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Financial advisers work, charge in varied ways

By **Greg Kratz**

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In last week's column, several of the gurus I consult regularly shared tips on what to look for in a financial adviser.

But how much will you pay for good advice?

There is no simple answer to that question, because different advisers charge in different ways.

The two basic models of charging for financial advice are fee-only and commission-based. Hybrids of the two exist, but we'll focus on these two to keep the discussion as simple as possible.

Alan B. Tingey, principal at Cannon Tingey Investment Advisors in Midvale, says that under the commission-based model, an adviser is selling a product rather than a service.

"For example, an adviser that places his client in an insurance product, annuity or certain types of mutual funds will likely be given a commission for having 'sold' that product," Alan wrote in an e-mail response to my questions.

Ray LeVitre, certified financial planner and managing director of Salt Lake-based Net Worth Advisory Group, is a fee-only financial planner who, not surprisingly, sees problems with the commission model.

"If you work with a commission-based adviser you will likely not pay anything out of pocket, since all the fees are built into the products they sell," Ray wrote. "The problem with built-in fees is that clients never know what they are paying, and consequently rarely insist that the adviser provide service and advice equal to the fee. For example, if you invest \$100,000 into a variable annuity or a Class B share mutual fund your adviser will get paid 4 (percent) to 5 percent (\$4,000-\$5,000). You will never see this fee being paid or know what it is.

"If your adviser makes \$4,000-\$5,000, he/she should provide \$4,000-\$5,000 of service (develop a plan, meet with the client regularly, update and review the plan and investment strategy, etc.). This rarely happens. If you were working with a seasoned attorney instead of a financial adviser, he/she would likely work for you for \$300-\$500 per hour. Let's assume your financial adviser is worth \$400 per hour and he/she made a \$5,000 commission. If this were the case you should demand the adviser provide at least 12.5 hours of service."

On the other hand, Alan Tingey says a fee-based financial adviser is selling a service rather than a product.

"A typical client would hire a fee-based adviser to 'manage' his assets on behalf of the client within the objectives and goals of the client," Alan wrote. "Generally, such a fee is based on a percentage of assets under management taken in four quarterly increments. For example, if a client hires an adviser to manage a \$500,000 account at an annual fee of 0.75 percent, the fee paid to the adviser would be approximately \$938 per quarter."

Paul Winter, principal of Five Seasons Financial Planning in Holladay, says the idea behind fee-only financial planning is to minimize conflicts of interest and ensure objective advice.

"In addition, the vast majority of fee-only advisers are registered investment advisers regulated by the state or (Securities and Exchange Commission), which is important because they are, as a result, legally obligated to place their clients' interests before their own," Paul wrote. "For hourly fee-only financial planning advice, readers should expect to pay roughly what they would pay their attorneys for legal advice.

"For ongoing investment management, I'd say the predominant method of compensation is as a percentage of assets under management, with 0.5 percent to 2 percent being the norm. Some fee-only planners instead charge an annual retainer for comprehensive and ongoing financial advice."

At his fee-only firm, Ray LeVitre says clients pay in one of three ways: hourly; a flat fee for a single project; or an annual retainer, usually a percentage of assets managed and ranging from 0.5 percent to 1 percent annually.

Roland S. Nebeker, president of Nebeker Financial Services in Murray and a registered investment adviser, said his firm offers a no-charge review/assessment on the first visit and no charge for a "relatively simple plan." More extensive planning, he wrote, would be quoted up-front at \$2,000 to \$10,000.

Roger Smedley and Sharla Jessop of Salt Lake-based Smedley Financial Services said they also offer a free initial consultation, and they stressed the need to find an adviser who is not driven by products, "as there is not any one product that meets all needs."

Fees at Smedley vary based on the kind of account involved, and they also offer time-based research and financial planning starting at \$150 per hour.

Of course, some people may be able to get basic advice for considerably less than that. Shane Stewart, a certified financial planner and chartered financial consultant with Deseret Mutual in Salt Lake City, said that company is a benefits trust for several affiliated employers, so it follows a different model.

"We have a responsibility to educate their employees about their benefits," Shane wrote. "Subsequently, we have financial planners on staff as salaried employees who act as an educational resource to their employees. Our financial planners offer no investment products and receive no other compensation in addition to their salary. The financial planner's assistance is provided by the employers at no cost to the employee."

So, as you can see, how much you will pay for financial advice depends on the kind of adviser you choose and what, exactly, you ask that adviser to do. But I hope this provides some general guidelines as you start shopping.

If you have a financial question, please send it by e-mail to gkratz@desnews.com or by regular mail to the Deseret Morning News, P.O. Box 1257, Salt Lake City, UT 84110.

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