

Interview with Alan Dick

Macquarie Planner Services

Smart solutions made simple



Alan Dick, CEO of Forty Two Wealth Management, shares his thoughts on the recent FSA paper, the future effects of RDR as well as the challenges and successes he has faced.



How has Forty Two Financial Wealth Management evolved over the years to be where it is today?

The firm started out more than 20 years ago as a traditional IFA business. Most of our business came from referrals from our close relationship with a firm of accountants and like most IFAs, we sold products and earned commissions. We carried out regular client reviews but these were really nothing more than a chance to speak to clients again to find out if they wanted to buy anything else from us.

I joined the firm in 1995 with only admin experience. I had worked for Standard Life for seven years processing new business. I have never seen myself as a salesman and never felt comfortable with the IFA business model. It seemed wrong to me to call ourselves “independent” while we were being remunerated by product providers for selling their wares. Nothing sold, nothing earned. I was convinced that the future of financial planning firms was to become highly qualified fee based professionals delivering high quality strategic advice rather than merely distributing products for insurance and investment companies. When I became a partner in 2000, I immediately set about creating a firm that acted in the best interests of clients and delivered the service they really wanted and needed. At that time there were very few role models to learn from, so I fumbled around trying to design the ideal business on my own. Most IFAs I spoke to thought I was crazy and kept telling me “clients just won’t pay fees”.

We had a number of false starts delivering services that didn't quite work and charging in ways that clients didn't particularly like. Things really clicked into place when I was introduced to the Institute of Financial Planning (IFP) in 2002. Through the IFP I learned about genuine financial planning practices in the US and here in the UK. I met a number of fantastic planners including Sandy Robertson at Acumen, David Crozier at Navigator, Tim and Stephen Page at Page Russell and John Baxter of True Financial Planning who were all willing to share their experiences. Together we all learned and helped each other improve our practices.

The next stage in our development came when I gained my Certified Financial Planning professional qualification. I initially thought the experience was going to be just like all the other exams I have ever taken where you cram as much knowledge into your head for long enough to regurgitate it in an exam then forget it and get on with your life. I couldn't have been more wrong. In reality CFP^{cm} provided a complete tried and tested business process that I was able to integrate seamlessly in to my business. We have never looked back since.

At this stage, I still thought our job was all about picking winning investments and reviewing the performance of individual funds to help clients beat the markets. We had a very fragmented approach to portfolio construction with many different investments from multiple providers. Clients would have separate ISA or PEPs with lots of investment companies. They would have multiple pension plans and investment bonds etc.

At the beginning of 2004 two things happened that completely revolutionised our business.

First, I heard Sam Adams of Dimensional Fund Advisers explain the academic research behind modern portfolio theory. Being a bit of a sceptic I went away and checked out all the research myself. It clearly showed we were wasting our time and our clients' money trying to pick the best active managers, when it would be much better for everyone concerned to simply buy the market through low cost passive funds. Around the same time I discovered wrap accounts. When I started using a proper wrap platform I suddenly had a transparent investment proposition that clients could understand and a method to deliver it simply and cost effectively within the context of a clear financial plan.

What do you think has made Forty Two Wealth Management a success?

Our commitment to always do the best thing for our clients and treat them as we would want to be treated.

Working closely with our clients and ensuring that we REALLY know them and their financial aspirations.

I'm a Scot and I hate all the fluffy Californian hippy speak, but we really do deliver comprehensive holistic lifestyle financial planning which we enjoy and our clients value. We couldn't have done it without the IFP, Dimensional and a true open architecture Wrap Platform

Why do you enjoy your role and what is your biggest challenge?

It is incredibly satisfying to know that you have helped clients take control of their financial affairs. I love it when clients tell me that discovering our firm, and seeing their first proper financial plan, was a "eureka moment", or an "epiphany". One client actually sat forward during a planning meeting and, looking at his cashflow forecast on screen, shouted "bloody hell, the penny's just dropped". All of these clients tell us the same thing: seeing their financial affairs laid out in a clear plan where they have contributed to its construction is the first time in their lives that they have seen how everything about their financial affairs fits together. This big picture clarity gives them the context for making decisions and really adds value to their lives. When a client tells you they get it, it feels great.

What are the biggest issues affecting your clients now?

For many of our clients it is finding a way to spend their money. For years they have gone through life wondering if they had enough, could they afford to retire, how much did they need to sell their business for them to lead the life they have been working for all these years. The fear of the unknown is a huge strain and drain on individuals. Often, when we construct a lifetime cashflow forecast for clients as part of their financial plan, we are able to show them for the first time ever that they have enough money to do all the things they want and more. Clients sometimes find it a challenge to come to terms with this new found freedom. They often find it difficult to spend more money on themselves (as everyone knows, the Scots have short arms and deep pockets). We are able to help them build spending plans to ensure they enjoy their lives to the full while also helping others, including family and charity.

