Throw away the fixed fee schedule. Investors should be evaluating their advisory fees relative to the service they are receiving.

There is a lot of talk about investment-related fees for good reason. For one, it is important that investors know what they are paying and whether they are getting good value for that expense, and two, high fees can detract from investment returns and thus impact the size of that eventual retirement nest egg.

Before we begin, it’s important to distinguish between *advisory fees*, which are advice-related charges paid directly to the investment professional who provides wealth management services to the client; and *investment management fees,* which are amounts paid to investment firms to select stocks, bonds, real estate, etc. for their clients. The focus of this article will be on advisory fees since we feel amounts paid for the delivery of advice-related services like financial planning, asset mix and account supervision are a critical but misunderstood part of an investor’s overall fees.

There has been a wave of good news for clients on the subject of advisory fees over the past few years. For example, more and more advisors are now selecting funds for their clients that have no trailer fees, and there is more transparency in fee reporting on client statements as regulated by the investment industry. All of this means more advisors are charging their fees in a way that is easier for the client to measure the value of services rendered.

So let's talk about the appropriate level of advisory fees that a client should pay. Unfortunately, the answer is as broad and difficult to determine as knowing how much money is needed to comfortably retire since both questions are entirely dependent on a client's individual situation. We're big believers that the "How much should I be paying in fees?" question should be dependent on the specific services the client is receiving, since there is a huge scope of potential value provided by the advisor.

Here is a short list of key wealth management services, each of which requires time, knowledge and expertise from the advisor:

- Create and monitor a financial plan (i.e. budget, investment projections, cash flow)
- Develop the right asset mix, and then research, select and monitor diversified investments to meet the client's goals and risk tolerance
- Ongoing client reporting, communication, performance tracking and updates (*this is what our clients often tell us was the weak spot in their previous advisor relationship*)
- Pro-active approach to tax efficiency in investment planning
- Additional financial services (i.e. tax, insurance, estate planning, charitable giving) or liaising with the client's other financial professionals on these topics

This is the checklist we use with our clients to determine their advisory fee. We don't have a fixed "fee schedule" based purely on the size of a client's account for the simple reason that not all clients tick the same boxes in the above checklist. As an example, one of our clients uses our services primarily because we provide access to a wide range of investment solutions beyond stocks and bonds (e.g. real estate, private equity) but this client requires no financial or tax planning services. For another client, we manage their diversified investment portfolio, but we also help with their financial plan and strategize regularly with their tax accountant. Both clients have the same $1 million account size, but since the services we provide to them are vastly different, we believe they should NOT be paying the same advisory fee – hence the reason we avoid the investment-account-size-fee-formula.

We believe in a **fee-for-service** model where the services are measured in the amount of time, knowledge and expertise provided by the advisor. Our model is based on the concept employed by any professional who charges for billable hours – the client should only be charged for work done on their account. In other words, the fee should be a dollar amount that is easily explained and justified by the advisor in terms of the work they are doing for the client.

Continuing with our example of a $1 million account, applying the industry norm of a 1% advisory fee at this account size, the client would be charged $10,000 per year in advisory fees. If the advisor's time is worth $300 per hour, then the client should expect the advisor has dedicated 33 hours over the course of the year specifically to their account. Now imagine the example of a client who requires portfolio management services but no other financial planning. They would certainly be justified to ask for some verification that the advisor has committed approximately 3 hours <u>every month</u> to the oversight of their account. Putting the advisory fee into dollars and not percentages helps the client get a better gauge on the value proposition.

Two final points on wealth management advisory fees:

1. Value can be added (and earned) in many ways. Suggestions on tax planning, inter-generational wealth transfer strategies, and insurance solutions can be just as financially impactful as the performance of the investment portfolio.

2. Trust and peace of mind are crucial. We have all experienced that safe feeling when we know we are getting good value for service fees. Your experience with your wealth advisor should give you that same feeling.

If you are reading this article and there is a lack of clarity in your advisory fees, or you suspect that you are not getting good value (i.e. time & expertise) for what you are paying, please contact us.

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