The Move Toward Fee-Based Advisory Accounts

Why financial professionals are changing their business models.

Presented by Greg B. Thomas

A major shift has occurred in the financial world. More and more financial professionals have moved away from the industry's traditional compensation model to a new one – in the eyes of many of them, a better one.

Increasingly, financial professionals are introducing their clients to fee-based accounts. This means a change in the way a financial advisor is paid for some or all services. It also implies a meaningful change in the advisor-client relationship.

Traditionally, financial professionals have been paid through commissions linked to trades or product sales. Opinions about this compensation model vary. Many in the industry accept it, but with reservations. It has the potential for conflict of interest, which may affect how a client is served and consulted.

Commission-based advisors may feel pressure from a Wall Street investment company to "push" select financial products, even though these products might not be appropriate for all clients. They seek to create a trusted relationship with each of their clients, yet they may end up feeling more like a financial salesperson than a financial advisor.

The careers and businesses of fee-based advisors are not so product driven, not so brokerage rooted. In the fee-based model, the financial professional earns the majority of his or her compensation through fees linked to either a) the amount of client assets under management, b) the creation, deployment, and refinement of financial strategies, or c) financial consultation offered on retainer or by the hour.

Fee-based advisory accounts help to promote long-term client relationships. The advisor is not seen as a product salesman by a cynical client, but as a resource, a knowledge broker, and a partner in a client's effort to save and invest for the future. When the client's investment accounts do well and grow, the advisor's compensation grows proportionately.

In addition, a financial professional working by a fee-based compensation model may be licensed as an investment advisor under a fiduciary regulation. That means he or she has a legal and ethical obligation to act in your best interest, place your financial interests above his or her own, and be transparent about fees and any potential conflicts of interest. (All CERTIFIED FINANCIAL PLANNER™ practitioners are required to work by a fiduciary standard.)[1,2]

There are investors and retirement savers who may find a fee-based advisory relationship with a financial advisor to be more expensive when compared with the relationship they had under a

commission-based compensation structure. In such cases, the commission-based structure may be maintained, as its potential lower cost might be advantageous to the client. In the main, though, we are witnessing a great movement away from what was the norm to a new paradigm. An advisor paid mostly or wholly through fees is an advisor well positioned to create candid, trusted relationships with loyal clients for years to come.

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Citations.

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