

# MOVING FEE-LY

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## CLIENTS SEEKING QUALITY ARE LEANING TOWARD CUSTOMIZED FEE-BASED SERVICES.

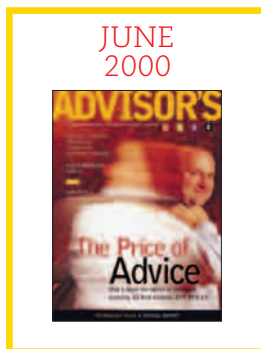
**A** s a fee-only personal financial advisor and investment counsellor who's kept the faith, I'm pleased that during the past 10 years the investment and advisory industry has shown a strong trend toward fees. At first, it was exploratory, but now many advisors in Canada have started moving seriously toward relationships that include a platform featuring fees as a way for clients to engage services.

But there certainly is some confusion in the industry between the terms fee-only, fee-based, and fee-for-service. What exactly are the differences between the three fees? Well, fee-only means client fees are the only forms of remuneration received by an advisor within the entire context of his or her business practice. The fee-only advisor charges fees to clients and is paid directly by them for his or her services. There is no commission component anywhere in their practices.

But there are other, less strict models. And, during the past decade, many commission-based advisors have moved

components of their practices to either a fee-based or a fee-for-service structure. With fee-based, the traditional commission-based model would start to use a mixture of very moderate (or zero) commissions for a client and charge a fee that's based on the value of the assets under administration. Alternatively, a commission-based (or fee-for-service) advisor might choose to provide specific separate services (such as a comprehensive financial plan, or a detailed retirement projection) where a set fee is charged for that report as part of a fee-for-service relationship.

History, as it's been said, often repeats. During the 1980s, many client-service specialists at investment dealer firms converted from what was then termed Registered **continued on page 40**



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continued from page 39 Representative (R.R.) status over to the more general-term financial advisor. At the time, traditional financial planners worried the name change would detract from their businesses and encourage clients to deal more directly with the traditional brokerage firms.

In fact, the opposite came to pass. As the investing public became more aware of the concept of a financial advisor or planner, and they more universally accepted the concept of a broad-based approach to personal finances and investment management, clients tended to embrace the services of those who could truly deliver the broader-based advice.

In other words, public awareness of the broader offering, and the appeal of a more integrated approach to personal finances promoted the services of the true financial advisor and financial planning professional.

Even 10 years ago, in Canada, many advisors on the commission-based side of the business felt they would never enter a fee-for-service or fee-based relationship with clients. But changes that have since occurred in the marketplace now require many from the traditional commission side of the business to structure some parts of their services using fees as a basis for the clients who want that option.

### Client Commitment

Canadian boomers, on the whole, have hit their wealth-accumulation stride, and the lucky ones are even considering early retirement. They're either building cash for their retirements or they're cashing out of senior executive positions with lucrative stock options or company stock plans. In some cases, they may have components of defined contribution pension plans that all need to be invested somewhere.

And then there are the boomers who are looking to sell their businesses and, as such, will have significant cash that needs to be invested. Boomers have shown themselves to be an extremely discriminating lot and will be reluctant to either pay blindly for services they don't understand, or to ignore the cost of any business relationship when it deals with significant investment assets.

But let's be clear: The fee-only, fee-based, or fee-for-service models are not for the average \$10,000 portfolio client. The fees that need to be charged to pay for the experienced advisor's time and attention aren't small, and so they're not justifiable

for a small portfolio. In general, relationships in which a client will pay a fee begin around the \$200,000-to-\$300,000 mark.

In rare cases, clients who use fee-for-service have no portfolio assets because the advisor is planning for investments in the company, or a business where the client needs detailed planning and advice, and would rather pay a fee to get that advice. Those clients, however, are the exception.

A boomer family approaching retirement with as much as \$500,000 or even more than \$1 million in investable assets is more likely to be sensitive to the services that are being delivered, and the costs associated with those services. Accordingly, over the past decade, many advisors have seen the light and enabled some kind of fee structure for their clients who need or demand it. Forgoing a fee-structure approach to your business is certainly an option, but as one commission-based advisor told me many years ago, "Commission-based client relationships are the 'farm team' for the fee-based advisor's business."

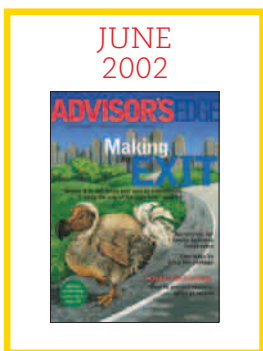
Going forward, expect to find more advisors providing a fee-for-service channel—if only to protect relationships with their long-term, higher-net-worth clients who would otherwise take their business elsewhere. Ironically, over the course of this last decade, many commission-based advisors would blithely dismiss the fee-for-service approach to investment services and advice as "very costly."

