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Educated eye for the ordinary guy

Wall Street meets Main Street as advisers reach for middle class

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Steve Harrison wants to retire in several years, so the do-it-yourself investor decided last fall to hire a financial planner to make sure he's on target to meet his goal. The 54-year-old Baltimore social worker wanted an adviser who charged a fee for services, rather than one who worked on commission and made money by pitching products. One planner required his clients to have at least $2 million in assets. Another's limit was $5 million, Harrison said.

"I was stunned about how few [advisers] there were for middle-class people," he said. Many middle-income households are in a similar situation. Deciding they need the help of a professional, they struggle to find affordable, objective advice.

As with lunch, there's no such thing as free advice. Some advisers work on commission, others accept a fee and commissions, some are fee-only. One way or another, the professional is compensated.

Consumer advocates generally recommend fee-only planners, saying they won't be motivated to steer a client into investments with the biggest commissions. But this advice doesn't come cheaply.

Fee-only planners may charge by the hour, by project or a certain percentage of assets they manage for clients. A comprehensive plan that includes advice on retirement, insurance, taxes and estate planning can run as high as $5,000. That's steep for households earning the median U.S. income of $42,400. "It's a cold, cold world out there if you are middle class," said Barbara Roper, director of investor protection for the Consumer Federation of America.

Fee-only planners are aware that consumers are being priced out and more of them are reaching out to the middle market. The definition of what's middle-income is hard to nail down, but some suggest it includes couples earning $50,000 to $130,000. Nancy Hradsky, membership manager for the National Association of Personal Financial Advisors, said the fastest-growing category are planners catering to middle-income clients. The trade association for fee-only planners has nearly 1,100 members. At least 20 percent of those target the middle-income market, she said.

One reason for the growth is that more middle-income families, particularly baby boomers, realize they need professional help, Hradsky said. The demand is now strong enough to support a planner's practice, she said.

Among those with a focus on middle-income consumers is Sheryl Garrett, a Kansas planner who once worked for a wealth-management firm that charged a minimum fee of $4,000. "I got really discouraged having to turn away clients I would have liked to work with," she said, but who couldn't afford the fee. Six years ago, Garrett started her own firm that charges for advice by the hour. It attracts middle-income investors who don't need a full-time adviser, but might want an expert to review a portfolio or develop a retirement plan.

It also appeals to high-income do-it-yourself investors who want to bounce ideas off a professional. Garrett charges $180 an hour. A portfolio review, say, for a young investor might take a half-hour's time, a cost of $90. A retirement plan for someone nearing retirement, a more time-intensive analysis, costs $500 to $800, she said. The concept has been so popular that Garrett three years ago launched the Garrett Planning Network (www.GarrettPlanningNetwork.com), a group of advisers who pay to join the network and must meet certain standards.

The network has grown to 185 advisers nationwide. Consumers can find advisers at www.garrettplanningnetwork.com. The Alliance of Cambridge Advisors Inc., based in Michigan, is another network of about 90 advisers who charge annual retainers based on a client's income, assets and complexity of finances, Executive Director Cathy Stegmaier said. A first year's retainer can start at $2,000, but advisers offer limited retainers - albeit fewer services - that can range from $250 to $1,000, she said. In Little Rock, Ark., Rick Adkins has developed a different approach. Adkins, chief executive of a fee-only firm catering to doctors, found that his fees were often too rich for some consumers. "Our overhead is such that we want to work with them but we can't afford to," he said.

Four years ago, Adkins teamed up with two of his competitors to open Financial Decisions Institute, a firm that works with clients of more modest means. The institute offers streamlined advice, producing a plan that covers retirement, college savings, insurance and taxes for $300. The typical client earns $20,000 to $75,000, Adkins said. The institute has 190 clients and $14 million under management. This year, the institute expects to post a small profit. Adkins and the institute have received calls from other planners across the country interested in setting up a similar system. "If we can do it in Little Rock," Adkins said, "we can do it anywhere."

Of course, financial advisers serve the middle market who aren't affiliated with these networks. Consumers can shop for a planner by visiting the Web sites of the Financial Planning Association at www.fpanet.org and NAPFA at www.napfa.org.

Harrison, the Baltimore social worker, ended up hiring James Ludwick, an Odenton planner who belongs to the Garrett network. Ludwick used to work for a money manager that handled million-dollar accounts. "I decided there were more people underserved in the middle class," Ludwick said. "I thought they would be willing to pay a reasonable amount for my time to avoid making major mistakes that would cost them a lot of money."

Ludwick meets with clients for an hour for free and gives them an estimate of how much time he'll take on their finances. His hourly fee is $180. Clients also can call Ludwick to get their questions answered for free the first Friday of each month. Harrison said his retirement check-up cost about $600 - and concluded it was worth the cost. "He helped me allocate my assets to maximize my chances of retiring soon," Harrison said.

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