

## The Difference Between Fee-Based and Fee-Only Advisors

By Julie Lobaza

This is one of the most popular questions we receive. While they sound like very similar terms, it is important to know the variations when selecting a financial professional. The main difference is how they are paid for doing their job. Many investors are not aware of the incentives or commissions some advisors receive by recommending one product over another. It is best to know the different payment options and underlying fees so you can make an informed decision.

Let us first start by saying that there are great and not-so-great advisors at every large firm out there, regardless of compensation arrangements. At the end of the day, it is up to the advisor to choose to run their business in the most honest form possible.

Fee-based advisors are normally compensated on both fees and commissions. While their advice may be fee-based, they still have the ability to receive commissions depending on the investment products, annuities, and insurance they choose to sell. Unfortunately, it is not always clear to clients how fee-based advisors are paid because they do not have to disclose how they are paid or what commissions they receive. This can lead to selling products that pay them more versus what is truly best for the client. For example, if you give an advisor \$500,000 to manage and they have the option to select products where they get paid \$25,000 versus \$5,000, that naturally becomes a conflict of interest.

Fee-only advisors are compensated only by the fees they charge their clients and never on commissions earned by selling a financial product. The fees are transparent and are normally determined by a pre-arranged fee schedule based on the value of assets under management. Fee-only advisors also operate their business as “true” fiduciaries which means they take a legal oath to keep their client’s best interest at heart when recommending a financial product. And since these advisors get paid the same whether they recommend one product over another, they avoid the conflicts of interests that are sometimes inherent with other types of advisors.

Always do your research and ask questions... How are you compensated? What are the internal costs within the investments you manage? Do you have the option to sell products where you receive a commission? Are you willing to sign a Fiduciary Oath?

You can tell a lot about your advisor’s objectivity, transparency, and philosophy by understanding how they are compensated. Fee-only advisors are still in the minority, but hopefully this changes as more clients learn about the differences and demand a higher standard. Remember you always want to choose an advisor that provides comprehensive advice and always keeps your best interest ahead of theirs.

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