

Noel Swain: What Do Financial Advisors Charge?

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One of the first questions we usually get when someone calls to inquire about our services is, "How much do you

charge?"

It's a good question, and very appropriate. And once the answer is put into context, it allows the inquirer to make a fair determination whether the services the advisor provides is worth what he or she charges.

There are three primary ways a financial advisor charges for their services.

The first way is by commission. Some financial products are sold mainly by paying a commission to the salesperson. Most insurance companies operate this way. The investor buys the financial product, and the insurance company in turn pays the salesperson part of the money coming in as a commission for the sale. It is my opinion that in this case most of the benefit resides with the salesperson.

Another way to pay for services is to pay an ongoing fee based on the assets you have invested.

It is important to know how much this charge is, what any additional expenses there may be, and what the advisor does for the fee he charges. For example, if he charges, say, 1 percent per year to monitor and direct your assets, and the investment where he places your funds charges an additional 2 percent, you're paying a 3-percent total charge.

Beyond that, how often will the advisor call you in for a meeting, or call you on the phone to update you? How often will he or she

monitor your account or suggest changes to it? If the only time the advisor recommends changes to your account is when you come in for a meeting, they may not be paying much attention to your investment the rest of the time.

The third way an advisor charges for their services may be either an hourly fee or a flat fee. If he or she charges you by the hour, you normally will be billed based on the amount of time they spend working on your account or on your strategy. If it's a flat fee, the advisor will commit a certain number of hours to your account and financial plan.

Should you find yourself in the market for a financial advisor, you definitely want to know what all the costs to you will be.

First, ask if the advisor is commission-based or fee-based.

If commission-based, ask them what percentage of your money would be returned to you if you decided to get out of that investment after one month. The difference is your fee.

If the advisor is fee-based, ask him or her to explain to you not only their fee, but the fees of the underlying investments they will put you in. Then add them together.

There is no one right way to pay for the services of a financial advisor.

I have found most advisors I've met to be honest, caring and helpful. However, I believe one should look for a credentialed financial advisor, one who holds the CFP designation.

The best place to find one is to go to www.letsmakeaplan.org.