Finding the Right Adviser For Your Little Nest Egg

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Fee-charging financial planners were supposed to save investors from the evil clutches of the brokerage industry. There is just one problem: Many of these advisers only seem to be interested in rescuing the rich.

Got $50,000 or $100,000 to invest? If you hunt around, you can find savvy financial planners who will manage modest sums for a reasonable fee. But these advisers sure aren't easy to find.

Here's why it's so difficult to locate a good, low-cost adviser, and what you can do about it.

Rich Pickings: I know this will garner me a truckload of hate mail. But let's be blunt: You never want to pay a broker or financial planner with commissions.

Why not? If you go that route, the adviser has a huge incentive to stick you in products that generate the fattest commissions and to cajole you into buying and selling, because that's how the adviser makes the most money. But what's good for commission-charging advisers is often bad news for the investors involved.

Yet small investors seeking help almost inevitably end up with brokers and planners who levy commissions. These advisers will stick them in a few stock and bond mutual funds, ding them for 4.5% or 5.75% commissions and then send them on their merry way.

What is the alternative? What you want is some sort of fee arrangement, such as paying your adviser a percentage of your portfolio's value each year. That way, the adviser has an incentive to manage your money wisely. After all, if your portfolio grows, the adviser will earn more money.

The problem is, many of these fee-charging financial planners have decided they want to be "wealth managers" and have no interest in taking on clients with less than $250,000 or $500,000 to invest.

"As an industry, we're not helping the people who really need help," argues Bob Frey, a financial planner in Bozeman, Mont. "We're maximizing the return for people with $15 million in assets. But they don't need their return maximized. A lot of advisers have thrown in the towel on helping the little guy."

Finest Hour: Unlike many financial planners who manage money for a percentage of assets, Mr. Frey will take on clients with as little as $50,000 in assets and sometimes less, if he figures the clients will save diligently and quickly get themselves up to the $50,000 mark.

Mr. Frey charges 1% a year on the first $100,000 in assets and 0.5% on assets above that level. For instance, on a $200,000 portfolio, his fee would be $1,500 a year.

Want somebody like Mr. Frey? You can get a list of financial planners in your area by contacting the Financial Planning Association (FPA) in Atlanta or the National Association of Personal Financial Advisors (NAPFA) in Arlington Heights, Ill. Some FPA members accept commissions, but all NAPFA members are fee-only advisers.

If you don't have a whole lot of assets, many of these advisers will refuse to manage your money for a percentage of assets. Some may offer to sell you a few investments on commission. But as I have indicated above, I don't think that's a good idea. If your $50,000 ends up in a fistful of load funds, you will likely lose over $2,000 to commissions.

What to do? Ask the advisers you contact if they will help you for an hourly fee. If you buy four or five hours of a planner's time, at maybe $150 an hour, you should be able to get a suggested portfolio of no-load funds, plus some pointers on how much to save, what to do with your kid's college savings, how to handle your debts and whether you have adequate insurance.

"The great thing about the hourly model is that clients buy as much or as little help as they need or can afford," says Bryan Totri, a financial planner in Roswell, Ga. Mr. Totri is a member of the Garrett Planning Network in Shawnee, Kan., a group of 130 planners who advise clients on an hourly basis.

Model Behavior: In addition to offering advice for $120 an hour, Mr. Totri has a program where clients manage their own money, but he provides model portfolios, monthly commentaries and some ongoing advice. Depending on the amount of handholding the clients need and the complexity of their finances, Mr. Totri charges $600 to $2,400 a year.

Rich Chambers, a financial planner in Menlo Park, Calif., offers a similar service. First, he meets with clients for an initial 90-minute meeting, which costs $240 and includes some investor education and an assessment of the clients' appetite for risk.

Thereafter, Mr. Chambers sends these clients a monthly newsletter, which includes his model portfolios and that month's suggested portfolio changes, if any. The service costs $75 a month for the first year and $50 a month thereafter. As part of the service, Mr. Chambers answers investors' questions via e-mail and meets with them in person twice a year for one hour.

At the meetings, he helps clients fine-tune their portfolios. "If there's any time left over in the meeting, they can use it for any financial-planning topics they want to bring up," Mr. Chambers says. Want further help? Mr. Chambers charges his usual hourly fee of $160. But clients don't have to buy the whole hour. Mr. Chambers bills at a rate of $2.67 a minute.