MOUNTAIN PASS PLANNING

Is There A Better Way To Pay For

Asset Management Services?

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What is the role of an advisor?

> In my mind, an advisor should be focused on improving your ability to achieve your biggest dreams by aligning your finances with your values.

One way I help my clients to ensure that I'm working in their best interests, their biggest dreams at heart, is through my non-traditional fee structure.

Many advisors use alternate compensation models in their own businesses, but I've found that, flat fees benefit my clients the most. Want to learn more? Let's explore why.

What is a flat fee?

For most products or services, one has to pay to receive them. However, when it comes to financial services, how an advisor gets paid can be somewhat confusing.

The fees a financial advisor receives come in a few forms. The most common types are commission and assets under management (AUM).

COMMISSION: Your advisor receives payment from the company of the product they provide you

AUM: This is a fee (often around 1% per year) on the value of assets your advisor is managing.

While there is nothing wrong with these forms on the surface, I believe they can limit the objectivity of the advice being provided. These fees ultimately hinder clients' trust and ability to move forward because they don't motivate the advisor to work in the client's best interest. Instead, these structures allow advisors to make a profit on the sale of specific products, offer inconsistent pricing, or place a polarizing value on clients based on their total amount of assets.

A flat fee, on the other hand, isn't based on how much money you have or a product being sold. It is a consistent and equitable cost based on the advice and service I provide.

Why a Flat Fee Is In Your Best Interest

While the end result may look similar on the surface to the advice and service my clients have received from their former advisors, they benefit from knowing that my only motivations are to serve their best interests.

Another area that sets my flat fee structure apart is the continued client support to work in the client's best interest. What is the incentive to continue service to a client once the advisor receives their compensation via a commission? In that model, there really isn't a built-in incentive.

But with a flat fee, I'm incentivized to continue providing quality advice and service. Therefore, my clients continue to receive the attention they deserve on an ongoing basis. I always have to be at my best — not just at the point of sale.

This is the main reason why I believe a flat fee model is most appropriate for a true client/advisor relationship and that it's the most popular among my clients. They receive the most value and comfort from this offering because of:

INCREASED OBJECTIVITY: I'm not influenced by other companies providing me compensation.

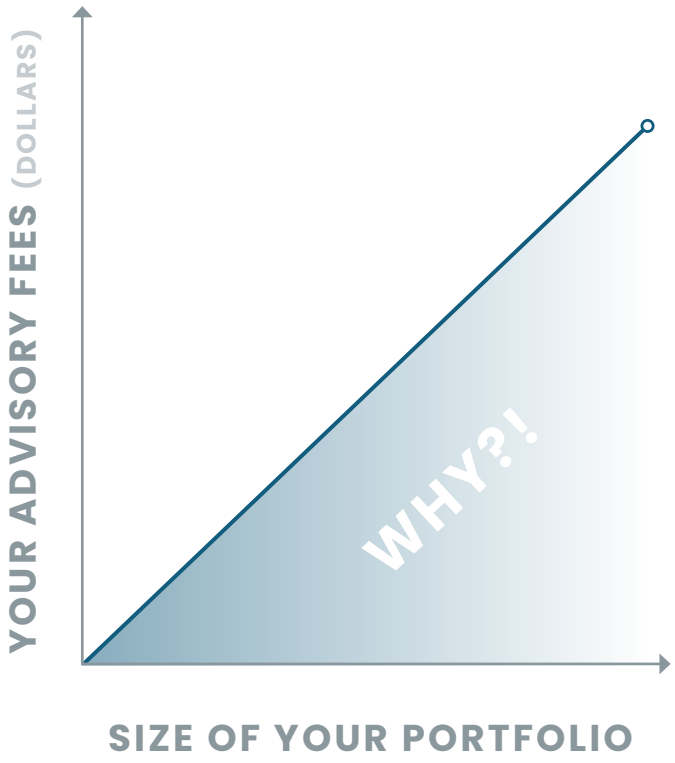
INCREASED TRANSPARENCY: The cost of my services are always known. No one is left wondering if my recommendations are driven by compensation.

REDUCED CONFLICTS OF INTEREST: My advice is not centered around selling a product or trying to retain or manage more of your assets. My goal is to provide the best financial advice and investment management to achieve my clients' goals.

