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FINANCIAL ADVISERS

## Advisers' Little Secret: Their Past Results

*Many pros who assemble fund portfolios for clients don't offer performance numbers. Potential clients should ask.*

By JAIME LEVY PESSIN

You can comparison-shop for almost anything online. But probably not if you're an individual looking for an investment adviser—at least not if you want to compare advisers' performance.

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While the performance of mutual funds is published daily and investment firms that cater to institutional investors are expected to publicly document their results, such reporting is rare among advisers who work with individual investors.

Many money managers do offer performance numbers to prospective clients who ask for them in face-to-face meetings. But that doesn't make it easy to shop around.

"When you buy a car, you check the Web for the basic data on price, quality and the colors available. You don't want to talk to

the engineer for basic information," says Steffen Binder, managing director of MyPrivateBanking GmbH, a Switzerland-based firm that provides information and analysis for clients of private banks and wealth managers.

"In today's world, every important disclosure is made on websites," Mr. Binder says. "We think publishing information on the websites is the gold standard of disclosure."

Why the lack of such basic information? After all, posting results would be "a clear advantage for good performers," Mr. Binder notes.

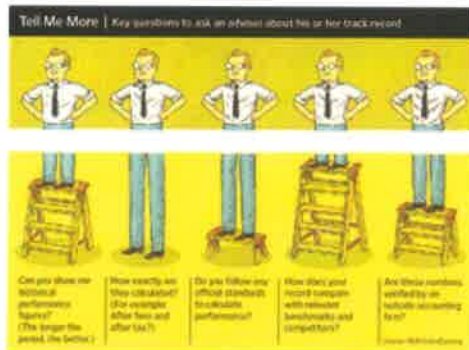
Regulatory and legal concerns are a major hurdle. Advisers don't want to be accused of promising too much, and avoiding that pitfall can be expensive. Also, some advisers say the diversity of the portfolios they put together for their clients makes it difficult in many cases to provide performance measures that would be relevant to many prospective investors.

So investors may never be able to compare investment advisers as easily as they can compare mutual funds. But some advisers do post at least some results online, and MyPrivateBanking and another company that provides information for investors online, San Diego-based BrightScope Inc., are working to make performance data more readily available.

### Cost, Liability Worries

The Securities and Exchange Commission doesn't require investment advisers to publish performance

information. It does offer guidelines for what can and can't be included in performance data designed for clients to see. For example, advisers aren't allowed to pick only their best clients or their best time frames when compiling performance data in order to pad the results. Results also need to be displayed net of fees.



Wesley Bedrosian

In the absence of a more detailed and specific set of SEC rules, some money-management firms have gravitated toward a voluntary system known as Global Investment Performance Standards, which provides a methodology for calculating and presenting performance data that aims to be ethical and transparent to investors. GIPS—which was created by the CFA Institute, a global association of investment professionals—is widely used by advisers to institutional investors. But some advisers to individual investors say the cost and labor associated with GIPS compliance is an obstacle to posting performance numbers.

Steven Stone, head of the investment-management practice group at Philadelphia-based law firm Morgan, Lewis & Bockius LLP, says that even though the GIPS rules are clear, there are still many judgment calls along the way, such as which accounts to include in a composite and how to word the disclosures that must accompany a chart. Often firms attempting to achieve GIPS compliance hire a consultant or lawyer to help with the process, he says, and that can get pricey.

Andrew Tignanelli says his Hunt Valley, Md., firm, Financial Consulate, has discussed the possibility of posting performance results. Because he doesn't want to run afoul of the SEC, he would want to adhere to "some form of accepted standard," he says. But complying with GIPS is "quite intense for the average small financial advisory firm," he says.

As of now, his firm has chosen not to provide performance information publicly, although he does make it available to prospective clients who ask for it, which he says happens infrequently.

Even for firms willing to absorb the costs, GIPS methodology doesn't necessarily eliminate regulatory and liability risk for advisers, says Mercer Bullard, a law professor at the University of Mississippi and founder of the investor-advocacy group Fund Democracy.

Mr. Bullard points out that the SEC requires disclaimers on performance results explaining that past performance doesn't guarantee future returns. But, he says, some firms worry that any form of performance reporting could be viewed as a promise. That concern, he says, "necessarily suppresses the use" of such numbers.

Mr. Bullard, who is also a vice president at St. Louis-based financial-planning firm Plancorp LLC, says his firm provides performance information to clients upon request.

### *Apples and Oranges*

Some advisers may not publish performance numbers because of the type of practice they have, says Susan John, the national chairman of the National Association of Personal Financial Advisors and an adviser in Wolfeboro, N.H. A financial adviser who manages money but also helps with retirement and estate planning, say, may be less likely to provide performance numbers "because each client will have a specially tailored portfolio," Ms. John says.

Big advisory firms face the same issue. At the Merrill Lynch Wealth Management unit of [Bank of America Corp.](#), advisers construct portfolios for clients "based on their individual attributes," says a spokeswoman for the firm. "In this context, we do not believe aggregating the performance of a group of clients would yield a meaningful result."

But some advisers to individual investors are publishing some results.

Medley & Brown LLC, an advisory firm in Jackson, Miss., addresses the disparity in client types by posting two broad, 10-year rolling performance charts on its website: a "growth" composite, which includes portfolios with less than 18% of the account in cash and bonds, and a "balanced" composite, which includes portfolios with 18% or more in cash and bonds.

Because of the cost and labor involved in adhering to GIPS, Medley & Brown is not GIPS-compliant, says Tim Medley, a principal. However, Mr. Medley says the firm has looked to the SEC guidelines and the GIPS program for guidance in crafting performance charts.

Charles Schwab Corp.'s website recently started to include performance numbers for the three Windhaven Portfolios, which aren't crafted for specific individuals but instead offer investors a choice of three preset investment approaches. The portfolios are primarily made up of low-cost exchange-traded funds. A Schwab spokeswoman says the company is considering posting performance numbers on its site for other portfolios that are managed substantially the same way for broad groups of investors.

### *Looking for More*

Both MyPrivateBanking and BrightScope are in the initial stages of efforts to get more performance data to the public.

In June, MyPrivateBanking started discussions among its members—both investors and money managers—aimed at developing a Charter for Ethical Wealth Management that would include a call for easier access to advisers' performance results.

BrightScope, which recently launched an online database of financial advisers' public records, is aiming to do the same with advisers' performance results. Last month the company started discussions with a committee of investment advisers about ways to standardize performance reporting.

BrightScope also hopes to raise awareness of the performance issue among investors, many of whom never ask to see advisers' track records. "Our goal is to use consumer awareness to compel advisers to play ball," says Mike Alfred, BrightScope's chief executive.

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