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Advice for Sale: Testing Five Financial Planners

HOW THEY STACK UP

We tested financial planners at five firms. Here's how they compare[0].

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Nobody agrees on which way the stock market is headed these days, but everyone wants to tell you how to invest.

Stockbrokers, insurance agents, bankers, certified public accountants and even some lawyers are vying to make money by advising you where to put yours. The downturn has been as brutal for investment pros as it has been for individuals. Providing financial planning is a way for them to generate income and at the same time encourage skittish investors to wade back in.

Merrill Lynch & Co.'s 14,000 stockbrokers are now called "financial advisors." **J.P. Morgan Chase** & Co. is trying to convince affluent people who bank there to use its financial planners. And a host of others are offering everything from software services to one-on-ones.

But is hiring a planner a good investment? We visited five of them to see if they could make sense of our finances. After recently getting married and buying a bigger apartment, we had three questions: how to invest the profit from selling our last apartment; what to do with our $20,000 in Microsoft (we bought it for $13,000); and an issue that would sound absurd to suburbanites -- how to pay for a $46,000 parking space behind our new apartment.

The advice we got was all over the map. **Schwab** recommended 40% stocks for our portfolio while Merrill said 80%. One planner criticized Bill Gates and Microsoft, while another swore by them. Yet another planner probed our emotions on how we would react to a big market downturn.

We tried an array of planners, from traditional Wall Street firms that charge up to 2% a year to manage our assets to a fee-only firm that charges $200 per hour. We also logged onto the Money Advisor service at the Motley Fool Web site.

We spent at least an hour with a counselor from the four firms, plus several hours trolling fool.com[1]. Our biggest surprise was how much free advice we were able to wring out of the advisers without turning any money over to them at all during our get-to-know-you meetings. Chase told us exactly which funds to buy, others simply suggested basic classes of fundsto consider. You can get a lot of information without opening your wallet.

Not that we didn't have quibbles. Chase wanted to charge 1.5% of our assets to manage a portfolio of mutual funds. Merrill responded to our desire to keep fees low by suggesting an approach that would have kept our money in one family of funds for five years; move it, and you'll pay a fee.

Some planners didn't seem to value our privacy. Two left the doors of their offices open while we talked.

Wall Street has good reason to be bullish on financial planning. Brokerage firms have typically made their money by charging commissions on trades, but after three down years, investors are trading less -- Schwab's commissions fell 19% in the first quarter from a year earlier. So, increasingly, Wall Street wants customers to pay an annual fee, anywhere from 0.5% to 3% of their assets. In exchange, the customer is supposed to get impartial advice from a planner who won't churn their account to generate commissions.

Our biggest concern was what to do with the windfall from selling our apartment. We plan to use it to help finance our next real-estate upgrade, about 10 years and approximately two children from now. We'd like to double our money during that time -- which means we need to average a little better than 7% a year. And we'd be devastated if half of it disappeared, as it might have if it had been in stocks since 2000.

At Merrill, where the company logo is a bull, our two advisers said that the goal of doubling our money was "not unrealistic." They showed us a chart displaying the past three extended bear markets over the past 70 years. After each of them, it turns out, the market has returned an average of at least 18.5% annually for four years. Their recommendation for the first couple of years, given our risk tolerance: 80% stocks.

Schwab was the most conservative, suggesting 40% stocks, 40% bonds (including some high-yield, or junk, bonds that might pump up our returns), and 20% international investments (mostly bonds). This was a bit too risk-averse for our tastes.

Our Chase adviser had the most specific suggestions on what mutual funds to buy. Once we got to him, that is. A rep at the company's 800 number gave us a wrong number for him. Then, we tried to call his bank branch directly, only to get misdirected or cut off six times. Just as we were ready to give up, our planner called us himself to follow up on the original lead he got from the people who answer the 800 line. A Chase executive called our experience highly unusual.

After our phone hassles were over, our adviser walked us through a program that suggested five classes of stock funds and four types of bond funds. For each category it had a handful of "recommended" funds. Chase says it doesn't collect commissions for selling these funds.

AFW Asset Management, a fee-only firm, tossed around several intriguing ideas that nobody else had. One notion, designed to get us into investments that don't track the stock or bond markets, was to put money in a fund that invests in companies that have announced mergers but not completed them yet.

Our AFW adviser suggested borrowing money for the parking space. With home-equity loans and lines of credit offering low rates, we'd likely do better investing the cash we have now. Merrill and Chase agreed. Schwab thought we had enough debt already with our mortgage.

As for Motley Fool, it farms phone questions out to planners at Ayco Co., a financial counseling firm based in Albany, N.Y. Our adviser there told us that he wasn't allowed to tell us what to do. He did probe us like a shrink when we asked him whether we ought to sell our Microsoft stock, however.

First, he wanted to know how we'd feel if we sold and the stock went up (we'd feel lucky we had bought it on the cheap in the first place). What about if we kept it and it crashed? (We'd, of course, feel extremely foolish.)

Then, he cut loose with a suggestion anyhow: Why not sell the stock, put the proceeds toward the parking spot, and borrow the rest. Sold!

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Name	Price	Bedside Manner	Microsoft: Hold or Sell?	Bottom Line
AFW Asset Management www.afw.com[3]	1% of assets with a $500,000 minimum, or $200 per hour	They responded to our request for help just minutes after we filled out a referral request form online.	They asked one question that cut to the heart of the matter: Would you buy $20,000 of it today? No.	Had unique investment ideas and seemed to have the most compatible personality with ours.
Charles Schwab Corp. www.schwab.com[4]	Free initial consultation, then up to $1500 after that. Or, pay 0.75% of your assets each year.	Salty and plain-spoken; conversation ranged widely. Not bothered by our showing up 35 minutes late.	Thinks it will track the market. "Gates has been tilting at windmills. He's stuck in the past."	Pretty conservative. His first suggestion for an asset allocation had only 40% of our money in stocks.
J.P. Morgan Chase & Co. www.chase.com[5]	Fees range up to 2.9% of assets. You can also pay per transaction.	He chatted about how he'd left firms that pushed bad products on customers.	He holds Microsoft himself and thinks we should keep it.	Once we got our man, he was great. But it was no fun navigating Chase's phones.
Merrill Lynch & Co. www.ml.com[6]	It's actually possible to pay nothing, if you invest in certain types of mutual funds. Otherwise, it's similar to Chase.	The two advisers had a conservative Brooks Brothers air and plenty of info at their wingtips.	"We don't like single stock exposure. It's one of the first things we learn here."	Made a good argument for consolidating banking and investing with them. Can be pricey for people with big plans and small balances.
The Motley Fool's Money Advisor service www.fool.com[7]	$195 per year (though there's a 30-day free trial right now). Includes four hours on the phone with a financial adviser.	The site is easy to use, though it's time consuming. No-nonsense phone counselor was one part shrink, one part reporter.	The live humans aren't allowed to pick stocks, but ours asked good questions and helped us realize that we wanted to sell.	Four hours of advice for $195 is a great deal. But we wish they'd lift their gag order on touting stocks.

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