality is critical and varies widely. They have considerable independence within the overall firm to serve their clients as they see fit.

“It’s the integrity, skill and experience of the individual that’s more important than the firm,” says former broker Warren MacKenzie, founder of financial-planning firm Weigh House Investor Services, now owned by portfolio manager HighView Financial Group. “There are some really good brokers at all the firms and there are some scallywags that don’t know anything.”

Says Eric Kirzner, professor of finance at the Rotman School of Management, University of Toronto: “There is the occasional rogue out there and you need to do your due diligence.”

Also, as Mr. Stockman points out, the sheer diversity of a traditional broker’s accounts makes it difficult to properly monitor and service them all. “He’s not getting up in the morning and checking your account because he probably has more than a couple hundred clients and every one owns something different,” Mr. Stockman says.

To counter that problem, many brokers make good use of their well-staffed research departments and follow “focus lists” of recommended securities, which tends to result in clients holding similar portfolios.

Make sure there’s a good fit between your needs and their approach. They should thoroughly understand your objectives, risk tolerance, time horizon and knowledge level and accordingly help set your asset allocation.

They should do a detailed review of portfolio performance, including calculating returns at least once a year, ideally comparing returns to an appropriate benchmark, says Prof. Kirzner. “You don’t see it a lot but I think it is absolutely essential.” Then, they should help you rebalance and adjust as circumstances change.

Get a referral from someone you know who is knowledgeable about investing, advises Prof. Kirzner. Then interview your candidate carefully.

“This is a very personal thing,” he says. “You’ve got to convince yourself that you have someone that really has your interests at heart.”

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