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WEALTH ADVISER

When a Client Has More Than One Adviser

The most important condition for managing just a part of a client's wealth: Full disclosure from the client

By Matthias Rieker

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When a new client asked financial adviser Jennifer Landon to manage just half of his wealth, she accepted but didn't make any plans until she knew how the other half would be invested.

"I can't imaging giving any advice at all without having a full understanding what's going on," says Ms. Landon, the president of Journey Financial Services in Ammon, Idaho, which manages about $30 million. "I need to know everything."

Her client's other adviser jumped in and made his recommendations--mainly real-estate investment trusts and variable annuities to generate income. "Now the biggest priority is liquidity," Ms. Landon says about her part of the portfolio, which had to be more growth oriented.

About a third of Ms. Landon's clients, and the majority of her high-net worth clients, have multiple advisers. It's a common practice for wealthy investors to split assets among firms as a way to diversify and spread risk.

Some investors like to work with more than one adviser for their varying expertise or to maintain private banking or family office relationships that they don't want to sever. Often clients will test a new adviser's abilities by handing over only a part of their portfolios.

But not being able to manage a client's entire portfolio naturally can be frustrating for an adviser. That frustration is compounded when the adviser--sometimes without total awareness--has to provide the client with holistic financial-planning, such as a retirement plan. And when the adviser has to make recommendations based on other advisers' decisions.

"It's a risk: Are you meeting your fiduciary standard?" says Jeff Spears, the chief executive of Sanctuary Wealth Services LLC, which manages about $3.4 billion, in San Francisco.

Under the fiduciary standard, advisers are bound to do what is best for their customers, and to do so, advisers need to have access to all of the client's information. But having to work with other advisers does make it much harder to meet that standard, he says.

"It would be like if you told me, 'Jeff, I'd like you to go down and clean out my basement, ok?. But all you can use is a flashlight as opposed to turning on the whole light in the basement.' That's the deal," Mr. Spears explains.

That's why wealth advisers who put a heavy focus on financial planning say the most important condition for managing a part of a client's wealth is full disclosure--from the client.

John Gajkowski, a principal at Money Managers Financial Group of Oak Brook, Ill., says he asks for a set of statements from the other brokerage firms be directly send to him rather than calling the client regularly for updated statements.

"That helps us from a compliance point of view," says Mr. Gajkowski, whose firm manages about $275 million.

If a client doesn't share all the investment statements from other firms to allow the adviser to compile a consolidated balance sheet of the client's entire wealth--or at least give an outline of the other investments--advisers need to make sure they document that conversation as well as the client's decision to withhold the full picture of his or her wealth, advisers say.

"Total wealth, total income, total liquidity, as well as risk tolerance and investment objectives that go along with that: There is a regulatory obligation to know all this information," says Evan

LaHuta, the head of adviser client experience at Pershing Advisor Solutions, Bank of New York Mellon's custody and clearing unit.

In some cases, the advisers managing various parts will confer to discuss the client's financial plan--if the client approves that information can be shared between advisers, Mr. Spears of Sanctuary Wealth says.

In the case of Ms. Landon of Journey Financial, her client had hired another adviser to handle the fixed-income part of his portfolio; she never coordinated with the other adviser.

"I did a retirement plan for the client, and then adjusted the retirement plan around the products and decisions that the client made with the adviser," says Ms. Landon, adding that her role is "to play quarterback, and make sure that all of the decision makers are on the same page, including CPAs, attorneys, and other advisers."

Once a client's information is compiled, advisers will match investments, ensuring there's no duplication of investments like an inadvertent over-allocation to stocks, while maintaining the client's risk tolerance.

"Sometimes we are the sail that makes them go fast; sometimes we'll be the anchor that makes them go slower," says Mr. Gajkowski of Money Managers.

But being the anchor can make for unhappy clients who expect all the slices managed by different advisers to generate equally high returns.

"I have had someone say, 'I am really disappointed in these returns,'" says Timothy McGrath, a managing partner at Riverpoint Wealth Management in Chicago, which manages about $340 million. "And I said, 'Well, if you just look at my piece of the pie, you should be.' But I tell them nobody is looking out for them the way we do."

An adviser, he says, has to explain that a financial plan isn't simply a way to manage money and generate returns--but a comprehensive evaluation of a client's current and future finances as well as a blueprint of their short and long-term goals and needs--like having enough money for the children's college education or retirement.

"Our job is to balance" the various parts of the financial plan, Mr. McGrath says.

Still, "it's hard to get the pat on the back when you don't provide the return they want because that asset class didn't perform that year," he adds.

All of these challenges mean those investments under an adviser's control need to be substantial, advisers and experts say. Managing only 10%, for example, is tough for a adviser because it is difficult to make a small part fit into a sensible financial plan and because the revenue from such a small part might not justify that considerable planning effort, Pershing's Mr. LaHuta says.

“You’ve got to have access to 70% to 80% of a client’s assets,” he says.

On rare occasions, advisers say they have turned clients away because they felt managing their investment slice of the portfolio wouldn’t work out well. “If there is hesitancy, or secretiveness on the client’s part, it’s not going to go away,” Mr. Gajkowski says. “It’s better for them and better for us if the relationship is never developed.”

Write to Matthias Rieker at matthias.rieker@wsj.com