How a Fiduciary Advisor Earns Their Fee

By Joshua M. Brown at TheReformedBroker.com

Josh Brown is the CEO of Ritholtz Wealth Management, member of CNBC's Financial Advisor Council, on-air contributor to CNBC and host of The Halftime Report, Author and featured contributor for Fortune, Forbes, the Wall Street Journal, MarketWatch, Dow Jones Newswires, Bloomberg, Reuters, CNNMoney, CNBC, the New York Post, Investment News, Registered Rep, Financial Planning, Fortune, RIA Biz, Business Insider, American Public Media, NPR, TheStreet.com, the Washington Post, Barron's and the New York Times.

HORIZON FINANCIAL SERVICES, LLC

Many brokerage firms are launching themselves head-first into a brave new world of fee-based planning. This is a dramatic shift from their former conflict-heavy, commission-based sales model.

The choice was not theirs to make. The Department of Labor was kind enough to take matters into their own hands and force the issue.

The threat of class action lawsuits (due to highfee, conflicted investments) are a nightmare that became reality for the big brokers. This thought has lit the fire of change under them with motivational powers that rival Anthony Robbins' best coal walk.

In their prior lives, these organizations worked under a product-pushing model. For organizations such as Merrill Lynch, those days are over; at least when it comes to retirement accounts. Many are switching to a yearly fee, based on clients' assets under management. Most likely, these fees will fall in the range of 1% or so.

The question is: Will this be a better deal for clients?

If the brokers' version of this model is to pick a bunch of mutual funds and do nothing else, this is a terrible deal for the average investor. Today, investors can go to Vanguard and choose a target date fund that matches their time frame and charges a negligible fee. This is a much better option than paying someone 1% who does nothing more than create a portfolio of mediocre mutual funds without a data-driven investment process.

I am not sure what services these companies are going to provide for their fee, but I do know what they should be doing. While asset allocation has become a commodity-like business, comprehensive, holistic financial planning is worth its weight in gold to an investor. In fact, a study has shown it is worth triple the average 1% fee.

Here is a guide to what real financial planners do to earn their keep. They:

- Explain the exact nature of their relationship with you, especially how they are paid;
- Gather comprehensive data on every aspect of your financial life;
- Analyze your finances and make conflict-free recommendations;
- Implement and monitor your plan;
- Meet with you on a regular basis;
- Guide you on ways to minimize your tax bill through your investments and charitable endeavors;
- Give you advice on the best strategies to efficiently fund your children's college educations;
- Create a plan to maximize your retirement income by coordinating your social security benefits with your spouse's benefits and any pensions, given your expected retirement date;
- Assist you in navigating the complicated process of choosing the right Medicare options;
- Show a willingness to meet with your accountant/ estate lawyer and be the quarterback of your wealth team;
- Educate you so you know exactly what you are investing in and why;
- Follow a repeatable evidence-based investment process that ignores short-term outcomes, which are usually based on luck;
- Apply authentic risk management strategies that have high probabilities of being successful;
- Establish a succession plan so you will not be left in the dark in case of the unexpected;
- Examine all of your insurance needs and help you get the policy you need, not the one that pays them the highest commission;
- Manage your behavior and keep you from acting impulsively;
- Integrate your 401(k)/403(b) plans along with your directly-managed investments, under one big umbrella;
- Develop criteria for their ideal client and are willing to tell you that you might not fit into it;
- Make sure their company is organized with set divisions of labor so they can focus on meeting your needs and not performing administrative duties;
- Communicate with you in the way you are most comfortable; in person, on-line or some combination;
- Keep you focused on the things you can control; and,
- Treat you as a human being and not a revenue generator.

If your advisor is charging you a 1% fee on your assets and not doing the above, it is time for you to find another advisor.

Just because a firm switches from a commission-based model to one based on an annual fee, it does not mean the coast is clear.

Getting paid an annual fee is not a ticket to do nothing. This model has become more popular, due to its dependable revenue streams.

In fact, it is quite the opposite. Properly carrying out this structure requires that an advisor immerse himself in the financial lives of his clients and their families.

For clients who need these services but are only receiving a very costly collection of mutual funds in return for the 1% advisory fee they are paying this is a very expensive proposition.

Don't be fooled again into thinking you are getting something that you are not.