When is it time to shop for a new investment advisor? Part 2

We have previously shared how a client had been taken advantage of by an Edward Jones broker and another by a Wells Fargo broker, both in Commission-based Accounts. However, just having a Fee-based account isn't a guarantee that all is copacetic. From Monday's WSJ:

What's My Investing Fee? A Frustrating Quest

Our reporter thought she had a simple question, but the answers were anything but

By *Andrea Fuller*

May 7, 2017

I thought my question was simple: How much was I paying my investment adviser in fees?

After a series of phone calls that elicited the kind of confusion and frustration I have rarely experienced outside of interactions with cable-company customer-service representatives, I think I have an idea. Barely.

Describing the fee disclosures of my adviser as opaque would be generous. The experience left me wondering whether someone even less savvy than me, a Wall Street Journal reporter, would be able to navigate this system, to ferret out the good information from the bad.

Getting nowhere

In most offices, I suspect that people try to stay up on sports or television to prime for water-cooler gossip. But at the Journal, I was growing increasingly ashamed of how little I knew about the workings of my own investments. So, I decided to research what fees I paid to invest with my financial-advisory company—one of the largest in the U.S.

All of my investments are in mutual funds or exchange-traded funds. Though I don't have a finance beat—I am an investigative reporter who specializes in data analysis and computer programming—I am still guided by the Journal's conflict-of-interest policy that aims to prevent conflicts between employees' investments and the subjects we may cover. So I don't do any individual-stock investing.

I assumed the fee information I was looking for would be readily available in the documents section of the company's website. Wrong. I did see a toll-free number for customer support, so I gave them a ring.

I told the man who answered that I wanted to find out what fees I pay. In retrospect, this was a little like asking your spouse how much divorce lawyers cost. As he began to fret, I assured him that, no, I wasn't unhappy, just curious.

There is a $125 annual flat fee, he told me.

Alarm bells went off. That's it? I asked. That can't be it. I assumed there was a percentage charge on my investments.

He laughed. We'd love to charge that, he said. But no, $125.

Was that the *only* fee, I asked? I was increasingly dubious.

Well, he said, each fund in which you're invested has internal fees.

How did I find those?

And so began our journey into the bowels of the investment firm's website. He suggested I click on various pages, only to discover that no, the fees weren't listed there. By the time he suggested that I go to Yahoo Finance and look up various funds to find out about their fees there, I knew I'd had enough.

Twenty minutes into the call, I said I had to go.

I hope this has been helpful, he told me. I assured him: It wasn't.

I went back to my desk to seethe. There is a local financial adviser at the firm whom I meet with periodically for account reviews, and I decided to shoot him an email asking how I could find out all the fees I pay, and where these were documented. I also wrote an email to a colleague with the subject line, "MAY PULL HAIR OUT."

An answer of sorts

But apparently my irritation set the company on alert that we had entered the breakup danger zone. The man I had spoken with left me two voice mails promising that he had the information. I conceded to returning their calls after I received a third from his supervisor suggesting that, really, he could help me.

The man I spoke with this time proceeded to tell me the opposite of what the previous adviser had told me. No, there was no annual $125 fee. That was only for people investing in individual stocks. My portfolio had an annual fee of 0.85% of assets, deducted quarterly.

So what about these internal fees? He said those ranged from 0.4% to 0.8% of assets annually.

Well, then, what was my actual number? He said that I was invested in the "moderate" risk basket, so the expense averaged to 0.55%. Fees would have been higher with more-aggressive investments, lower with conservative ones.

I thanked him and asked where I could see all this online.

He said that he wasn't sure, but that the information would be in whatever packet I received when I enrolled in the program.

I told him this document was either long gone or in the drawer where old IKEA instructions go to die.

He said I could always try looking up the individual fees on Morningstar's website.

I thought that this was about as much as I could stomach of the fee-finding quest. I finally had an answer to what fees I paid, even if I remained in the dark about where they were documented. But about that time, I received a response from the adviser who normally schedules my portfolio reviews.

He also cited me the 0.85% number. And he said the internal expense fees were "around 0.5%."

I wrote him back and told him that I had finally spoken with someone who gave me the right answer, and that the number was 0.55%.

He called me, alarmed. It's actually 0.5%, he told me.

Well, the other guy told me 0.55%, I said.

No, he told me, you're in an account with "moderately conservative" risk, and the figure is 0.5%.

The other guy told me I was in the "moderate" account, I said.

Pause. Oh yes, as it turns out, you *are* in the moderate account, he said.

