How Much To Pay a Fee-Only Advisor? A Look At Average Annual Fees.

The subject of investment advisory fees can be confusing. While researching online, I observed that it is difficult to find average fees published anywhere so I hope that you find this blog post helpful.

Average Annual Advisory Fees for Fee-Only Advisors

When comparing fees, it is important to compare apples to apples. Let's start by looking at fee-only advisors because for you, the investor, this is the most transparent. Simply stated, fee-only advisors do not accept any fees or compensation based on product sales. The benefits to you, the client, are fewer inherent conflicts of interest, objective advice, and often the advisor's fiduciary responsibility to act in your best interest.

According to the *2016 InvestmentNews Financial Study of Advisory Firms*, a survey of 400+ Registered Investment Advisors (RIAs), here are what firms are charging based upon various asset levels.

Average Annual Fees Charged By Advisors

Account Size	Advisor Average Fee	Advisor Average Fee + Mutual Fund Expense
$100,000	1.30%	1.98%
$250,000	1.23%	1.91%
$500,000	1.11%	1.79%
$1,000,000	1.01%	1.69%
$5,000,000	0.91%	1.59%
$10,000,000	0.75%	1.43%
$25,000,000	0.59%	1.27%

Source: 2016 InvestmentNews Financial Performance Study

Ask About Additional Fees

Does your advisor invest your portfolio in mutual funds? As I wrote in Know Your Mutual Fund Fees and Expenses, your mutual funds are not free. On average, owning mutual funds cost you an additional 0.68% in annual fees but could be as high as 3%. For comparative illustration, the third column above includes the average mutual fund fee of 0.68% according to the 2016 Investment Company Factbook. While you do not see these fees coming out of your account, I assure you that fees are being deducted and the share price (net asset value) of your mutual fund adjusted accordingly. Visit FINRA's Mutual Fund Expense Analyzer to look up annual expense ratios. Then, add these fees to your advisor's fee to calculate an annual total.

According to Bloomberg News, here are additional fees that you might end up paying for mutual/index funds and/or ETFs:

- Actively managed mutual funds: 0.68% of the value of the fund per year for bond funds and 0.89% for equity funds;
- Index mutual funds: 0.12% of assets per year for equity funds and 0.11% for bond funds;
- Exchange traded funds: 0.5% of assets (average expense ratio for U.S. non-leveraged ETFs.)

Fee-Based and Commission-Based Advisors

Fee-based advisors are paid a combination of annual investment advisory fee and commissions while commission-based advisors are compensated by commissions only. There are good investment advisors among commissioned advisors, but beware some might just be good sales people. Their advice could be influenced by the way they are compensated.

Fee-based or commission-based advisors generally do not have a “duty to disclose” their method of compensation so it can be confusing for clients who may not fully understand when their advisor is working for commissions. FYI, commissions can come in the form of a front end sales load (commission) charged on a mutual fund, hefty commissions (can be over 10%) received for selling an annuity, or commissions may be paid directly to the advisor from an investment company. **Unfortunately, you cannot find average fees paid to fee-based or commission-based advisors published any where, because it is dependent upon the commissioned products being sold to the client. Odds are good, though, that you are paying well over 1.25%.**

Quick Word About Dually Registered Advisors

If differentiating between fee-based and commission-based advisors weren't hard enough, there are also hybrid advisors. By being dually registered, these advisors can switch between their fiduciary duty as an investment advisor--acting in the client’s best interest--and their role as a broker, who is able to sell products deemed suitable for the client. Critics say this can create a slippery slope because how does a client know when her advisor is wearing her "fiduciary hat" or "broker hat." It can be complex when the advisor puts herself out as a "fiduciary" but can also sell a high-commissioned product. As you can see, it is not only important to understand your advisor's fees but how the advisor is registered and where the fees come from. Consumers should know what potential conflicts of interest exist, if any, when working with an advisor.

Conclusion

If you are paying a total annual fee of 1.25% or less, you are in relatively good shape. While shopping for an advisor, you need to do your research and ask some tough questions. Just like there are many ways to invest, there are also many ways that a financial advisor can be compensated. Ultimately, net-of-fee success is your portfolio pipe dream, but it is always good to know what is going on under the hood in terms of fees and expenses.

If you work with an advisor, do you know how much you are paying in annual fees? Have you checked on whether there are any hidden fees?