The example I often use is of a client looking to pull $300,000 from an investment account to purchase a second home. From an AUM advisor's perspective, if those assets are removed from the advisor-managed account, they would lose $3,000 per year in revenue. Therefore, are they going to give you the most objective advice, or try to protect their revenue stream?

With a flat fee, my goal is to determine if this purchase is prudent and if it fits into your full financial picture. I'm only incentivized to help you make the best decision — my objectivity is not tainted.

INCREASED EQUITABILITY: Why should you pay more money for financial advice just because you have more money? That is essentially how an advisor's revenue is determined — based on how much you have/invest (see charts below for further illustration).



> Just because you have more money does not mean you should pay your advisor more money!

Typically, the AUM model gives the illusion that you are paying less because the pricing model often has a sliding scale and the more money managed, the less the fee is on a percentage basis. However, in reality, while the fee percentage is going down, you are still paying more in actual dollars.

Also, this methodology often unassumingly assigns a level of importance to clients based only on the size of their accounts, and even more so, the advisor begins to look at the portfolio as the client — not the actual person.

Imagine a group of 20 clients all with different sized portfolios ranging from $500,000 to $1 million. One can assume the advisor is providing the same high level of service to each client. If that is the case, why are some paying twice the amount as others? Now, I'm sure clients with portfolios on the larger end get a few more perks — a birthday card, maybe dinner out with the advisor, or even some sporting event tickets. Why? Because the larger clients are more profitable to the advisor. It's clear this methodology has nothing to do with the time, services, or value the advisor is providing.

In a flat fee world, the cost to the client is based on time, services rendered, and value received — not on the portfolio value. The ultimate question: What an advisor does differently for those with higher account values in this group, and does that justify the client paying nearly double in fees?

When Traditional Fee Models Make Sense

Believe it or not, I'm not completely against the commission or AUM models. Some of my clients just don't need the level of advice or services that my retainer clients require. In these cases, clients are just starting to grow their portfolios, so paying the retainer fee doesn't make sense for them. For these clients who have less than $400,000, I use the AUM method because it is more cost-effective for them to receive asset management when compared to the retainer structure.

At the end of the day, clients who pay a fee based on assets will expect advisors to be asset managers. It is always my goal to structure my business in a way that honors my client's best interests and that starts with the fees they pay. I personally believe that it is the job of an advisor to offer immense value to their clients.

What Should You Expect From an Advisor?

A flat fee structure is a much better alignment of the client's and advisor's interests. Since the advisor isn't influenced by other third-party factors, they are better able to be an advocate for their clients and only recommend actions that benefit the client themselves.

Advisor compensation should be based on skill, time, and value provided, not how much a client has in assets. Clients should know that and feel confident that their financial advisor is in their corner. One of the most crucial aspects of financial planning is trust. With a flat fee system, the client can trust their advisor and not be concerned with the motivations for their advice and decision-making process.

Clients trust their financial advisors to help them reach their goals, from buying a house to starting an education fund to retirement plans and beyond. Isn't it better to know that the person you entrust to help you make financial choices that will lead to you reaching your dreams is someone who also wants to see you succeed? Trust, respect, knowledge, and dignity are what I work to bring my clients each and every day no matter their goals, dreams, or portfolio size.

