What Is a Fee-Only Financial Advisor?

Definition & Examples of Fee-Only Advisors

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DEFINITION:

Fee-only financial advisors are only compensated directly by their clients.

What Is a Fee-Only Financial Advisor?

There are three basic models for how financial advisors can be compensated:

Commission-based: All compensation comes from commissions on the products they sell.

Fees and commissions (also known as fee-based): Advisors are compensated partly by fees from clients and partly from commissions.

Fee-only: Advisors are only compensated by clients and do not receive any product-specific commissions.

> ### Note
> Fee-only financial advisors can structure their fees in one of several ways, including hourly rates, flat fees, a percentage of assets, or a retainer. [1]

A fee-only advisor is the only one of these three that receives compensation that is not tied to the products they sell. For this reason, it is widely seen as the model that most readily adheres to the fiduciary standard.

Alternate name: No-commission financial advisor

The Fiduciary Standard

Fee-only advisors, or fee-only financial planners, almost always operate as fiduciaries. This means they are legally bound to give advice that is in their client's best interest.

Some might assume all financial advisors have a requirement to give advice that is in their client's best interest, but that's not always the case.

A majority of the financial advice industry operates on a "suitability standard."

Suitability means a recommendation must be appropriate based on your financial status and goals, but if one product pays the advisor more than another, and both are suitable, the advisor can recommend the product that pays them a higher commission, even if it might not be the best choice for you out of the two options. [2]

> **Note**
>
> Ask a potential advisor if they operate with a fiduciary responsibility to you or based on a suitability standard. Only the fiduciary is legally obligated to put your interests first.

In 2017, the Department of Labor issued a new Fiduciary Rule to apply a fiduciary standard to almost all financial advisors who give advice on retirement accounts. This new fiduciary rule, however, still would not apply to advice provided on investments held outside of retirement accounts. After several court battles, the rule has been in limbo since 2018, and a new proposed version will be reviewed in 2020. [3] [4]

How Fee-Only Financial Advisors Work

When you think about where someone's paycheck comes from, that can give you a hint as to where they'll place their loyalty. A fee-only financial advisor cannot receive compensation from a brokerage firm, a mutual fund company, an insurance company, or any other source besides you, the client. They represent you and your interests when giving you advice.

A fee-only advisor may charge you a rate that's based on a percentage of the assets they manage for you and take it out of your account each quarter, or they might charge a flat annual fee or an hourly rate. [1] Make sure you understand how an advisor's fee structure works before you start a relationship with them.

Fee-Only Financial Advisors vs. Fee-Based

A fee-based financial advisor can receive fees paid by you and commissions paid to them by a brokerage firm, mutual fund company, insurance company, or investment partnership. The advisor should disclose these fees to you.

Many advisors who use the term "fee-based" recommend something called a managed account. Be aware that the investments offered inside this managed account may pay incentives to the company the advisor works for, which means it may not be as objective as it appears.

Even though both fee-only and fee-based financial advisors may manage accounts where they charge fees as a percentage of the assets, the investments they place inside these accounts can be quite different.

Fee-only financial advisors have a fiduciary responsibility to choose investments that are in your best interest. They typically use investments that have low internal expenses, such as no-load mutual funds, stocks, bonds, and other investments that have no annual 12(b)1 (marketing or distribution) fees.

> ### Note
> Regardless of how they receive their compensation, financial advisors differ in the services they offer. Some offer only investment management, while others include financial planning as part of their offering. Some specialize in certain areas, such as those who handle only retirement planning. Decide which type of financial services you need so you know what type of advisor to look for.

Locating a Fee-Only Advisor

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Many fee-only advisors belong to an association called NAPFA, the National Association of Personal Financial Advisors. Individuals may only join NAPFA if they work as fee-only financial advisors. NAPFA offers a search feature on its website to help you locate a fee-only advisor near you.

> ### Key Takeaways
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> - Fee-only financial advisors only receive compensation directly from their clients and not from commissions on any products they sell.
> - This model allows for an advisor to most easily adhere to the fiduciary standard, which puts the client's interest first.
> - Advisor fees can be hourly, percentage-based, flat, or based on a simple retainer system.
> - Don't confuse fee-only advisors with fee-based ones, who can still collect commissions on top of fees they charge you.

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SOURCES

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2. Financial Planning Association. "Fiduciary vs. Suitability – Which Standard Is Best."

3. National Archives. "Definition of the Term “Fiduciary”; Conflict of Interest Rule-Retirement Investment Advice."

4. Eversheds Sutherland. "DOL Fiduciary Rule."