

12/27/03 - Posted 1:06:46 AM from the Daily Record newsroom

Portfolio could use 2nd opinion

By Warren Boroson, Daily Record

To begin with, there's the Messy Portfolio: a mad jumble of stocks, bonds and mutual funds, with no rhyme or reason.

Older people in particular tend to own such horrible portfolios, having during the years bought this, that and the other thing, perhaps following the recommendations of their stockbrokers, various financial magazines, analysts on CNBC, or their barbers or hairdressers.

Then there's the Skimpy Portfolio. Maybe five or six stocks. If just one of them comes down with Enronitis, the entire portfolio is sorely wounded. (Academic studies indicate that you need 15 or 20 stocks in different industries so as not to be in danger of badly under-performing the stock market.)

Even a portfolio of mutual funds can be skimpy. I once encountered a young woman who owned two funds: a gold fund and a biotechnology fund.

Similar to the Skimpy Portfolio is the Johnny-One-Note Portfolio. Too many similar stocks or too many similar mutual funds (typically, in technology).

Finally, there's the Putrescent Portfolio. Full of expensive deferred annuities with nasty early-redemption fees, lousy mutual funds (my unfavorites being those offered by First Investors), B shares (the most undesirable) of those mutual funds and over-the-counter stocks suitable for devil-may-care gamblers.

A Putrescent Portfolio is also totally unsuitable for the particular investor: a 20-year-old owns a lot of short-term municipal bond funds, a 70-year-old owns shares of a gold-mining company traded on the Vancouver stock exchange.

The other day, I heard Mitchell H. Cobert, a securities lawyer in Morristown, recommend that investors pay an outside adviser to give their portfolios a once-over: Is the portfolio nicely diversified? Is it suitable for the particular client? Are the securities any damn good?

What a fine idea!

So I queried a bunch of respected advisers in the area.

Would they critique the portfolio of a nonclient?

What would they charge?

First, advisers who said yes.

Andrew Wang, Runnymede Capital Management, Mendham:

"Absolutely. It is of particular importance for the public to seek out the right person for a second opinion. For example, one might question the objectivity of a commission-based adviser when seeking out a second opinion. In the medical field, people are not shy about asking for a second opinion. In the financial industry, people do not know where to turn.

"At Runnymede, we manage equity portfolios in-house. Therefore, we feel qualified not only to evaluate someone's asset allocation but can also effectively evaluate the 'health' of their equity portfolio based on fundamental and technical characteristics. Research on companies and portfolio management is what we have been doing for years. We can analyze a portfolio and identify its strengths and weaknesses."

Stephen C. Craffen, MBA, Baron Financial Group, Fair Lawn:

"We would provide them with a second opinion and would charge anywhere from \$500 to \$3,000, depending on the complexity of the portfolio and the actual request.

"In other words, evaluating investment policy only might put the cost on the lower range of the scale; evaluating that and many different investments, including individual securities, will put the cost on the higher end of the scale. If there are very many holdings of individual securities (stocks and bonds rather than mutual funds), we might actually have to charge more since there can be a lot of work involved in analyzing those."

Timothy Watters, CFP, Ramsey: "I am often brought in to do just that. Many people are looking for someone to critique their own portfolio picks or are wondering if their broker is doing the right thing by them. I am never asked to review portfolios designed by independent investment advisers.

"Often, when I review portfolios set up by brokers in large wire houses, I see a lot of B share funds and little balance. I charge hourly fees for this type of work: \$160 an hour."

Susan Kimmel, CPA, CFP, Short Hills, said she would look at a portfolio of mutual funds, not of individual securities, and focus on the portfolio's makeup, taking into consideration the investor's goals. She charges \$200 an hour.

Elliott S. Collins, CFP, Wescliffe Financial Group, Denville: "I have in the past been asked to review portfolios. I will evaluate portfolios for a fee, and

my fees range from \$100 to \$200 per hour."

Sheri Iannetta Cupo, CFP, Sage Advisory Group, Morristown: "I do second opinions all the time." She considers these people her clients. "I like clients to complete my Confidential Questionnaire and a ProQuest risk profile even if it's just a portfolio review, so I can determine if they are at an appropriate overall allocation, if there's enough liquidity for their cash-flow needs, assess their risk tolerance, etc. If they just want to talk about investments in more general terms (bonds vs. bond funds, what is an index fund, how can I figure out how much my broker is charging me, what's a B share, etc.), then we'll just have a working session at my rate of \$150 per hour."

James H. Christie, CFP, Freedom Financial Planning, Bridgewater, will engage an investor as a client for such a second opinion. "I would need to understand the person's situation, future needs for the portfolio and risk tolerance. I would then determine if, in my opinion, the portfolio was appropriate. If I did not feel the portfolio was appropriate, I would state my reasons in writing along with recommendations."

Marnie Aznar, CFP, Aznar Financial Advisers, Morristown: Yes, also if an investor became a client. She would analyze the portfolio, discuss it with the client and help with making changes. Her fee: \$150 an hour.

David Dietze, JD, CFA, Point View Financial Services, Short Hills: "We are delighted to furnish second opinions on individuals' stock portfolios. We suggest that this be undertaken as part of our comprehensive financial planning package -- after all, it is silly to quibble over Fund A versus Fund B if there is insufficient life insurance or obvious ways a family could be minimizing taxes. Moreover, looking at one portfolio in a vacuum makes no sense when a client has other investment assets, particularly a 401(k). All of a client's assets should be integrated

"The cost for our comprehensive financial planning package is one-quarter of 1 percent of the assets considered."

Next, advisers who said maybe or a flat no.

Marylou Reeves, CFP, of Thomas Mack Associates, Rockaway: "I used to do more second-opinion work but, frankly, now I try to avoid it.

"Although I certainly agree that a second opinion can be quite useful, the problem is that the advice I give today may be rendered useless by ongoing events, such as a market slide, plunging interest rates or 9/11.

"Without having an ongoing maintenance contract with a financial planner, whereby all parties agree that you will be meeting or at least discussing finances on a regularly scheduled basis, I ahem found too many times the recommended future review does not take place.

"I will only do second opinions on a very rare basis, depending on unusual circumstances."

Steven Kaye, CFP, American Economic Planning Group, Watchung: "We don't run into the request often. We find that the majority of people only meet with one planner, even when changing planners."

"We would analyze a portfolio for a fee, as good will (maybe the investor will refer someone else) or in the hope of the relationship expanding."

"While we might analyze the portfolio, we couldn't address the aspect of 'suitability' without doing a financial plan, except in general terms."

"We would charge on an hourly basis, but we would guesstimate the time and commit to a fixed fee. The amount of time depends on the complexity. A mutual fund portfolio might be \$500, but a portfolio requiring research of 50 stocks might cost \$1,200 to \$2,000, while a complex portfolio that includes stocks, funds, unit trusts, separate account managers and hedge funds and that includes Zephyr analysis might cost \$5,000."

David Bugen, CFP, RegentAtlantic Capital, Chatham: "Unfortunately, our business structure does not enable us to perform such a service."

Ram Kolluri, CFP, Global Value, Princeton: "Giving advice on a specific portfolio has problems. One needs to understand the client's risk tolerance, time horizon and liquidity needs before recommending any portfolio asset allocation or specific investment suggestions. Under these circumstances, I do not undertake to give advice on a given portfolio on a fee basis unless the client is willing to understand our discipline and how it is implemented."

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Boroson on Money appears Tuesday, Fridays and Sundays in the Daily Record.