The 0.55% was correct. My combined fee was 1.4%.

And as for those documents?

"I am trying to find a client approved document that provides you with the internal expenses on the portfolio you are invested in," my adviser wrote.

I am still waiting.

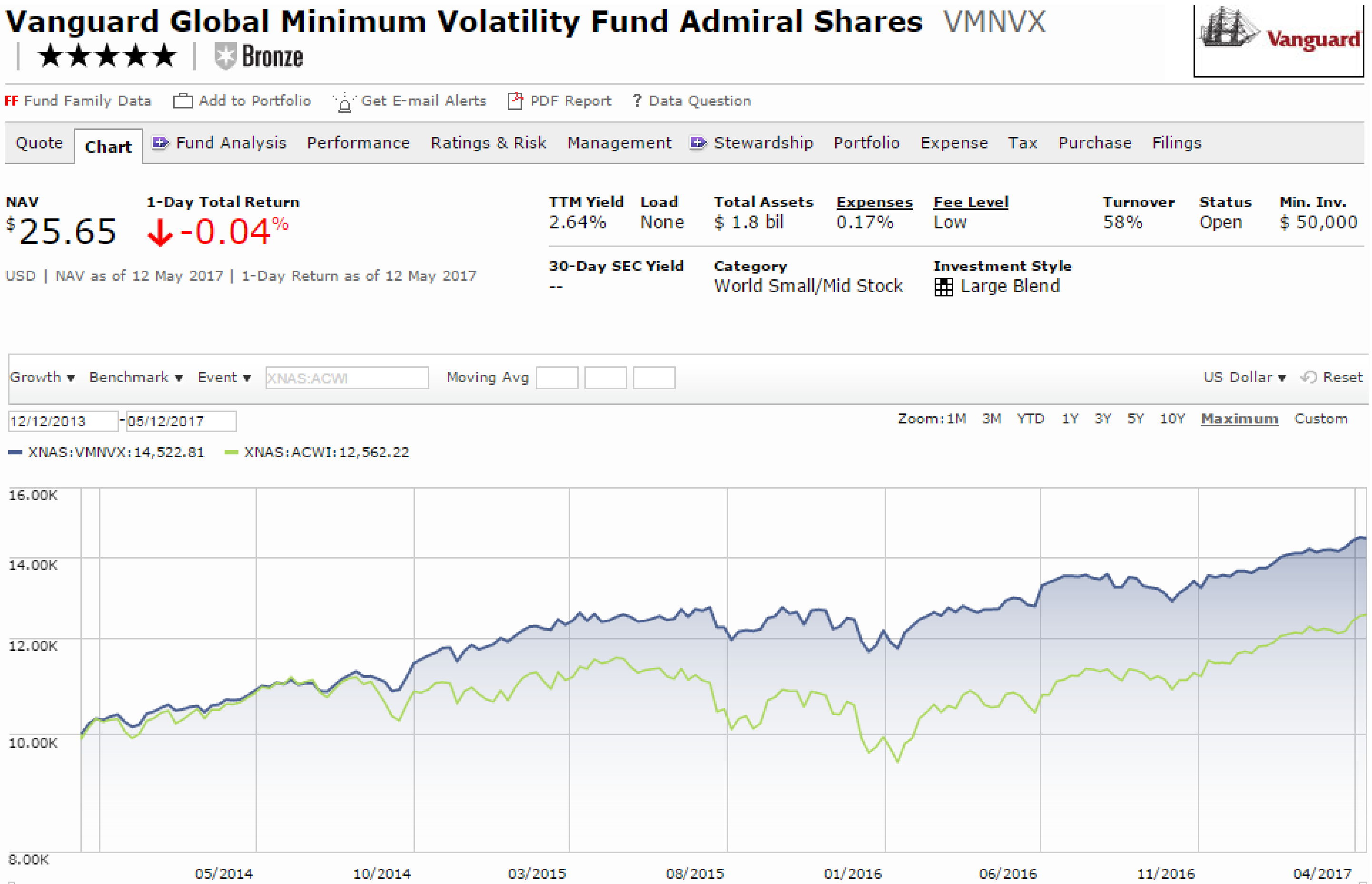
***

A spokeswoman for Ms. Fuller's investment-management firm later said she was sorry the reporter had a bad experience. She provided instructions and documents with further information on fees—but no documentation of Ms. Fuller's internal fund fees—and said the firm updated its statements in recent months to more clearly detail fees paid.

