

A La Carte Financial Advice

Jason Zweig and Morgan Housel are two of my favorite writers and thinkers. They explain the complexities of business, markets and human behavior better than anyone. I've learned a lot from these two when it comes to writing, communicating and focusing on what matters.

I don't disagree with these guys very often but I'm going to push back a little on something they discussed in a recent conversation with Patrick O'Shaughnessy.

Patrick asked them what businesses they would start if they had the opportunity to do something different with their careers. Morgan had an interesting idea.

He talked about the fact that investment management has been democratized through lower costs, better access to funds and services such as robo-advisors. But Morgan sees a huge need for better financial planning and more access to useful financial advice.

Zweig agreed and took things a step further when talking about the current way financial advice is distributed through financial advisors:

It is so long overdue. It is decades overdue. And it's outrageous the financial advice industry has trained the public to pay 1% a year for the investment management aspect of financial planning, which is essentially trivial, and which financial planners are not very good anyway. But at the same time has trained the financial public that the financial planning aspects of that relationship, which are really important and can make a vastly bigger difference in their future wealth than portfolio management, should be free. It's bonkers. You go to the typical investment advisor in this country and you pay 1% a year to have your portfolio managed and the other aspects of financial planning are free. It's nonsense. And it's a crazy business model that developed by backwardation almost. And the fee structure is nonsensical. People are overpaying for a commodity product that underperforms and they're underpaying for a very useful service that makes a massive difference to their future wealth.

I totally agree with parts of what they're saying. I agree there's never been a better time to be an individual investor. Much of investment management is turning into a commodity in many respects. Anything that can be automated will be in the future. Anyone fighting this trend will be sorry.

My views are likely biased based on my experience but I don't agree with some of their thoughts on financial planning.

Financial advice isn't scalable. It's personal and personal can't be automated. At my firm, we like to say that that process and philosophy are universal but strategy and planning are personal. The fact that financial advice is not a commodity business means it cannot scale. I don't think it's possible to automate personalized advice without enough good people and firms giving that advice.

You have to get to know people to offer useful financial advice. You have to understand their unique needs, goals, desires and pain points. You have to ask questions, empathize, listen to people, educate them and offer solutions.

A portfolio itself is not a financial plan. It's nearly impossible to offer legitimate investment advice without understanding someone's overall financial picture. The best investment management on earth won't do clients any good if it's not attached to a real-life comprehensive financial plan. Trying to separate out the costs of investment management and financial planning won't work for most people because you can't do one without the other.

I don't think it's possible to offer these services a la carte. Many of the people I've talked to in recent years come to us assuming they need help managing their investments but what they really need is financial advice. They need help with tax efficiency, safe withdrawal strategies, insurance needs, trusts, wills, generational planning, asset location and estate planning. The portfolio management aspect is just one way to express these needs.

I suppose some of this stuff can be done as a one-off but it's not so much the planning stage as much as the implementation of the financial plan that matters.

Beyond the more textbook financial planning strategies, good advisors can also provide behavioral alpha, set realistic expectations, communicate what investments they own and why, and give people reassurance that they're on the right track with their finances (or be honest if they're not).

Obviously, there are many financial advisors out there who are only building portfolios and not offering true financial advice. Those people and firms aren't providing value commensurate with their fees. They can and will lose business eventually.

And there are a handful of people who can manage portfolios on their own who could use some advice on occasion but this group is smaller than most realize. Most people really need help putting things into context and some help understanding what to pay attention to and what to ignore.

I actually think the financial planners are going to be more in demand than investment managers in the years ahead as baby boomers retire en masse. But the most helpful advisors will be those who are able to offer both investment and financial advice in harmony with one another.

The conversation with these guys is worth a listen:

[Business vs. investing, w/Jason Zweig and Morgan Housel \(Invest Like the Best\)](#)

Further Reading:

[Investment Management vs. Financial Advice](#)

Now here's what I've been reading lately:

- How to facilitate positive behavioral change ([Kitces](#))
- A deep dive into the world of corporate bonds ([Gordian Advisors](#))
- My middle name is danger ([Reformed Broker](#))
- Invert, always invert ([Above the Markets](#))
- The constraints ([Pension Partners](#))
- How to focus on taking the right amount of risk ([Humble Dollar](#))
- Worrying about risk can be very risky ([A Teachable Moment](#))
- Maps of the world ([Research Puzzle](#))