

## **Financial planner and investment advisor compensation paid by clients**

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

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Financial Advisor and Investment Counselor Compensation Paid by Clients There are three primary types of client paid advisor compensation: hourly-fee, fixed-fee, and asset-fee. When choosing an advisor, individuals should first decide the type of advisor compensation that makes them most comfortable. How an advisor is compensated can be a very important issue. When you hire a financial planner or investment advisor, 1) you pay directly for his services, 2) a third party pays your adviser for you, or 3) these compensation methods are combined. There are also combinations of these two main compensation methods. How an advisor is compensated can be a very important issue. When choosing an advisor, individuals should first decide the type of advisor compensation that makes them most comfortable. The decision to pay directly for planning advice may be prompted by disappointment in prior experiences with commissioned advisers. This article focuses on client paid compensation. For information on third party paid advisor compensation, see: [Financial planner and investment advisor compensation paid by third parties](#). For *The Skilled Investor*'s judgment on preferred advisor compensation arrangements for individual investors, see: [Does it matter how financial planners and investment advisors are paid?](#) These bullets summarize the three primary types of client paid advisor compensation:

- >Hourly-fee: You pay your advisor an hourly cash fee for services rendered.
- >Fixed-fee: You pay your advisor a fixed or negotiated cash fee for an advisory work product.
- >Asset-fee: You pay your advisor a percentage of the assets that he manages for you.

Hourly-fee and fixed-fee are the most simple and direct compensation methods. Hourly fees for a competent advisor can vary substantially, usually ranging from \$150 to \$300, although advisory fees above or below this range can be found. Fixed fees for a truly comprehensive financial and investment plan might range from about \$1,000 to well over \$5,000. With asset fee based compensation, the advisor provides a set of services and takes a annual fee, which is a percentage of your assets under the advisor's management. The advisor will take custody of your assets, and periodically he will charge a management fee against your assets. This fee is usually based upon an annual percentage agreed to by contract. Annual percentages vary greatly by advisor and by the services rendered. TIAA-CREF estimated that fee-only asset management charges typically range from 1% to 3% of managed assets annually.<sup>1</sup> In addition, asset management fees are usually charged as a declining percentage as the amount of assets under management rises. A sampling of fee-only investment adviser websites indicates that listed percentages typically range from 1% to 1.5% for smaller asset balances and may decline significantly in percentage terms as assets under management increase to \$1 million and beyond. Most asset fee based advisors require a minimum asset balance, often in the \$100,000 range. Because asset management fees vary substantially, shopping around may be advantageous. Whether any direct payment method is right for you will depend upon the value you expect to receive. If you pay hourly or for a fixed-fee deliverable, you also need to consider whether you have sufficient assets to amortize the cost of the advice. Will the advantages of the advice, such as lower financial product costs and/or improved personal investment performance, be substantial enough to offset the cost? Direct adviser payments are a visible, current expense. Many people hesitate to pay directly for professional advice, because they do not know how to value it. Even if real advisory value is there, it could take a long period to manifest itself. The decision to pay directly for planning advice is

sometimes prompted by disappointment in prior experiences with commissioned advisers. Any competent and helpful financial advisor &ndash; fee-only or commissioned &ndash; deserves reasonable pay. Advisors have business and personal costs and profit objectives. Competent advisors will not work without compensation, when there is no charitable reason to do so. Often individuals will work with a variety of &ldquo;free&rdquo; commissioned advisers, before they decide that paying for advice might be a better alternative. Of course, with direct advisor compensation the question remains whether the fees charged are reasonable. Some fee-only planners and advisers deliver superior price/performance compared to others. You advisor must set the quality standard for his value to you. Excessively priced advice warrants seeking assistance elsewhere. Many people get comfortable with the personal relationship that they develop with an advisor, and they neglect to question the value delivered by the advisor. Investors should never lose sight of the fact that a paid client adviser relationship is still a business relationship. Clients also have ongoing ways to manage costs, when they work with an advisor. These methods include: ->controlling the number of hours billed by obtaining prior estimates of how much time a particular task will take ->negotiating the price and other parameters for a particular work product ->doing some of the work yourself

Do not to be bashful about managing your financial relationship with a paid adviser. The subject of the relationship is your money, and your future assets are at stake. It is not impolite to ask about and expect straight answers about compensation, expense control, and the value of an advisor&rsquo;s services. A quotation from a letter written by Abraham Lincoln seems appropriate here. Corresponding with a legal client regarding a bill that had been paid, Honest Abe wrote, &ldquo;Dear Sir, I have just received yours of 16th, with check on Flagg & Savage for twenty-five dollars. You must think I am a high-priced man. You are too liberal with your money. Fifteen dollars is enough for the job. I send you a receipt for fifteen dollars, and return to you a ten-dollar bill. A. Lincoln&rdquo;2

See these related articles on advisor compensation: ->[Fee-only compensation aligns the interests of clients and their financial advisers](#) ->[Fee-only financial planner and investment advisory groups](#) ->[The securities industry calls marketing and selling &ldquo;advising&rdquo;](#) ->[Many investors are not fooled by an ethically challenged securities industry](#) 1) TIAA-CREF website, &ldquo;Choosing a Financial Advisor,&rdquo; May 26, 2004

2) The Living Words of Abraham Lincoln, Hallmark Editions, Library of Congress Card Number 67-21536; 1967, page 17