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Consultants Help Clients Find, Fire Advisers

They're generally looking for RIAs

By MATTHIAS RIEKER

If you are a financial adviser, hearing that your client has been talking to Doug Black may not be good news; if you work on a commission-based arrangement, it is definitely bad news.

Mr. Black is part of small but growing industry that doesn't manage any money but rather specializes in helping people with lots of money screen and select – and sometimes fire – the professionals who handle their investments.

Last year, he worked with 34 clients and expects to help about 50 this year. He also expects – based on his experience since starting SpringReef Partners LLC of Rockville, Md., three years ago – that about three out of four will either change advisers or add another one.

He and others like him are benefiting from investors' increased distrust of financial advice and of the markets since the 2008 financial crisis. Many clients are more hands-on, particularly younger ones.

"It's not 'Set this up for me' anymore," says Kathryn McCarthy, who ran family offices for the very wealthy before becoming a consultant in New York. "You've got a whole group of 20-somethings, 30-somethings, looking around saying: 'Is this what we want to do with our money?'"

Her clients usually have more than $500 million, and her work ranges from helping a young heir find a career coach to structuring family offices and finding advisers managing specific parts of an investment portfolio.

Mr. Black's clients tend to seek him out after coming into a lot of money, for example from the sale of a business, or because they aren't satisfied with the investment advice they are already getting. The latter was the case for Ronald Krinick, a 60-year old orthopedic surgeon in New York.

"I work crazy hours," Mr. Krinick says, adding that he had been too busy for a thorough review of his investments and his adviser. He had been using "the same people my father went to" until after the 2008 financial crisis, when the losses he suffered as markets dropped made him question whether his adviser had his best interest in mind.

He decided to make a change and visited a new adviser recommended by his bank. There he was pitched "all the proprietary products that the organization had," he recalls, and asked to pay an "enormous" fee. So he hired Mr. Black to help him find the right advice. "He wasn't selling me anything," Mr. Krinick says.

This type of service doesn't come cheap and is typically designed for the wealthy – in some cases for the very wealthy. Mr. Black charges an hourly rate of $500 to $700. The average client pays about $20,000, he says.

Ms. McCarthy didn't discuss her fees. Gregory Rogers, the managing partner of RayLign Advisory LLC in Greenwich, Conn., a consulting firm he helped create, charges a project fee that can range from $30,000 to $100,000. He helps with a range of issues, from wealthy siblings managing family conflicts and setting up family meetings to helping clients who "talked to different advisers and they all sound the same."

RayLign also has an asset management business, which Mr. Rogers says is kept separate from the consulting.

Mr. Rogers says families often switch advisers when they are going through a transition, such as when a new generation assumes control of a family's investments or a trust. He often seeks out advisers that have experience resolving the emotionally charged issues that arise during that kind of event.

The consultants also typically look for advisers who match up with clients' risk appetites and the kind of investing they may need. They may want someone skilled in vetting and selecting hedge funds or socially responsible investments. They often consider whether the adviser himself has put his own money into the same investments.

A track record is a must. "We like to collect a 10-year history how the adviser made asset allocation decision," Mr. Rogers says. Advisers may resist giving that kind of detail directly to prospective clients, he notes. "That's partly our role: To say, 'You can ask these questions and you deserve answers.'"

Ms. McCarthy says her clients don't necessarily want to fire their financial adviser, but may need additional, specialized advice such as in direct investment in businesses. "I typically will look for independent, partner-owned" firms with experience that matches the clients need, for example, how to diversify a large equity concentration the investors ended up with after selling a business.

The consultants say that, as a general rule, they're looking for registered investment advisers who will have a fiduciary duty to their clients, as opposed to brokers who meet a less stringent ethical standard and may be paid a commission on transactions. If their clients already have a broker, they typically aren't looking for another, they say.

For Mr. Black, who uses a selection criteria with at least 19 components, no adviser with less than seven years of experience will be considered. If an adviser switched firms more than once every seven years on average, "I get nervous," he says. In his view, frequent firm changes signal that an adviser's own interests, such as big signing bonuses, are driving his or her decisions, not the client's interests.

Some advisers are happy to undergo the scrutiny, as it can lead to more business. David Basner, chief executive of New York advisory firm TAG Associates LLC, which manages $7 billion in assets, gained a customer through Mr. Black. He says getting through the rigorous screening process "was actually very good for us."

"I wish there were more people" like Mr. Black, he says. "It helps the client, it helps us. It's been a pretty happy relationship."