

Money's Worth: Figuring Out How Much You Should Pay for Financial Advice

ARE YOU PAYING too much for investment advice?

Ever since the stock market chewed up portfolios after its 2000 peak, investors have increasingly been shelling out for help in managing their finances.

But fewer of them are turning to an old-school stockbroker, the kind who charges them a commission for each transaction. Instead, they're migrating to independent advisers, who typically charge a fee of 1% of assets under management, while others are investing in some of the "fee-based" products and services that Wall Street has rolled out in recent years, and whose fees can run as high as 3%.

Among the touted advantages of paying a fee instead of a commission: more-objective advice and all-in-one shopping, in which a single fee gets you someone to help find investments, manage your money and watch over your portfolio. The firms and advisers benefit from a recurring, predictable source of revenue instead of relying on volatile commissions.

But while fee-based arrangements offer many advantages, you could wind up paying a lot more than you need to. Here's what you need to know if you're looking for professional advice.

■ **What's hot now.** Full-service brokerage firms, which still rely mainly on commis-

sions, control about \$6.2 trillion of clients' \$17.1 trillion in investible assets. Independent advisers, who are paid entirely or in part from fees from investors, manage about \$2.1 trillion of assets and represent one of the fastest-growing segments of financial advisers, says Chip Roame of Tiburon Strategic Advisors, a financial-services consulting firm. And assets in fee-based managed accounts jumped 25% for the 12 months ended in March to a record \$1.5 trillion, according to consulting firm Cerulli Associates.

These fee arrangements differ in crucial ways. Fee-only advisers don't accept any commissions, while fee-based ones get paid through a mix of commissions and fees. Fee-based advisers, for example, might collect an annual fee for putting you in either a "wrap" or "separately managed" account, which are composed of many different investments, but they may also collect commissions on other products.

Another factor to consider: Many advisers at brokerage firms often aren't considered fiduciaries—a legal standard requiring that they act solely in your best interest. Instead, they are held to a lower "suitability" standard, which means they are only required to offer investments suitable to a client's needs.

If you are worried about potential conflicts of interest, consider using a fee-only adviser, who will charge a percentage of your portfolio's value, an hourly fee or an annual retainer.

■ **What you'll pay.** Working with a fee-only adviser can be expensive, especially for those with modest portfolios. Investors pay an average of 0.89% of assets in fee-based accounts, compared with an average of 0.72% of assets in commission-based accounts, according to Tiburon Strategic Advisors.

If you don't make a lot of trades, a relationship based on commissions may be cheaper. Clients at St. Louis-based brokerage firm Edward Jones—whose brokers are paid mostly by commissions—generally pay less than those who use fee-based accounts because they make few transactions—an average of 3.5 trades a year, says managing partner Jim Weddle.

By contrast, fee-only advisers generally charge an annual fee of about 1%, or \$10,000 on a \$1 million portfolio. (The fee generally declines with more assets.) Fee-based managed accounts typically charge fees ranging from 1% to 3% of assets. If you're comfortable making your own investment decisions, you will pay less at a discount-brokerage firm, many of which offer both cheap commissions and online planning tools.

■ **What you'll get.** In exchange for paying higher fees, investors should be getting more hand-holding and big-picture financial-planning advice. That's why comparing the costs of commissions with the fees paid in a fee-based or fee-only arrangement is misleading, says Paul Hatch, head of Citigroup Inc.'s Smith Barney's investment advisory services division, which

Hired Help

Here's what to consider if you're looking to pay for financial advice:

- Consider the total cost of a fee-based managed account, including the expenses of the underlying investments.
- Look for advisers who can assist you with all your assets.
- Go to www.feeonly.org or www.garrettplanningnetwork.com to find fee-only planners; www.fpanet.org includes both fee- and commission-charging planners.

last year launched a fee-based program in which clients pay an annual fee ranging from 1.5% to 3% for advice, research, asset allocation and ongoing portfolio review. Such accounts are like "high-end cars" where investors have higher levels of service and advice, says Mr. Hatch.

Still, you need to make sure you're getting your money's worth. In recent years, regulators have raised concerns about "reverse churning," or when clients who pay annual fees get little extra advice or service to show for the higher price tag. Advisers

should not only help you develop a financial plan and offer investment management; they should also take a broad look at your finances beyond the portfolio that they're managing, such as your mortgage, insurance, college costs, taxes and estate planning.

Fee-based and fee-only arrangements have their own potential conflicts. Since fee-charging advisers will earn more money if your portfolio grows, they may also have an incentive to encourage you to keep your assets under their care rather than using that money to pay down debt, for example.

If you have a relatively simple investment strategy, then consider an adviser who charges by the hour. Investors with more complicated financial lives or who require a lot of financial-planning advice might opt for an adviser who charges an annual retainer.

Jonathan Clements is on vacation.