

How expensive is advisor compensation paid via sales loads?

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

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How Expensive is Advisor Compensation Paid via Sales Loads? Even if you actually are getting good financial advice, paying your investment advisor via a sales load charge is just one of several potential compensation methods. A sales load might be the method that you prefer to compensate your broker or advisor. If your advisor is truly competent and ethical, he may be able to manage properly the inherent conflicts of interest that are associated with commissioned investment product sales. See: [Can you really get free and objective investment advice, when you pay investment sales loads?](#) and [Does it matter how financial planners and investment advisors are paid?](#) If the sales load charged truly is reasonable for the value of the services rendered, then you might consider a load to be a convenient compensation method. However, this convenience could be very, very expensive. When you buy an investment that involves a sales load, you write one investment check and the load is taken out of this check. Alternatively, you could write two checks – one check for the investment and one check to pay your advisor (which may be paid to your non-commissioned advisor in advance of any investment). What is the real cost of this “convenience”? What is the value of being able to defer your advisor’s payment until you make the investment, and/or what is the value of perhaps never paying the advisor, if you choose not to take his advice? The key question is whether the cumulative lifetime cost of the investment sales load charges you pay is reasonable in the context of your lifetime financial affairs. Are there any other cheaper compensation methods? How would the cost of direct hourly service payments compare to the cost of paying sales loads? Does separating advisor compensation from the selection of investments improve the quality of investment alternatives that are suggested to you? You need to have a much better understanding of the lifecycle cost of sales loads, so that you can assess whether the cost is lower than paying for advice directly. For two primary reasons, *The Skilled Investor* has concluded that compensating advisors through sales loads is extremely expensive. First, the lifetime value of the assets you give away through sales loads can be huge. There are much better and much cheaper ways to pay advisors. Instead, just find a competent advisor who charges reasonable hourly rates and who does not try to live off of your assets. (See: [Financial planner and investment advisor compensation paid by clients](#) and [Fee-only financial planner and investment advisor groups](#)) *The Skilled Investor* believes that commissioned advisors and brokers who charge sales loads are far more expensive year after year, because they will only recommend more expensive investments. These advisors will never suggest that you buy no-load funds, and they will rarely ever suggest that you adopt a passive and very low cost index fund investment strategy that targets a market return. Instead, to justify their value to you, commissioned advisors will put you into more expensive active investments, and they will hope that they will be lucky in their selections. In short, they will gamble with your money by taking excessive and undiversified risks. The scientific investment literature has repeatedly demonstrated that the securities markets do not compensate undiversified risk-taking. With a more expensive investment strategy, you are much more likely to lose than to win on average over the long term. (See: [Financial planner and investment advisor compensation paid by third parties](#) and [Why is diversification valuable to individual investors?](#)) VeriPlan can help you understand the true costs of investment sales loads. VeriPlan automatically assesses the financial lifecycle costs of the

investment sales loads that you intend to pay in the future based upon either A) your history of having paid investment sales loads in the past or B) your assumptions about reasonable sales loads to pay, which you can set in VeriPlan's Cost-Efficiency Tool. See: [Executive Summary of the VeriPlan Personal Financial Software](#) If you pay loads, VeriPlan's Cost-Effectiveness Tool will automatically project the real dollar costs over your lifecycle of paying sales loads. VeriPlan measures both the costs of the investment sales loads that you pay initially on an investment and the cumulative lifetime lost returns on these 'phantom' sales load assets, which have vanished from your investment portfolio. If you are not concerned about the lifecycle costs of sales loads and you intend to continue to pay them when you acquire more assets in the future, then VeriPlan can easily accommodate your wishes. Using the investment cost data, including sales loads, that you supply when you enter your portfolio assets, VeriPlan automatically calculates the asset weighted sales load percentages that you have paid historically. Simply set your reasonable load percentage assumptions in the Cost-Efficiency Tool at levels higher than VeriPlan's automatic sales load calculations. Then, VeriPlan will project zero sales load cost-inefficiencies for your portfolio.