FINANCIAL GUIDEPOSTS

Do You Understand Your Relationship with Your Financial Advisor?

More than likely, you have a clear understanding of your relationship with your doctor or your dentist. You pay a fee and, in return, you receive a service, including advice and recommendations based on your individual situation. It would make sense then for your relationship with your financial advisor to be the same; but for many, that's not the case.

At Financial Guideposts, we've noticed a trend: that the general public does not understand the relationship they have with their financial advisor. We want to change that. We believe there are two critical aspects you should understand when working with a financial advisor: how he or she gets paid and what services he or she provides.

There are two main types of advisors: fee-based advisors and commission compensated advisors. Commission-based advisors receive a commision on products ranging from mutual funds to insurance policies to annuities. They often receive bonuses based on the number of sales they make and are offered incentives to sell certain services or products. This may be great for an advisor but it hurts the investor, as it frequently results in conflicts of interest, biased advice and recommendations, and fees (both upfront and hidden) cutting into investable assets.

Edward Jones and similar investment firms are largely commission-based. For example, if you read the fine print of how an Edward Jones advisor is paid, you'll find several references to bonuses and incentives programs.[1] An advisor may align his recommendations to these incentives and bonuses, as opposed to his clients' needs. Beyond this, you'll find disclosures on a number of hidden fees, including annual maintenance fees.

Fee-based advisors, on the other hand, can either be paid an hourly fee or an advisory fee based on assets under management. As a fee-based independent firm, we don't have any quotas to meet or incentives to sell proprietary products. Instead, we are paid a percentage of your assets under our management. This means that we put your needs and goals first. We only recommend services or products we believe align with your best interests. We are focused on building assets without taking unnecessary risks.

How do these two types of compensation affect your investments? Let's say you want to open a mutual fund with a commission-based advisor at Edward Jones. Typical mutual fund fees (known as a sales load) can average between 0.75% and 2.0%, but legally can range up to 8.5%. A fund with a contingent deferred sales load typically will also have a 12b-1 fee of up to 0.25%.[2] These fees can erode the performance of your investment. For example, if you invested $100,000 with an upfront 4% sales load, your initial investment into the mutual fund is $96,000 and your advisor's commission would be a percentage of that $4,000. Right off the bat, you've lost money. Add on the 0.25% quarterly fee and that's another $250 a quarter you will pay.

1. Edward Jones. "Understanding How We Are Compensated for Financial Services." https://www.edwardjones.com/groups/ejw_content/@ejw/@us/documents/web_content/web236329.pdf
2. U.S. Securities and Exchange Commission, "Mutual Fund Fees and Expenses." http://www.sec.gov/answers/mffees.htm#distribution

An advisor can easily make more money by advising clients to select mutual funds with a larger upfront sales load, as that often translates into a higher commission.

Compare this to opening a mutual fund with a fee-based advisor. On average, fee-based advisors charge between 0.5% to 1.5%, based on the account size. If you invested that same $100,000 with a fee-based advisor charging 1%, your initial investment would be $100,000 and you would pay 0.25% per quarter, or $250 a quarter.

For the initial investment and one year of fees, you would pay $4,250 in fees with the commission-based advisor and only $1,000 with the fee-based advisor. Working with a fee-based advisor allows you to maximize the benefit you receive from your investments.

For these reasons, we believe our clients are better served with a fee-based model. Acting as our clients' "financial quarterback," we take the time to understand their risk tolerance and their financial goals. With this knowledge, we can develop a financial plan and make recommendations that are appropriate for the client. From there, we screen money managers who will manage our clients' assets based on their risk tolerance and financial goals. We provide ongoing service to our clients and make changes as circumstances dictate. Our goal is to help clients achieve their goals.

You wouldn't purchase a home without knowing the cost. The same should apply for your investments. We encourage you to evaluate the fees you're paying your financial advisor and invite you visit our website to learn more about the services we offer and the fees we charge. We seek to build relationships with our clients and serve as their trusted advisor. We disclose all fees upfront and you'll never have to worry about hidden maintenance fees. For a free analysis of your current investment fees or to set up an appointment and discuss how we may work together, call our office at (800) 334-0734 or send us an email at info@financialguideposts.com. Learn more about Financial Guideposts and our fees, visit http://www.financialguideposts.com/p/why-a-fee-based-adviser.

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