

# Financial planning trends toward fee-only services

## Switch from commission-based advisers eliminates conflicts of interest

By Rebecca Tonn  
CSBJ

Although the financial industry suffers during recessions and economic downturns, it manages to survive, reinvent itself and, sometimes, thrive.

During this century, the industry has shifted from commission-based financial advisers to fee-only certified financial planners, and many industry experts believe the shift was inevitable.

“The consumer is at war with the providers of financial help,” said Craig Carnick, certified financial planner and president of Carnick & Co. “Providers instilled the idea that they were in the consumers’ corner. Now they’re being unmasked as only being in their own corner — taking advantage of consumers in order to feather their own nests.”

Fee-only should not be confused with fee-based.

Fee-only planners charge an annual fee based on an account’s value — they do not take payment from any other source. Fee-based planners receive fees plus commission.

Carnick said that the trend toward fee-only planners was caused in part by the subprime fiasco and the effect it has had on the American psyche. Consumers have become more aware about the risks of biased investment advice.

“It is not the job of commission-based advisers to give impartial information. It is the job of fee-only planners to give impartial information — but it does not come free,” he said. “It’s not necessarily cheap, but it’s much more effective, which can translate to more cost effective.”

Fee-only advisers look at a client’s total financial situation, whereas a commission-based salesperson will only look at a particular problem. For instance, commission-based advisers only look at the \$100,000 a client just inherited and not at long-term goals, needs and assets of the client and his or her family, Carnick said.

Five or six years ago, 80 percent to 90 percent of advisers worked on commission, said Dr. Ron Rizzuto, professor of finance at Denver University’s Daniels College of Business. He agrees that there is a built-in conflict of interest between commission-based planners and their clients.

“Advisers need to earn a living and get paid for what they do, but it’s clearer what it is you’re paying for with fee-only,” he said. “It’s a much cleaner deal this way.”

About 50 percent of advisers are now fee-only, Rizzuto said, adding that a lot of investors felt like they were losing money. The strategy of commission-based planning was not flawed, but the products were

flawed because advisers received commission from them, and thus chose products accordingly.

“It was a natural migration,” he said. “Advisers need to make money, but fee-only eliminates being taken advantage of. It’s simpler and gives everybody more flexibility and freedom.”

During the 1990s, Robin Johannes, part-owner of Johannes Hunter Jewelers, used a commission-based planner. But she was frustrated with paying brokers a commission on both ends — when buying or selling — and with the incentives brokers received from companies for selling their products — “whether it was good for my portfolio or not.”

Johannes said she received frequent phone calls with suggestions to buy certain stocks and then suggestions to sell them several months later at a loss.

“You rely on them to be straight up with you — until you learn what goes on behind-the-scenes,” she said.

After making the switch to a fee-only planner during 2003, Johannes’s investments require less of her time, but she’s more confident about how her portfolio is being managed.

And she’s not the only person who has made the switch.

Membership in The National Association of Personal Financial Advisors has grown by double digits each of the last five years, said Tom Orecchio, national chairman of NAPFA. And the number of visits to NAPFA’s Web site has increased by 8,000 to 10,000 per year during the same time period.

During 2007, the site received 60,000 hits from consumers requesting information about fee-only planning and the names of local association members.

“There is a trend toward hiring only fee-only planners as a viable business model,” Orecchio said, adding that many consumers have had problems with traditional brokerage models and advisers who are paid a commission.

“Registered investment advisers are held to a fiduciary standard,” he said. “They are

required by law to disclose conflicts of interest and to put their clients’ interests ahead of their own.”

Consumers should research a company’s reputation before choosing a fee-only planner.



Twibell

**David Twibell, president of wealth management at Colorado Capital Bank, said that consumers should ask financial planners for**

**referrals from investors who have similar portfolios and are at similar stages in life.**

**Investors also should ask questions before hiring a certified financial planner, such as: Have you ever been sued by a client? Who regulates you? Have you ever been disciplined by a regulatory agency? What is your area of expertise? What is your retention rate? Why did you lose those clients? And where do I fit within your hierarchy of clients? (If your portfolio is \$20 million, a firm that handles \$1 million- to \$5 million-portfolios might not be a good fit, or vice versa.)**

**Investors also should determine what the fee structure is, which services are included, and whether services are bundled, Twibell said. And after choosing a certified financial planner, they should ask for regularly scheduled performance reports.**

**“Watch your portfolio,” he said. “That adviser will not come to you and tell you its performing poorly. The burden is on the consumer/investor to monitor the adviser.”**

Johannes hasn’t regretted her decision to switch from commission-based advisers to fee-only. In fact, she has profited from the transition.

“I know my (fee-only) planner won’t turn stock — buy and sell — just to earn a living,” she said. “And I spend far less now on fees — but my portfolio is much bigger.”

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