Multi-Family Office: Independence & Transparency = No Conflict of Interest (part 3)

In our previous articles (Multi-Family Office: a new paradigm of Trust for investors (Part 1)) and (Multi-Family Office: a human touch with responsiveness and cohesiveness (part 2)), we discussed how MFO have emerged as the genuine providers of trust by building credibility and demonstrating professionalism. Also, we discussed how a distinguishing characteristic of a well-run multi-family office is that it’s exceedingly human service oriented by not only quickly addressing issues but also being able to anticipate them and have possible solutions at hand with a cohesive strategy.

However, the integrity of trusted counsel- a constant source of sophisticated advice while guiding the family or client on every aspect of their affairs- relies on the notion of independence and transparency where interest must be common and their incentives aligned with those of the clients. Fundamentally, building credibility is about being forthright, transparent and accessible.

The relationship between an investor and a financial service provider can be resumed as a two-way street. Both parties share responsibilities for ensuring disclosure and transparency in the relationship. But too often, the perceive opinion of a client is quite the contrary, is that only the bank makes money. Indeed, clients are increasingly disgruntled with banks over the opacity of fees and banking charges. I often joke that if you were to ask how much a bank billed you in total fees and charges during the course of a year, you would not be able to obtain a straight answer. Too often, the bank will respond to you saying that complex legacy IT systems are not built to provide this kind of clarity to clients.

This lack of information often results in customer inertia. Customer inertia refers to circumstances where clients are locked into their existing bank or financial providers because it is not easy for them to switch their accounts or get new services from new financial advisors. To curtail this inertia and lack of information, it is essential that clients have a full disclosure and understanding of all fees being levied to their accounts. Therefore, be wary of advisors who have undisclosed conflicts of interest.

True fee transparency for products, pricing, and services is foundational in building customer trust, because trust is the building block of customer satisfaction and the keystone of a good and fair relationship.
This is why interest must be common and aligned between investors and financial services providers, otherwise the game is rigged in advance.

Multi family office typically charge a fee based on a percentage of assets under management. This fee structure is simple, transparent, and easy to understand. It also gives your advisor an incentive to help grow your assets. When you succeed, your advisor succeeds.

When it comes to trading activity, too many time clients are relinquished to trade a stock or bond because of transaction cost and you can sometimes hear the phrase: how much will it cost? The reason for this reaction is that transaction costs are somewhat prohibitive, costly and not always clear.

Indeed, another inherent conflict of interest leading to higher cost for the client is when a bank trading floor or a broker make recommendations, but primarily implement the directions of the investor, and get compensated through trading commissions. The more activity there is in the account, the higher the bank or broker's compensation. Higher cost can also arise when a broker or a bank trading floor do not disclose the relevant bid and ask spreads to a client on bonds purchases, for instance. Because bonds are more complicated and less transparent than stocks, brokers are able to reap huge profits at the investor's expense. More often than not, the trader will offer its client the price at which it is prepared to complete the transaction at that moment with an excessive spread. In this case, the quoted spread doesn't represent the effective spread (usually 1%) and a markup is applied to exploit the retail investors' unfamiliarity with bonds. This practice of hidden fees is all too frequent in the bond market.

Having a full knowledge of those market's elements is an essential consideration in an investment decision. But more important than just knowledge, having an independent advisor on your side reviewing these transactions with the knowledge of all those market elements for you is a better guaranty of lower cost to achieve higher return.

Another frequent complaint by investors is that their relationship manager (RM) at the bank keeps changing, often to be replaced by another salesperson. This leaves clients in a situation where they are dealing with a relation manager unfamiliar with their investment strategies or who simply tries to push products on them that they neither want nor understand. One of the core differences between how MFO and private
banks operate is the way fees are charged; the fact is that MFO works for the clients, whereas relationship manager works for the bank.

MFO charges an annual management fee, so the only motivation for suggesting a solution is to improve performance and safeguard client interests and to target the best performing investment options with the lowest fees for our clients. Whether they operate on a discretionary or advisory basis, the fee remains the same – it does not increase with more frequent trading, so does not incentivize needless transactions. If you are dealing with a fee-based advisors and paying a management fee, you are in good hands.

As an independent MFO, one of our key objectives is to keep all and any outside fees the clients pay to an absolute minimum and, to focus on a medium- to long-term portfolio-based approach for those clients. Our clients know where they stand with us, they know that we are actively negotiating the lowest fee for them with the banks and they know our advisory fee, and therefore, are no other surprises.

Regardless of your background, source of wealth or family dynamics, managing significant wealth presents a wide range of unique opportunities and challenges.

With financial success comes the complexity of managing more assets for business owners and families, and more of them want to regain control in actively managing their affairs with a complete understanding and trusted professionals on their side that demonstrate transparency, independence and integrity. For complex wealthy families, it is hard to imagine a successful outcome without both ‘best in class’ specialist advisors and a coordinator or family office.

Because families want to ensure that things don’t fall through the cracks and know how to invest in a better way, they want to move away from traditional banking platforms of investing and wealth management. To achieve those objectives, investors must rely on a trusted counsel performing with complete impartiality. In this search, independent MFOs are a natural choice for clients because they represent a true competitive differentiator.