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Getting Ripped Off by a Broker

by Steven Podnos, Md, Cfp • Sept. 28, 2015 • 1 min read • [original](#)

While reviewing a potential new client's accounts from a well-known brokerage house, I commented that the fees were excessive to me, ranging from 2.5-4 percent a year when internal fund costs were considered. I also noted that almost every fund choice included a "12-b-1" kickback to the brokerage and broker every year.

The client called the broker later on, who told him, "I have to get paid also." When he told me the broker's reply, my I said that it is one thing to get paid and another to rip people off.

I remarked that this broker was charging 1.5-3 percent a year for doing nothing but putting the client's funds into an asset allocation. I told the client that more than likely that the allocation was given to the broker by the parent brokerage or another agency. Therefore, the broker spent perhaps an hour or two a year and was making tens of thousands of dollars. That's not just getting paid.

I told the client that almost any fee only financial planner (Napfa.com) would have annual fees of no more than 1 percent and would be a fiduciary for him. They'd pick the investments by the best allocation at the lowest cost possible and the client would save even more with the low cost of investment products that don't pay bribes to brokers every year.

With his two million dollar portfolio, I told the client that he could probably have a total cost of both advice and investing of under 1.25 percent a year (maybe less). He would have a comprehensive plan, fiduciary advice, a portfolio aligned with his interests, and regular follow up on most of his family's financial life.

So compare: 1.25 percent a year for all that, or 2.5-4 percent a year for a biased asset allocation only. I'd call the latter a rip-off any day.

Unfortunately, this is the "norm" in just about every brokerage house and insurance-based plan I've ever seen. Just last month, I was actually excited to see a bank broker using only low cost index funds in a new client's portfolio. That was, until I found out the fee for doing so was about 3 percent a year. That's not getting paid — that is just outrageous.

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