The truth of the matter is that clients are seeking the fee-for-service relationship first, because it's more directly tied to the services they purchase, and because they can more easily balance the cost of the service against the benefits of what's delivered.

Securities regulators tried to enable a form of mutual understanding between the advisor and client, with respect to the services being delivered and the charges that were incurred by the client. The most prevalent of these was the "Fair Dealing Model" proposed by the Ontario Securities Commission several years ago. In it, the advisor would disclose the full cost of the services being provided to the client either by way of a fee-for-service relationship or via commissions paid on product implementation. Understand this is not an open invitation for the advisor to provide his or her clients with a copy of the

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"Out of Commission,"  
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advisor's personal T4 slip or pay stub. The client was simply going to be informed of the overall cost of the services provided by the relationship. To argue that some financial products and services have no cost to a client is simply incorrect.

The fact is that in our industry, the cost of a service delivered to a client is always paid by the client. There is no other money on the table except the client's. It may be that services are charged strictly on a fee-for-service basis as delivered; or fees could be charged based on assets under administration; or they can be charged based on hourly time and hourly rates pre-agreed upon; or commissions or yield discounts could be charged to the client's assets on the product implementation aspect of the service.

But, whatever the route, the advisor needs to be paid—and it's important the client understands how he or she is paying the bill. Clients are financially astute enough to realize there's a cost for services to be delivered. I'm sure nobody in Canada who filed a personal income tax return in April feels our Medicare system is free. So why should a client think there's no charge for professional financial services from an experienced advisor? The important thing for the advisor is to work out ways to explain the payment structure, because bringing a client to that understanding is a key component of building trust within the relationship.

As the media and the professional financial advisor networks promote fee-for-service financial advice, more clients will seek this solution to some or all of their needs. And, I would expect that over the next 10 years, advisors will almost universally be faced with the need to offer some kind of fee-based or fee-for-service channel for their professional services.

### Client Confidential

Advisors must go well beyond the basic KYC document in detailing the fee-for-service relationship with the client. Most use formal engagement letters (when there is no investment aspect to the client relationship) and/or detailed investment policy statements. In all these documents, the services to be provided are clearly laid out. In addition, fees that will be charged and the total cost of all aspects of the relationship are thoroughly detailed. In many cases, the costs are shown in both dollar terms and percentage-of-asset terms.

Every professional advisor, whether commission-based or fee-for-service, has one key professional aspect to promote in order to enable the building of a client's book of business. Everybody in this business truly understands that if you are the same as everybody else, you quickly become a commodity, and as such, your client could just as well use somebody from

across the street to implement a financial plan.

So think seriously about stepping into a more non-standard profile. Build your professional advisory designations. Obtain your registered financial planner (R.F.P.) or certified investment manager (CIM) designation. You'll be partway toward differentiating yourself and your services for your clients.

Next, enable your clients to pay you a fee—either a flat fee; a fee-for-service based on specific service items to be presented; a fee based on assets under administration; or one based on pre-agreed hourly rates. Building professionalism and enabling a fee-structure relationship for your higher-net-worth clients may provide a boost for your business.

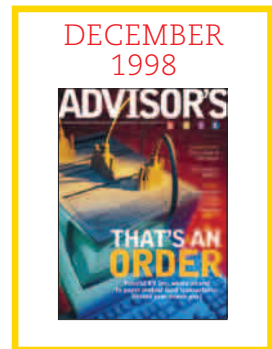
A number of years ago, while attending a financial planning symposium, I was comparing service provisions with another advisor. I asked what this person would charge a client with \$1 million to invest. The peer very quickly stated he recently sold his million-dollar client a portfolio of standard retail mutual funds structured on a DSC basis.

The average MER on this portfolio would likely be in the range of 2.75%, whereas a service charging a fee based on assets would average a total cost of about 1.65%. The commission-based advisor with the DSC funds would have earned approximately \$50,000 from the fund families he was utilizing in this portfolio structure.

On the other hand, the fee-based advisor would only make about \$7,500 as his portion of the fee from this client (the other part of the fee charged to the client would be the underlying MER costs on the institutional, or F-class mutual funds that would implement this portfolio).

I asked the advisor why a client would choose to pay standard retail mutual fund fees compared with a fee-for-service investment relationship? His answer? "The client hasn't met someone like you, yet." <sup>AE</sup>

**BALDWIN**



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