MONEY TALKS: ADVICE AND THE ADVISER

How to Break Up with Your Financial Adviser

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Text Size

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By: Deborah Caldwell

Senior Editor, Enterprise

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Hand on detonator

Jay Rattien had a problem. He couldn't get his **financial adviser** to pay attention to him or his portfolio. The adviser barely returned Rattien's calls. Finally, Rattien called the adviser's boss — the president of the company — and asked for a conversation.

The company president told him to meet him at his office. "First of all, he was 20 minutes late, and he told me to drive to his office. Incredible. So anyway I told him the situation," said Rattien, an IT consultant in a New York suburb.

He outlined how much money he had, and how much he was about to have available to **invest** after the sale of his house in the Hamptons. "I told him, 'At least once a year let me hear from you. That's not much to ask,'" said Rattien.

Did he hear from the president, or from his financial adviser? Nope – not for an entire year.

"I finally called them up and told them I was taking my money," said Rattien, who had employed the adviser for six years. "Then the president did call me back, and I let him have it. I told him all the things he did wrong."

So five months ago, Rattien moved his money to a new adviser, J.J. Burns, president of J.J. Burns & Co. in Melville, N.Y. Rattien's reaction now? "I'm so lucky to have met

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him."

Just Cause

People leave their **financial advisers** for lots of reasons, experts say: when they move; when they no longer feel a connection to the adviser; when they go through a crisis; when they don't want to pay the fees anymore; when they suspect they've been fleeced.

Or in Rattien's case, when they've been repeatedly dissed.

"The reasons vary," said Eleanor Blayney, a financial planner in Washington and the consumer advocate for the board of Certified Financial Planners. "**Unfortunately abuse does happen**, but there are other reasons. For example, we know that **women often fire their advisers, after a husband dies**. It's probably because they haven't been listened to (by the husband's adviser). Or sometimes the children want mom to work with another adviser."

Blayney said **the 2008-2009 financial crisis** also was a catalyst for breakups. "The financial crisis crystallized skepticism of financial advisers in the broad sense," she said. "**The Madoff scam** and subsequent scams had many people questioning and coming to their advisers and saying, 'How do I know you're not that person?' To a lot of people we were all in the same category at that time, and it really was an abuse of trust."

Or it could be a simple reason: "The chemistry may not be there," she said.

Burns has been on both sides of the breakup. "I want to know if it's the right fit because I have a very specific client profile," he said. Sometimes**, if the fit isn't right, Burns and a prospective client move on.**

And sometimes, he takes on clients from other financial advisers. In addition to Rattien, Burns works with a 75-year-old trial attorney and his wife. They had spent more than 15 years at a large financial firm, in what Burns called a "culture of one size fits all."

After analyzing their portfolio, Burns used **dollar-cost averaging** to put fixed sums of money over a seven-month period into diversified equity funds. He added commodities, such as gold, plus alternative investments, to hedge the portfolio. Many of these asset classes weren't part of the clients' previous portfolio.

Had they stayed with the old firm, Burns said, their previous adviser would have kept most of the money in stocks and some in a one-size–fits-all bond fund — because large firms generally don't have multiple investment products available to them.

"I sometimes think the financial adviser doesn't really give the client a value-add to the relationship," Burns said. "Is it just money management and picking out mutual funds? I think that's a mistake some financial advisers make."

As a result, plenty of people break up with a less-than-stellar financial adviser.

Separation Steps

So, once you've decided to pull the trigger, what next?

Lori Schock, director of the Securities and Exchange Commission's Office of Investor Education and Advocacy, outlined these steps.

First, decide what you're going to do with your money. **Are you going to hire another adviser**, or manage your own money? Either way, the receiving party (you or a new adviser) starts paper work that paves the way for the money to be placed in a new brokerage.

Do you need to tell the old adviser? "It all depends on how you like to break up with people," Schock said.

How to Transfer Accounts

Most people email the adviser to obtain a form rescinding the old adviser's authority to trade the account. In Rattien's case, he called the company to fire them — and to give them a piece of his mind.

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If you are dumping your old firm because **you're suspicious of its activities**, you need to get the form ending trading authority as soon as possible. "At that point the cat's out of the bag," Schock said. "They know the other shoe is going to drop shortly. If that's the situation, contact the SEC or your state securities regulator also, because we want to know about it."

Can a suspicious firm sabotage your account once they know you want to leave? Most likely not, Schock said, because state and national regulators are watching.

"If they decide to put your portfolio into, say, penny stocks, do contact us," she said. "We definitely want to hear about that individual."

For most people, though, the breakup isn't dramatic. "Your old adviser may try to talk you into staying because that's their revenue walking out the door," Schock said. "They might want to know what they did wrong and how they can make it up to you."

Most likely, however, there will be little or no conversation. You'll probably have to pay transfer fees to your new adviser, however — usually on the order of $75 to $100.

In general, you don't have to sell your positions because they will transfer from one brokerage to another. This is the case for stocks, cash, corporate bonds, municipal securities, 529 college funds and most mutual funds.

Fine Print

There are exceptions, however. These include funds that are proprietary to the firm you're leaving. For example, if you're leaving Morgan Stanley , its variable annuity product may not be accepted by, say, Vanguard. If that's the case, you'll have to liquidate those assets.

At this point, you or the receiving adviser contacts your old adviser to start the transfer process, which is done electronically.

You also need to find out whether cashing in any of your mutual fund positions violates holding period rules and triggers penalty fees. Funds can have 30-, 60- and 90-day holdings period between purchase and sale, with penalty fees generally around 1 percent.

Schock suggested your new adviser follow up once the process is under way because sometimes there are hiccups. For instance, “let’s say you have after-tax dollars in one part of your portfolio, or money in a **Roth account or a traditional IRA**,” she said. “You need to make sure they go into the new accounts, or you can have tax problems.”

The transfer process usually takes about two weeks, she said. If you need or want to sell any of your assets, you must do it either just before, or wait until after the two-week period because you can’t buy or sell during this period. “If the market tanks or you need cash for some reason, you can’t liquidate your position,” she said.

Once the two-week process if over, you and your new adviser will most likely meet to go over your new strategy and discuss fees.

Rattien and Burns did just that, working out a financial plan that includes **long-term care** and wills, in addition to finances. Rattien meets with Burns quarterly. His phone calls are returned.

“You get a feeling that people are taking care of you,” Rattien said.

Oh, and one more thing: “My **portfolio** is really taking off,” he said.

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