Key Takeaways

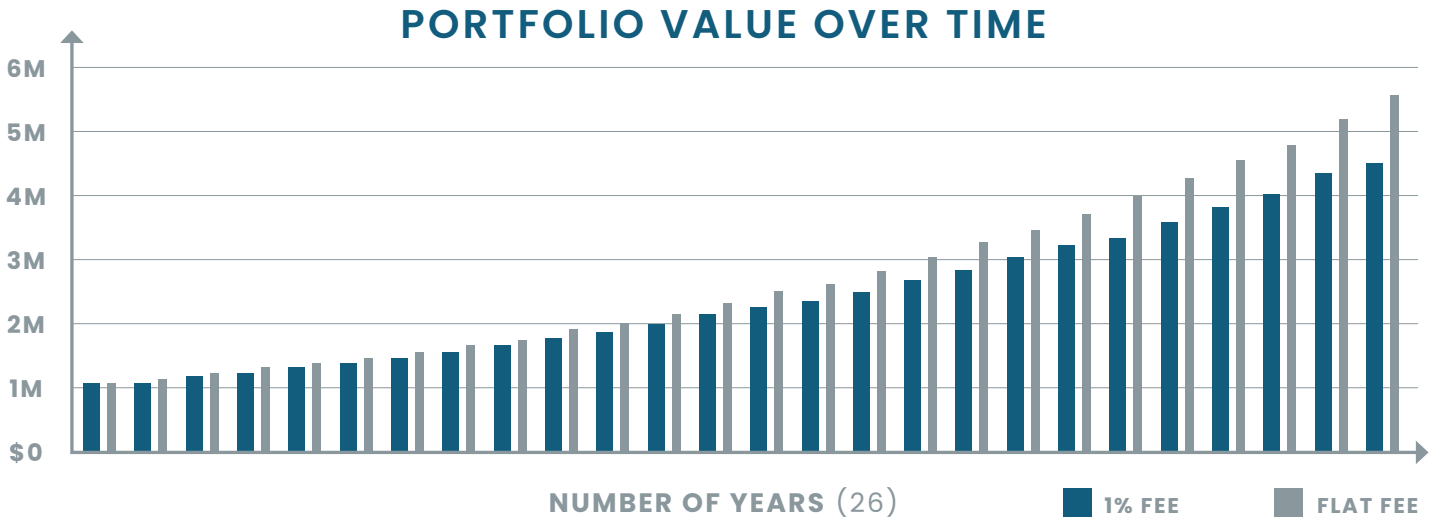
Asset management is a fixed cost business. It does not cost much more time or money to manage a $500,000 portfolio versus a $1 million portfolio. Therefore, I always ask: Why should one person have to pay twice as much as the other?

The role of an advisor is to help you become the best version of yourself. As your advisor, I help you take action, enhance/optimize your life, save time, and be a thinking partner at the intersection of you and your money. A flat fee puts the focus on making the best decisions — not selling products.

An advisor cannot control the returns or the markets. An advisor does not provide returns in your portfolio — it's the market that gives and takes. An advisor can control, to a certain degree, fees, risk, decision-making and tax mitigation. Therefore, why pay an advisor for portfolio gains when it's not even his or her doing?

Investing is more than just growing your portfolio. It's about integrating your portfolio and your life to help you live the life you want to lead. So why would one want to align their advisor's compensation with the value of their portfolio?

A significant byproduct of my fee approach is most of my clients have seen a considerable reduction in their fees.



The chart above reflects a hypothetical illustration of mathematical principles, not actual portfolio returns. An investor seeking 7% average annual returns should expect returns to fluctuate on a year by year basis. Securities investing involves risk, including the potential for loss of principle.

The chart above illustrates a $1 million portfolio growing at 7% per year over a 26-year period. The blue bars represent the ending account value of a portfolio being charged 1% of AUM per year, while the gray bars represent a portfolio being charged a flat $4,200 per year.

At the end of 26 years, the difference is over a $1,000,000! That additional 20% growth is because of the fee structure. The total AUM fees paid over the 26 years were about 5 times more than the total in flat fees paid.

With mounting supporting evidence that it is exceedingly difficult to outperform the markets, why would one pay an advisor to attempt something that simply defies odds?

Financial planning is all about supporting and empowering clients to live out their dreams. A financial advisory relationship requires a high level of trust and expertise to get it right, fueling my belief in the flat fee payment structure. Your assets should be properly managed with finesse and protected with one goal in mind: **yours**. Free from the constraints of selling a product or making recommendations for my own benefit, I am able to help earn my clients' trust and give them the freedom to build their wealth in the way that is true to them.

To learn more about how a flat fee structure could change your asset management strategy, **set up a time** to talk with me. I can't wait to learn more about you and help you reach your dreams.

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James DeVico
FOUNDER

James began his career as an associate and paraplanner in New York City, where he adopted a holistic view to financial planning. He continued to hone his skills with a firm in Westchester as a portfolio manager and lead planner.

Since founding Mountain Pass Planning, James has aimed to develop a client-first approach to create a more equitable client-advisor relationship. He also works to provide consulting services to other advisors in the New York area by helping them build their planning platforms and enhance their investment management programs.