

ADVISORY FEE TRANSPARENCY

UNDERSTANDING THE DOUBLE STANDARD

Definition of Transparent

[trans-pair- uh nt, -par-] *adj*

- . **a:** free from pretense or deceit
- . **b:** easily detected or seen through
- . **c:** readily understood
- . **d:** characterized by visibility or accessibility of information especially concerning business practices

Today every broker or advisor claims to offer the same level of service, access to products and standard of care — leaving clients wondering where to turn. We want to change that paradigm and pull back the curtain to show you how we run our business, charge our clients and deliver value for the services we provide. To do this, it takes a little effort on your part to better understand how our industry works and it takes a little gumption on our part to be fully transparent.

Here goes.

Understanding the Standard of Care:

Suitability vs. Fiduciary

In the medical profession, physicians practice according to a familiar standard: “First do no harm.” It seems that there should be a similar level of commitment for anyone who wants to advise you about your financial well-being, **right?**

“First do no harm.”

Unfortunately, wrong. Financial advice is subject to a double legal standard: “fiduciary” versus “suitable” advice. Worse, it’s up to you to spot the differences between them, and heed the quality of the advice accordingly. Why the different legal standards? Government regulators assume that a broker’s primary role is to place trades, so any advice he or she offers is considered secondary to this main, transactional business. As such:

- A broker’s advice must be suitable for you, but it does NOT have to be best for you.
- A broker does NOT have to tell you about underlying incentives that may be influencing his or her recommendations.

Imagine you are comparing two mutual funds that are equally appropriate for your portfolio, except one entails higher fees that just happen to offer a bigger commission to the trader. Brokers offering suitable advice can freely recommend the fund that compensates them more handsomely at your expense ... without disclosing the underlying incentive to you. On the other hand, if all else is equal between two investment selections, a fiduciary advisor must recommend the lower-cost investment that represents your best interest.



"Brokers can freely recommend the fund that compensates them more handsomely at your expense. That's suitability"

As a Fee-Only Firm...

We do not accept third-party commissions or any other sales incentives to begin with, but even were we to do so, we would still be obligated to disclose the conflicts to you, place your interests ahead of our own, and recommend the lower-cost solution. It would be illegal for us to do otherwise.

By law, independent Registered Investment Advisor (RIA) firms must provide strictly fiduciary advice to their clients. In contrast, brokerages, banks, insurance agencies and other transactional businesses more typically offer suitable advice.

When a firm and its team of advisors are providing only suitable advice, they may not go out of their way to tell you so. A short-hand approach to sorting out the players is to determine which financial regulator oversees the firm by checking their fine print.

- Registered Investment Advisor firms are regulated either by the U.S. Securities and Exchange Commission (SEC) or by their state, depending on firm size (as measured by assets under management). These firms have a fiduciary duty to their investor clients.
- Brokerages and other transactional businesses are regulated by the Financial Industry Regulatory Agency (FINRA) and are more likely providing only suitable advice. If you see references to both FINRA and the SEC in a firm's disclosures, that's the calling card of dual registration. When it's easy enough to find a fully fiduciary advisor, why complicate things with potentially dueling, dual interests?

Speaking of potentially dueling interests, another way to determine how well your advisor's interests are aligned with yours is by determining his or her sources of compensation. If your advisor is receiving commissions from third-party sources, suffice it to say he or she is exposed to conflicting incentives to recommend particular products or transactions that may not be in your best interests.

In addition, these conflicts and their resulting costs (which silently drag on your returns) often remain undisclosed to you.

A transparent, fee-only arrangement is preferred. First, you can clearly see what you're spending in exchange for what you're receiving. Second, if your advisor's only compensation comes from you, it enhances his or her ability to offer the impartial, product-neutral advice you deserve.

A fee-based arrangement warrants further inspection. Fee-based advisors are receiving your fees, plus commissions from others. If the advisor is entirely fee-only, except he or she can write insurance policies for you as needed to protect your primary investments (with full disclosure of all commissions being received for this singular activity) then a fee-based relationship may still complement your best interests. If the commissions are coming from investment activities, the same conflicts arise as those described above for a fully commissioned advisor.

Understanding Required Disclosures

Advisors in the U.S. are required to disclose a number of important details worth knowing about themselves. Whether registered with their state or the Securities Exchange Commission (SEC), Registered Investment Advisor firms must file a Form ADV that is typically available on the SEC's Investment Adviser Public Disclosure website. ADV "Part 2 Brochures" are meant to serve as the closer-to-plain-English version of the adviser's full report, so you may want to start there.

(Here's a link to our own [Form ADV Part 2 Brochure](#).)

Most current and former brokers and advisors should also be listed in **FINRA's BrokerCheck system**, where additional details and disclosures may be found.

Here is a link to the SEC website that explains what an ADV is and what you should look for in an ADV

www.sec.gov/answers/formadv.htm.

Understanding Our Fees

The only source of revenue for our firm is from our clients. It's that simple.

Our fees are usually a fixed percentage of the assets under management. You can find our fee schedule on page 8 of our ADV. The fees paid by our clients range from .25% to 1.25% with our average fee around 0.75%. Where you fall in that range is dependent upon the amount of assets we manage.

If we do not manage assets for clients, then we may charge a fee for financial planning work which can range from \$750 to \$10,000 depending upon the scope of the work (the normal is \$2,500) or an hourly fee for financial planning consulting. Our hourly rate ranges from \$175 to \$400 per hour. This represents less than 10% of our firm revenue and is not our preferred service model.

We think there is tremendous value in having our firm provide personalized financial planning with asset management and explain why in more detail [here](#).