

[Can you really get free and objective investment advice, when you pay investment sales loads? \(Part 1 of 2\)](#)

Category : Payment of Investment Advisors, Financial Planners, and Investment Counselors

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Summary: This two-part article begins a series of articles by *The Skilled Investor* on investment sales loads and other investment marketing costs. Excessive investment costs are a plague on your personal financial planning. Excessive investment expenses are one of the most significant barriers to lifelong family financial security. While financial services industry sales people tell you that you need to pay more to get more, the correct answer is the opposite. If you pay less, you are likely to get more. Through intense competition, the investment industry pursues individuals who have money to invest. Industry sales representatives will try very hard to induce you to purchase their investment products and services. The terms "advice," "counsel," "recommendation," "trust," "relationship," etc. are used constantly during this sales process. Most individual investors have a great need for competent and objective investment advice. At the same time, they are suspicious and do not want to pay directly for advice of uncertain value. The industry has found a way to deal with these contradictions. The industry directly compensates its brokers and many "independent" advisors who act as sales agents. Commissioned brokers and commissioned advisors promote their "advisory" services as being free and objective — the best of both worlds. They tell you that you are getting good advice without having to pay anything for this good advice. (See: [The investment industry is not your investment partner](#)) In theory, only when you decide to act upon this allegedly good and objective advice will there be any cost. You will pay a supposedly reasonable sales load charge, when you purchase a recommended investment. Sales load charges take several forms: front-end loads, back-end loads, and/or higher expense ratios, including various combinations. (See: [Understanding Mutual Fund Classes, NASD, January 14, 2003](#)) Ultimately, individual investors are the source of sales load-based investment advisor compensation, but the money flows indirectly. Concerning front-end sales loads, these fees are taken out of your initial investment. Load charge are routed through firms in the industry, and some but not all of your load charge will be paid to the broker or advisor who works directly with you. A substantial portion of sales loads are retained by industry firms to cover their costs and to make a profit. (See: [Financial planner and investment advisor compensation paid by third parties](#)) Furthermore, the industry will be gracious enough to offer you a supposed choice in this matter, when you buy mutual fund shares. You can choose between A, B, and C share classes. In doing so, industry sales representatives may suggest that you get to choose what is "best" for yourself. In this faux decision process, which *The Skilled Investor* has dubbed the "ABC Share Class Shuffle," individual investors choose a share class. In the ABC Share Class Shuffle you really just choose one form sales fee over another. As long as you buy, the sponsoring firm and the sales rep do not care which choice you make. The A, B, and C share classes are priced to be roughly equivalent from the perspective of the firm, and the firm will, in turn, compensate your broker or

advisor for making the sale. Many funds offer additional share classes with no load and lower annual expenses for direct consumer purchases, but your advisor not tell you, if such classes exist. Sales loads have evolved over time to be one of the major forms of compensation for financial services industry sales personnel. However, investment sales loads are anything but free to the consumer. Investment sales loads do not and cannot improve your investment performance. Instead, investment sales loads could do significant and continuous harm your lifelong financial interests. If you measure the full lifecycle costs of the investment sales loads that you pay, you will find that these investment sales fees can be a huge and increasing drain on your lifetime assets. The only way to avoid sales loads and other industry investment marketing charges is to proactively search for investments that you can buy either directly or through very low cost discount financial services outlets. Any investment sales person who approaches you will sell you investments that are far more costly. Not only will you pay unnecessary purchase charges when you buy investments with sales loads, your not-so-objective advisor very likely will induce you to buy inferior long-term investments due to their higher ongoing costs. Free advice is one of the most expensive "free lunches" that you will find in personal finance. [Go to Part 2 -- >>](#)

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