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Better Laid Plans

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Several advisors have tried to take advantage of the changes in 401(k) advice giving to carve a new niche.
By Mary Rowland

By now, most advisors know that the Pension Protection Act of 2006 encouraged 401(k) plan sponsors to offer advice to individual plan participants and help them make better money allocation choices. And many of you no doubt know that the Department of Labor came out with rules in March that tried to explain which financial advisors were qualified to do it. Unfortunately, the DOL rules only muddied the waters for many financial advisors.

However, a handful of professionals across the country have prepared themselves, setting up thriving businesses that provide investment advice to the 401(k) plan participants—not the sponsors—for a fee.

One professional working in this business is Charles Scott of Pelleton Capital Management Inc. in Scottsdale, Ariz. Scott, who has been an advisor for 15 years, changed his business model a year and a half ago to focus on participants in these plans. He reasoned that a house and a 401(k) are the main assets most families have, and that while these investors have been inundated with education and workshops, what they actually want is more specific:
"They want advice," Scott says.

Specifically, they want to know which of the options in their 401(k) plan they should choose and how much money should go into each one. That's what he gives them.

A number of planners have begun to use 401(k) advice as the cornerstone of their financial planning practices and four of them that I spoke with, including Scott, say it is the fastest-growing part of their business. Some charge an asset-based fee; some charge a flat dollar fee. And they are able to achieve economies of scale by offering services to dozens, hundreds or even thousands of participants at a time. Groups of professionals such as doctors and lawyers, among others, are good candidates for participant advice, these advisors say.

One advisor working in this space, Chad Griffeth, markets 401(k) advice through his company BeManaged in Grand Rapids, Mich. (Bemanagednow.com). The company was four years old on Valentine's Day.

"I used to be a broker," says Griffeth, who does the marketing while his partner, John Whaley, a CFA, does the research on investment options and determines asset allocations. "The first thing people would ask is if I could manage their 401(k) plans for them." He and Whaley set up their company hoping to give investors with just $30,000 in their accounts an institutional level of service.

Companies that seek 401(k) advice for employees tend to be paternalistic, to want the best for their workers and to offer a good plan with well-thought-out options, Griffeth says. In its pursuit of such business, BeManaged has won the contract to work with the 4,600 401(k) plan participants at health and beauty products marketer Amway, whose headquarters are located near where BeManaged is based.

Amway performed a five-year due diligence search to find advisors for their employees before settling on BeManaged. "Other vendors wanted to sell products or move the 401(k) somewhere else," Griffeth says. The way the firm works is to set up its consulting site at Amway's offices, sometimes for three weeks at a time. The firm is happy to use the funds in the company's plan, which Griffeth says are good ones.

"We don't have clients come to us," he says. "We have a very humble office and that allows us to be efficient." Employees have a choice to either simply be advised on their plan or to be managed. Most choose the latter.

When BeManaged sets up at the company's headquarters, Amway employees can go to the 401(k) Web site and schedule a Web consultation and then come to one of the spots where BeManaged advisors are waiting. "Consultations are free," Griffeth says. "We can control risk, control the contribution and control their behavior."

BeManaged charges a standard fee of 15 basis points, which is capped at $125 per quarter. The company is growing slowly and the Amway account was a big break. "Amway is very well known for its culture and a lot of other employers took notice," Griffeth says.

Another firm focusing on this niche is Lager & Co., in Minneapolis. Founder Ric Lager, who left Smith Barney in 1998 to start his RIA firm, uses the same fee schedule for 401(k) plans that he uses for other money management clients, which is 150 to 175 basis points for a $500,000 account. The fee for larger accounts tapers down to 100 basis points. Lager does not offer other financial planning services. Because he often does business with 40 or 50 people at the same company, he also gets economies of scale.

Lager says advisors focusing on 401(k) advice can make use of the self-directed brokerage windows available at many companies, including most of the Fortune 1000 firms. "The self-direction participation rate is under 3%," Lager says, and that is a place he feels he can add real value. His 401(k) clients can use ETFs to invest in oil and gas, gold, and "to really participate in worldwide growth," he says.

Lager is a big fan of the technical analysis of the firm Dorsey Wright & Associates, and he has used it to assemble stock portfolios. "Dorsey Wright is a mom and pop firm in Richmond, Va., that is the world class provider of point and figure research," Lager says, adding that he is "100% against buy and hold, asset allocation and modern portfolio theory."

Charles Scott, who has been managing money for 18 years, also uses Dorsey Wright, having turned to the firm's technical analysis after the tech crash in 2000 when several clients he had left behind in Seattle (following his move to Arizona) lost a good deal of their money.

Scott (whose site is Real401kadvice.com) charges 75 basis points for his advice. Typically, the plan participant pays him directly, most often by credit card. "We calculate the fee once a year and take it out monthly," Scott says. Another option is to ask the client to authorize the 401(k) record keeper to pay the fee out of the plan. More than half of his clients use the credit card method, he says. The rest are evenly split between those who ask the record keeper to pay and those who have the fee taken out of other accounts also managed by Scott.

"A key element is knowing every day, for each client, and for every investment we own, precisely how much risk that investment has," he says. "In other words, if all my stop/loss prices were hit at once, I know exactly how much [percentage-wise] your portfolio would go down."

Hewlett Davidson Powell LLC in Birmingham, Ala., came to 401(k) advice through the back door. The firm was formed in 2000 to assist 401(k) plan sponsors, a specialty one of the partners, Cheryl Davidson, developed as the trust officer of a regional bank, and also to provide traditional individual financial advice. When the partners saw the need for individual plan participant advice, they developed it (their site is 401kfocus.com). Partner Kyle Hewlett is responsible for 401(k) advice to participants. After setting up the allocation, he does a 90-day review. Davidson is responsible for working with plan sponsors and partner Jeffery Powell is responsible for wealth management services. "The 401(k) is the only thing growing our practice," Hewlett says.

Like Scott, Hewlett got into technical analysis after the chaotic years of 2000-2001. He hired a programmer who built a system called EZ-Advisor in February 2004. The firm advises on 433 401(k) plans. Hewlett's firm charges 20 basis points across the board for 401(k) advice to participants. It can be paid by either the company or the plan.

A chunk of Hewlett's 401(k) clients work for AT&T, which gives the firm scale. Such plan participants, whose employers are not clients, pay a flat fee of $500 a year. The advice is based on age and risk tolerance. EZ-Advisor sends an e-mail to a plan participant every time there is a recommendation for a change in the plan's allocation.

"Our recommendations will outperform the S&P in a bad market and underperform in a good market," he says. About 80% of his clients have only their 401(k) assets with the firm; 20% have wealth management services as well as the 401(k).

When I began researching this column, I was looking for advisors who focused their practices on 401(k) participant advice. I had never heard of Dorsey Wright. Certainly it's not a coincidence that three of the four advisors I spoke with use this firm. Not until I spoke with Lager, who does seminars for other advisors to teach them how to use the firm's tools, did the name of the company even come up.

I don't believe for a moment that technical analysis is a necessary element of managing a 401(k) plan. Still, I wonder how significant that company's technical analysis is to these advisors' success—if at all. I'm going to find out about Dorsey Wright myself and report on it in my next column.

Mary Rowland can be reached at rowlandnyc@aol.com. She has been a business and personal finance journalist for 30 years and has written two books for financial advisors: Best Practices and In Search of the Perfect Model.