

a client comes to me, I have the option of doing a financial plan for an hourly fee.”

More and more commission-based advisors are moving to fees. The good news is that there are a number of resources available to help with the switch. Schoenbeck of Mutual Service says nearly 65% of the

B/D’s advisors are now licensed to offer fee-based services, and more than half of them are charging fees. Four years ago, he says, only 20% were licensed to levy fees. Over the last three years, AIG’s Sierra has also noticed an “uptick” in requests from advisors who want to convert.

To help, AIG “brings reps together to discuss the transition,” Sierra says, and recently launched a workshop called “Sales to Solutions: A Fee Transition Process.” From now until April 2006, with help from Mark Tiberghien of Moss Adams (and an *Investment Advisor* columnist),

LIVING IN HARMONY, BY NANCY LININGER

OUR FINANCIAL SERVICES FAMILY IS CURRENTLY DIVIDED. LINES have been drawn in the sand. It may not rise to the level of violence, but there’s plenty of animus within our industry not over the color of our skin, but over the source of our money. Is fee-only the purest in the land, or can commissioned dollars be just as virtuous? Are registered investment advisors more honest because they are fiduciaries and therefore work in the best interest of the client, while their brokerage brethren don’t have to live by such high standards?

This is more than just intrafamily squabbling. We are exposing our infighting to the investor, who may be more confused than enlightened by the dispute. Emblazoned on the front of many a marketing brochure are the words “fee-only.” We are saying, “Come to me because I charge a fee, therefore I am honest.” Does that statement encapsulate the unique benefit you provide to the client?

Would you trust your doctor more if her mantra were that you should do so because she charges a fee? (Um, I think it’s obvious she makes good money.) Do you buy services from your business partners merely because they will charge you money to do business with them? We all know that when we hire someone that there is a price tag. There ain’t no free lunches. Investment professionals, like other professionals, earn a living by rendering services.

My “bias” is that there is no one right way to charge for services. Some investment practices (and client portfolios) do best by charging a fee based on assets under management. Other practices and clients are better suited to a commission model, while still others are best suited to some sort of mix. It is true that commissions take a bigger chunk out of the initial investment than advisory fees, but a commission model can be less expensive in the long run for the buy-and-hold investor. Yes, advisory fees are levied at a smaller percentage rate than commissions, but the fee is charged each year whether or not trading takes place, and is based on the whole portfolio, not just the portion that is traded. Clients are being sold on the idea that fees are cheaper for them than commissions, but the math does not always add up that way. Granted, cheaper is not always better, and sometimes we want to pay up for services rendered. In the end, however, when it comes to compensation, there is no single

“right” way. (There are some regulatory boundaries establishing a few “wrong” ways.)

Now why would I, a compliance consultant, be so concerned about this issue? First of all, I am a unique breed, since I consult on both compliance and marketing issues. Wearing my compliance hat, I would argue that full disclosure is important. While compliance and marketing can live in perfect harmony (as do ebony and ivory), the key is to play the notes in the right sequence to make beautiful music. Your Form ADV is your full disclosure document. Schedule F will indicate the details of how you get paid. And yes, disclosure starts before you get to the point of handing out your Form ADV.

But let me put on my marketing hat now, and provide an example from politics that helps illustrate the real issue. Aren’t we all sick and tired of ads from politicians decrying, criticizing, condemning belittling and disparaging their opponents? Aren’t we yearning to know what is on the politician’s mind and agenda? We’re all eager to vote for someone we believe in, not just settle for the lesser of the two evils.

What is your unique selling proposition? (No, “selling” is not a dirty word: even fee-only planners have to sell themselves to clients.) What are the features and benefits you bring to the table? (By the way, charging a fee is neither a feature nor a benefit.) Are you a “dream catcher” who helps clients realize their dreams? Are you the best asset manager because of your technical analysis skills? Maybe you are a financial coach putting together the best team of financial professionals because of your people skills. Do you have the ability to go the extra mile for your clients because you practice life planning?

Your virtue, your essence, your strength are the services you provide for your client, not how you are paid for providing those services. Let’s all keep the focus on meeting the client’s needs, not on how we get paid.

“...but one of them would make war rather than let the nation survive, and the other would accept war rather than let it perish...”

Abraham Lincoln’s
second inaugural address
March 4, 1865

Nancy Lininger is founder/consultant of The Consortium, based in Camarillo, California, which provides compliance and marketing services to investment advisors and broker/dealers. The Consortium publishes Compliance-News and has other resources to help with disclosure obligations. She can be contacted at 805-987-6115, or at nancy@liftburden.com.