

Don't be fooled! Here's the difference between "fee-only" and "fee-based" financial advice



Executive Summary

"Fee-only" Advisors

- Directly compensated by clients in the form of transparent fees. (Such as: 1) A fee on the percentage of assets that they manage for the client 2) Hourly fees 3) Project fees 4) On-going retainer or subscription fees
- Act as fiduciaries and are legally obligated to provide advice

that is in the best interest for the client

- Operate as an Investment Advisor Representative and often-times hold a Certified Financial Planner™ designation.

"Fee-based" Advisors

- Can be compensated in two ways: Direct fees from the client or commissions/fees that come from the client's purchase of financial products
- Held to a "suitability standard" in which they are not legally obligated to provide advice that is in the best interest for the client
- Licenses Held: maintain their Series 6 or 7 licenses. These are securities licenses that allow them to sell financial products

The terms "fiduciary" and "fee-only" advice have become popular buzzwords over the last 10 years, and for good reason. When you search around the internet on how to find the right financial planner/advisor, you'll find articles related to these keywords everywhere. To be clear, both "fiduciary" and "fee-only" are great keywords to use in your search for an advisor. The point of this short article, however, is to warn you about a potentially misleading term that is heavily used in the financial advice industry today. The term on the hot seat is "*fee-based*" advice. Let's begin by quickly describing what fee-only advice means, and why it's a good thing.

Fee-only advice means that you are paying for advice from a financial planner who is a registered investment advisor and has a fiduciary responsibility to act in their clients' best interest. They are not compensated through the fees or commissions of a financial product and therefore have fewer inherent conflicts of interest.

It's critical to remove this conflict of interest because financial products (i.e. annuities and other insurance products, mutual funds, unit investment trusts, etc.) all have varying levels of fees and commissions attached to them. Because of this, an advisor who operates on commissions will be far more likely to recommend products that provide him/her a higher commission.

Now, let's dive into what it means to work with a "fee-based" advisor and why it's a misleading term. Imagine the following scenario:

You've already read on the internet today about what you need to be watchful of when looking for a financial advisor. You know that you need to find a *fiduciary* that will put your interest ahead of their own. You begin interviewing advisors and you ask them the important question, "Are you a fee-only advisor?" The advisor then responds by saying that he is "fee-based" and looks out for his clients' best interest. You then feel relieved because you think you may have found the right advisor.

This scenario happens all of the time because the vast majority of advisors out there operate on a fee-based arrangement. The term "fee-based" came about because advisors at large brokerage firms needed a way to respond to inquiries about whether or not they were compensated through fees. The term sounds so similar to fee-only that it's easy to be led into believing that it is the same thing (just another win for the large deep-pocketed brokerage firms!). Being a fee-based advisor means that they have the option to provide advice on either a fee basis (like a percentage of total assets that they manage) or on a commission basis. Remember, this is the exact conflict of interest that you are trying to avoid! I'm not saying that there are not good advisors out there who operate a "fee-based" business model, but I do hope this serves as a warning to you that you may need to gain a deeper understanding of *how* you are going to be charged if you decide to work with them.

Want access to a fee-only planner? Besides One Day Advice, who operates on a fee-only relationship with their clients, you can also find an advisor through the following two resources:

- FeeOnlyNetwork.com (<https://www.feeonlynetwork.com/>)
- National Association of Personal Financial Advisors (<https://www.napfa.org/>)

You can visit our [Contact Us](#) page to get in touch with a fee-only Certified Financial Planner.