What are your views on the latest DP from the FSA?

If you are referring to the review of Wrap Platforms I think there is a lot of good common sense in it. There is no doubt in my mind that the concept of bundled fund supermarkets, where fund managers pay for shelf space, is fundamentally wrong and potentially very misleading for investors and advisors. Most of the fund supermarket platforms do not include (or only offer limited access to) low cost passive funds and ETFs simply because these funds charge such low fees that they can't afford to pay the platforms shelf space fees. Also, the use of "guided architecture" portfolio selection tools on these platforms inevitably distorts the market by directing investors towards the funds that pay the biggest kickback to the platform.

There are three jobs being carried out during the investment process and the cost of each should be clearly and separately identified. First there is advice which RDR clearly states must be fee based from December 2012. Second there is custody and administration (provided by the platform) which should not be paid for by product providers seeking to gain greater distribution of their funds. Lastly there is investment management which should be clearly costed and paid for by the client. There should be no significant cross subsidy between the elements to avoid potential conflicts of interest. It all seems pretty straightforward to me.

The other great news from the DP is that the FSA seem totally committed to making re-registration compulsory from 2012 onwards. This will stamp out the unsavoury practice where some of the supermarkets actively promote reregistration onto their platforms but don't allow investors to register off their platforms if they fail to live up to expectations. My only gripe about this is, why is it going to take until 2012 to implement?

However, the DP does raise some interesting questions such as "is it right to ban all fee rebates from funds to clients?" At the moment, the best platforms all seem to operate a clearly identifiable client cash account from which all fees and charges are paid. This gives total transparency to everyone. This client account can receive fee rebates from fund managers to recognise the fact that the platform is carrying out much of the administrative work the manager would normally need to do. As the rebate accrues to the client account, not the platform, I don't see any problem with this but the DP proposes to abolish this practice. The alternative solution of issuing multiple unit classes, with differing price structures, seems to be a very complex way to solve a simple problem. It also poses potential problems for future registration.

Another interesting point the DP makes is that some funds are potentially illiquid. In many cases this may not be a problem if the manager knows how many unit holders there are and the size of each account, as this allows him to assess the likelihood of large withdrawals causing liquidity problems for the fund. However, where the fund manager receives the bulk of their business through three or four platforms they will have no idea of how many investors there really are or the likelihood of large withdrawals affecting liquidity. While I don't have an answer to this question, it is good to see that the FSA is at least aware of some of the less obvious issues surrounding platforms and is actively trying to address them.

How do you think the RDR will affect the financial planning profession over the coming years?

I think RDR will be a fantastic leap forward for the profession. I'm not worried by it in the slightest. Effectively the FSA's proposals will push people to run their businesses in the way that we have been doing for almost a decade and many other IFP firms have been doing for even longer.

However, I do still believe there are some areas which still need to be improved. Post 2012 FSA regulations will still focus on PRODUCTS rather than PLANNING. The truth is that financial products are completely commoditised and advisers add little or no value selecting between a Standard Life Pension or a Scottish Widows pension for example. But the rules are still focused on selecting the best products. Post RDR will still have regulations based on a retail experience not a professional experience. I firmly believe that financial planning is a distinct discipline that should be regulated and only those people who actually deliver true strategic financial planning services should be allowed to use the term "Financial Planner". The regulations should also move to a position where independent means "has a fiduciary responsibility to the client" which goes way beyond simply considering products from the whole of the market.

What would you be doing if you were not the CEO of Forty Two Wealth Management?

Touring the world wowing audiences at rock festivals with my musical genius.

Alternatively, standing on top of the podium at Mountain Bike World Cup downhill races.

What is your favourite website?

Banshee Bikes Blog www.bansheebikes.blogspot.com/

What do you enjoy doing outside of work?

Spending time with family.

Mountain biking, although I spend more time in my garage tinkering with my bike (usually elbow deep in oil and grease) than I do riding the thing! I'm really just a frustrated bike mechanic at heart.

Windsurfing but I'm rubbish at it! I should surf more in Scotland though. The water is so cold it's a real incentive to learn not to keep falling off.

Playing in various bands. I've played guitar in bands since I was at school. I did a short spell playing guitar on a cruise ship when I was 18 which was a disaster. I was 18 and into Eddie Van Halen and Jim Hendrix; the drummer was 65 and we played "Five foot two eyes of blue" all night to an audience that were old enough to be his parents. I'll be there myself one day but at 18 it was a big culture shock.

If you could have three people around the dinner table, who would they be?

Frank Zappa, Steve Peat and Beyonce Knowles