Our thoughts

From the front page of our website under the section "What We Do": "A 1% annual management fee is prorated quarterly for actively managed accounts under $1,000,000.00, and is deferred when a client's portfolio return falls below its most recent quarterly high-water mark. The management fee drops to .5% annually, and is not deferred, after the first year for accounts not investing in individual stocks. Clients whose accounts are held at E*Trade receive Platinum level support." Within the Platinum group our clients actually receive Private Client support, the highest level E*Trade offers.

As the following article from the WSJ makes clear, opaque fees aren't the only problem. Opportunity Cost can also harm your results. We track and invest our clients in the best Quantitative Funds, whether OEFs, ETFs or CEFs, available. The best for Global Low Volatility comes from Vanguard, VMNVX. We have added iShares MSCI ACWI ETF (green line) to its Morningstar chart for comparison. While Low Volatility as a Factor remains overvalued (VMNVX's forward P/E is 19.1 and P/CF is 9.5, while ACWI's is 17.0 and 7.1 respectively), at some point that may change and clients should have the opportunity to invest in it. As the chart shows, VMNVX has handedly outperformed a global benchmark, yet clients at Morgan Stanly will not have this investment option any longer.



Here is a link to the unedited version: https://www.wsj.com/articles/morgan-stanley-weighs-changing-broker-compensation-on-vanguard-funds-1493987204?tesla=y

Morgan Stanley Takes On Vanguard

By Sarah Krouse and Michael Wursthorn
May 5, 2017

Morgan Stanley is considering compensation changes for its financial advisers that could discourage them from keeping clients in Vanguard Group mutual funds, ratcheting up tensions between one of Wall Street's biggest brokerages and the popular index-fund provider.

In calculating adviser compensation for customer accounts that are charged an annual fee, Morgan Stanley may no longer count client assets in mutual funds that don't pay the bank for distribution, according to people familiar with the matter. ...

Vanguard, an index-fund pioneer that has been a beneficiary of the growing popularity of passive investing, is unusual in the money-management industry because it doesn't pay other firms to sell its funds. The ... fund company's policy has long been the ire of firms that distribute mutual funds and make money from revenue sharing or other financial arrangements with money managers.

Morgan Stanley has already decided that as of next week its brokers will no longer be able to sell clients new positions in Vanguard mutual funds. But a spokesman for the New York bank said Thursday that clients who already hold Vanguard mutual funds wouldn't be forced to sell them and could add to existing positions through early 2018. (Vanguard's exchange-traded funds won't be affected by this move.)

Morgan Stanley's aggressive stance toward Vanguard's products is the product of long-simmering tensions in the money-management industry over how fund managers are expected to compensate brokerages for distributing their products, analysts said.

Those tensions have risen in the past year as brokerage and fund managers adapt to the Labor Department's fiduciary rule requiring brokers to act in the best interest of retirement savers. Fund managers and brokerages have been in talks since last year about pricing and distributions changes in order to comply with the rule's goal of minimizing conflicts. ...

Still, Vanguard isn't likely to change its practices in light of the Morgan Stanley move.

"They have a model where they want to be compensated for being on their platform in one form or another and that's just something we won't do," Vanguard Chairman and Chief Executive Bill McNabb said on CNBC Thursday. "We think it raises inherent conflict." ...

Brokerages including Morgan Stanley rely on their compensation plans to nudge advisers to focus on selling certain products and services. Morgan Stanley in recent years has started offering its advisers incentives to push banking products like mortgages, for example. By excluding Vanguard funds from its compensation structure, Morgan would effectively be giving advisers a disincentive to keep clients in those funds.

Morgan Stanley has a network of more than 15,000 brokers who oversee about $2.2 trillion in client assets. It is in the process of cutting a quarter of the funds it considers to be unpopular or underperforming.

The economics of selling mutual funds is fast evolving as fund supermarkets and large networks of financial advisers try to use their scale to protect their own revenue. Regulatory changes as well as the growing popularity of lower-cost index-tracking funds are putting pressure on businesses in every corner of the money management industry, from the fund firms that manage assets to fund sellers.

Vanguard, which has been pulling in more assets in recent years than its rivals, managed $4.2 trillion in assets at the end of March.

Our thoughts continued:

We ran into this problem with E*Trade when we wanted to place our clients in the Institutional shares (GPIIX and DDDIX) of 2 funds that weren't on E*Trade's platform. Fortunately, Quest Opportunity Fund's Private Client status and our insistence was sufficient leverage for our Account Manager to make it happen. While Morgan Stanley should be commended for making Fee-based accounts available to their clients, limiting the Funds available to those that adequately compensate them has the potential to reduce their client's returns.