

A new era of professionalism means a rethink of the old links between planners and fund managers, says Martin Mulcare.

Last month I suggested that you should not be relying on a good year for investment markets to help you enjoy a good year for your business. Although I downgraded the importance of investment advice for real financial advisers, the reality is that you are likely to work closely with fund managers. Hence, I thought it might be timely to consider the nature of the relationship between a fund manager and a financial adviser.

I recognise that there is a variety of business models out there, for both advisers and fund managers, but I think that a typical relationship in the 20th century looked like this:

20TH CENTURY RELATIONSHIP

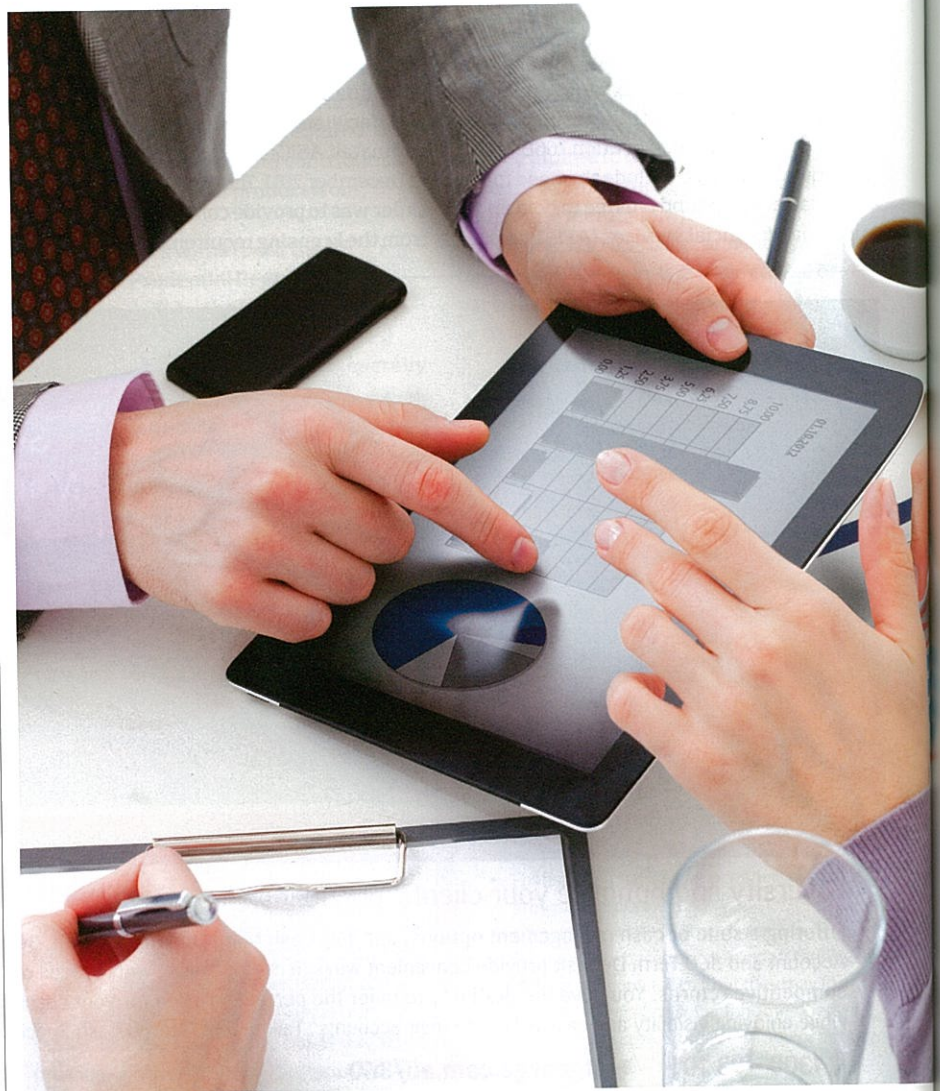


In reality, the adviser acted as an intermediary and behaved like an agent of the fund manager. As an agent, in the English sense of the word, the adviser was well treated by the fund manager. The fund manager provided education and training and a range of potential services. In return, the adviser recommended the fund manager's products to the adviser's clients and was paid directly by the fund manager.

This was a simple arrangement, well understood and appreciated by both advisers and fund managers. And there was nothing wrong with such intermediary relationships, as long as the client also understood that the adviser was effectively working for the fund manager.

And therein lay the potential problem. What if the adviser was claiming to be a professional? Any pretence of

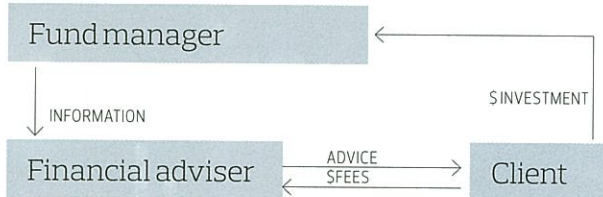
NEW PLANNER BUSINESS MODELS MIGHT LEAVE FUND MANAGERS NERVOUS



independence and unconflicted advice was compromised by this relationship model. The fund managers didn't mind, of course, as they had some sense of control and influence over their product sales. However, clients who came to understand the misrepresentation certainly did mind.

Financial advisers who desire to behave like true professionals have adopted a different model in the 21st century:

21ST CENTURY RELATIONSHIP



In this model, the adviser's primary relationship, and primary obligation, lies with the client. The client can be confident that the adviser is acting in the client's interests because the adviser is no longer acting as an agent of the fund manager. There is no conflict of interest and the adviser can genuinely claim independence.

This model is similar to a doctor who is paid by the patient and who may or may not choose to prescribe medicine manufactured by a drug company. By contrast, the intermediary model would see the doctor paid by the drug company. How would that make the patient feel?

So where does the new model leave the fund managers? Mighty nervous, I suspect, as their sense of control and influence is eroded. Goodness - the potential recommendation of the fund manager's product by the adviser now depends purely on the merits and suitability of the product. No wonder fund managers are fighting so hard against the implementation of the 21st century model.

These are the best of times to adopt the new model and demonstrate your professional behaviour. Your clients will trust your advice and the fund managers will get over it. ■

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