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Volatile markets push investors to seek second opinions

Wealthy expect more, so they divide funds among several advisers

By Andrew Osterland
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Investors — particularly wealthy ones — are increasingly using more than one financial adviser to manage their money, according to the latest research from Cerulli Associates Inc.

About a quarter of households who seek financial advice use multiple advisers.

For such households with investible assets of between $2 million and $5 million, the proportion increases to 33%. And 58% of surveyed investors with more than $5 million in assets have multiple advisory relationships.

What's more, clients with multiple relationships tend to keep a smaller percentage of their assets with a primary adviser.

In 2008, 24.2% of all households surveyed kept more than 90% of their assets with their primary adviser. By the end of last year, that percentage had fallen to 22.6%, and for the more than $5 million crowd, the percentage fell to 13% from 30%.

The research was based on interviews with 7,800 households conducted at the end of last year and the beginning of this year.

“Investors are taking the idea of diversification a step further, and diversifying across firms and across advisers,” said Cerulli analyst Katharine Wolf.

She has watched the trend develop since the 2008 crisis and expects that the recent turmoil in markets will only increase investors' desire for multiple sources of advice.

“The last couple of weeks have likely validated many investors' desire to have multiple relationships,” Ms. Wolf said. “Fear is outweighing convenience.”

MORE DEMANDING

In general, the wealthier households are more likely to use multiple advisers because they can do so and still meet adviser minimums for investment. They also tend to be more demanding of their advisers and more difficult to satisfy.

Those investors who use one adviser cited “soft” factors such as trustworthiness and ease of doing business with their adviser as the major reasons why they were or weren't satisfied with the relationship. Multiple-adviser users, on the other hand, tend to be more skeptical of their advisers and want more quantitative measures of the advisers' performance and their level of knowledge.

“The fastest area of growth for us is playing the financial quarterback for clients who use multiple advisers to do many things,” said Joe Duran, chief executive of United Capital Financial Advisers LLC. “The problem for people with multiple advisers is that none of the advisers focus on the client's entire financial picture, and that can be frustrating for the consumer.”

United Capital Financial assesses the client's needs and assigns advisory work to advisers within and outside the firm based on the client's objectives.

Mr. Duran said that he makes up for the fee that the firm charges by getting better pricing from the advisers and better performance for the client.

According to Ms. Wolf, who also surveyed advisers about the trend, advisers know that their clients are seeking second — even third and fourth — opinions on their investments. They may, however, be overestimating their influence with their clients.

LACK OF COMMUNICATION

For advisers who serve clients with more than $5 million in assets, 73% of 1,500 said that they were the primary adviser to the client, while just 34% of clients said that the responding adviser filled that role.

Ms. Wolf suggested that advisers should honestly assess the strength of their client relationships and work to improve them. She thinks that the multiple-adviser trend will reverse itself as market volatility decreases, and clients will look to consolidate their assets with fewer advisers.

“We expect investors will tire of being the financial quarterback overseeing multiple relationships,” Ms. Wolf said. “While financial advisers' book may look good for now, they may lose assets when clients reconsolidate.”

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