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CONFERENCE CALL

Advisers get earful from heavy hitters, peers

By Brooke Southall

ORLANDO, Fla. — George H.W. Bush and William H. Donaldson pleaded to the 1,100 financial advisers assembled here this month to get on the straight and narrow on behalf of financial clients.

"I believe entrepreneurialism needs to be redirected inside the firm, creating a DNA of the organization, starting from the credibility of how your firm operates. Any breach is a killer for you," Mr. Donaldson, the former chairman of the Securities and Exchange Commission, told the audience at Partnership 2006, the annual national conference of Omaha, Neb.-based TD Ameritrade Holding Corp.

"You need an ethical base; never lose sight of it," said Mr. Bush in his own speech.

But it was two financial advisers, not the former president or Mr. Donaldson, who made the more convincing case.

In their seminar, "Using the 'F' Word — A practitioner's view of how to market your fiduciary advantage," Jeffrey Daniher and John Ritter, the two managing principals of Ritter Daniher Financial Advisory LLC, spelled out their business plan for success based on intense fiduciary care and advocacy on behalf of clients. Ritter Daniher, founded in 1999, manages \$75 million in Cincinnati.

The advisers timed their seminar to coincide with the implementation of the beefed-up so-called Merrill Lynch rule, also known as the broker-dealer exemption of the Investment Advisers Act of 1940. The rule required brokers as of Jan. 31 to display a warning that they aren't

necessarily acting in the best interests of clients or holding themselves out as financial planners.

"We have a tipping point," Mr. Daniher said. "The SEC helped you out; they drew the line in the sand."

The first message Mr. Ritter drilled home was that the wirehouses suffered a major defeat in the rewriting of the Merrill Lynch rule, and it wasn't a victory as they had told their brokers.

"If I had to splash disclaimers all over my documents, would I think I won?" he asked. "If I took the [certified financial planner] designation off my [calling] cards, would I think I won?"

Yet the victory can't be reaped by planners without a focused effort.

"The problem is that we're a bunch of individuals, so it's difficult to have a concerted effort to get the word out," said John Malzone, principal with JJM Financial Strategies Inc. of Newtown, Pa., which manages \$100 million.

But Mr. Ritter thinks that an individual firm can make its own headway in leveraging the new Merrill Lynch rule, though not without an intelligent, focused effort.

"You've got to have a message, and the message needs to be very consistent," he said. "This is grass roots. This is ultimate grass roots."

To drive their perspective home, the advisers have designed three ways to highlight the differences between themselves and commission salesmen for prospective clients.

At that effort's core, Ritter Daniher pre-

sents a compact accepting fiduciary responsibility.

But as an adjunct to this document, the firm has a five-question checklist for clients to take to other prospective advisers with queries directed at responsibility for fiduciary care.

In addition, Ritter Daniher issues a change of compensation schedule to a client showing them precisely what they are charging.

"You say 1% on \$1.5 million, and people say, 'OK.' But you say \$15,000, and people say, 'Oh, my God,'" Mr. Daniher said.

The third tactic is to advocate on behalf of clients to get former brokers to refund fee overcharges.

Mr. Ritter recently discovered that one client's entire portfolio was unnecessarily invested in expensive B-class mutual fund shares. It took but a phone call to the compliance person at the offending firm to get a \$10,000 personal check written to his client, he said.

The advisers made two other points: Don't forget to continue educating existing clients about fiduciary care, and be sure to bring these fiduciary differences to the attention of attorneys and accountants who are sources of referrals.

Mr. Ritter brought wrongdoing against a prospective client to the attention of an attorney with whom he was playing golf one day. The lawyer subsequently helped the client file suit.

"Do you think he's now not an ally of ours?" Mr. Ritter asked.