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Building a fortune - then managing it higher

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Busy high-net-worth clients want financial advisers not only to build their portfolios but also to reduce their stress

For James Hutton, managing a fast growing wood-product supply business was relatively straightforward. Finding a firm to handle his family's finances, however, posed a far greater challenge. Mr. Hutton, the president of Hutton Forest Products Inc., based in Kitchener, Ont., had entrusted a few financial planners with his investments over the years, but he didn't establish a comfort level with any of the firms or the services they offered. After obtaining referrals from a few friends and carrying out his own due diligence, Mr. Hutton finally began working with a planner who understood his needs.

"It's almost like a marriage when you go to a financial planner," he explains. "If you go in for the long haul, and most people who have substantial net worth have to plan for that, then it's like a marriage. You want to have a comfort zone with that person and you want to know that like in a marriage, you're going to go through some good and bad times."

While Mr. Hutton placed huge value on the fact that he trusted his new planner, he was also impressed by the firm's services and its ability to manage his extensive portfolio, which is composed largely of mutual funds. Many of Canada's high-net-worth individuals spend their time running successful businesses or managing fast-paced executive roles. Devoting time to diligently managing those finances simply isn't an option. Neither is entrusting their wealth to a firm lacking the tools to help them achieve their goals.

"Recent studies have found that the three top goals of high-net-worth individuals are to reduce their taxes, build their investment portfolios and effectively transition their wealth," says Sandra Recine, the Toronto-based vice-president of financial management firm TD Waterhouse Private Trust. "Our clients tell us they're looking for services that are going to save them time, money and reduce the stress in their lives."

Thane Stenner, managing director of Stenner Investment Partners within Richardson GMP Ltd., which handles the finances of about 50 of Canada's wealthiest families, says the greater the fortune, the more complex the services and levels of planning experience likely become. Mr. Stenner says most wealthy Canadians will need core services including in-house family wealth planning, insurance planning, investment, cash flow and risk management, tax planning and compliance, succession planning, wealth analysis and diagnostics - to "stress test" the fortune in different scenarios including a major market meltdown. It should be executed by a well-rounded team that includes chartered accountants, lawyers and investment advisers. And that shouldn't mean having to pull the plug on a pre-existing relationship with a trusted accountant or lawyer.

"What's critical for high-net-worth individuals," he adds, "is a firm has to be able to interact with their existing accountants and lawyers to update wills and make sure things are properly papered from a will and estate plan point of view. Wealthy people want an integrated plan and a very holistic way of handling their affairs." Another priority, according to Mr. Stenner, is ensuring the firm uses an independent, third-party due diligence group. These analysts scrutinize the financial planning firm's management practices, managed accounts and discretionary investment accounts. Another critical service: a comprehensive, 24-hour online reporting service enabling access to information about the individual's overall asset allocation, including statements of holdings with other institutions.

This type of independent due diligence can help high-net-worth individuals choose a legitimate firm that not only suits their needs but has a strong performance record - and help them avoid the recent nightmare scenarios experienced by victims of the Ponzi schemes of New York-based financier Bernard Madoff and Montreal-based investment adviser Earl Jones.

"Our independent due diligence group flagged Madoff as early as 2000 and recommended to all clients that they not touch [him]," Mr. Stenner recalls. "There were some people who were duped and it's sad to see that, but when due diligence is being done independently and properly, it helps weed through those challenges."

And make no mistake about it, says Stewart Gavin, president of Toronto-based Gavin Management Group, in the wake of those incidents and the recent recession, wealthy investors are asking more questions before signing on with a wealth management firm.

But that's a good thing, says Mr. Gavin, who entered the financial arena after a 13-year NHL career. His advice when picking a firm is to focus on the ones that offer comprehensive planning, and narrow the list to three. Then be prepared to interview each one, ask for references and pose in-depth questions about any potential conflicts of interest - are they pushing products and services based on their firm's best interests, or yours? Also, when delivering those services, what are they charging and what's the service model? Do they take a methodical approach to crafting a plan to suit each individual client or do they try to stamp out a one-size-fits-all solution?

By carefully vetting his wealth management firm and its services, Mr. Hutton was able to focus his attention on running his company. "I would recommend you put the time in on the front end and interview the [firm] because they're basically going to be working for you. You need to work with someone that you trust."