

## Advisers who are fee-based feel handcuffed

Flat returns create pressure to change model, but few are brave enough

**By Lavonne Kuykendall**

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After another disappointing year in the markets, many financial advisers who base their fees on assets under management are thinking that there has to be a better way.

But few have the stomach to make any changes right now — and that may be the wisest course.

“I think it will happen, but it can't happen yet,” said John Anderson, director of practice management for the SEI Advisor Network, a unit of investment manager SEI Investments Co. “Maybe once the market gets a little better.”

Mr. Anderson and others said that many advisers they work with are thinking about making some changes to their fee structure, with some gravitating to a minimum retainer or charging separately for financial planning and other services.

But only the few and the brave are making significant changes now, mostly because they think that clients are shellshocked by the past few years of volatility and are in no mood to pay more for mediocre returns.

Year-to-date, the S&P 500 is flat after seeing plenty of spine-chilling swings. Bond yields are dismal, with U.S. Treasuries barely keeping pace with inflation.

And advisers are busier than ever keeping their clients calm.

“Advisers work harder on the downside than on the upside,” said adviser coach Ginny Hudgens, president of Back Office Advisor LLC.

That is part of the impetus for rethinking fees based on assets.

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Ms. Hudgens said that she has seen some advisers make a move toward reworking their fee structure, but they are keeping a watchful eye on their customers.

One minor trend is advisers' continuing to base fees on assets but offering to fix the fee for a year or two, Ms. Hudgens said.

"If you are fixing a fee for a year, it is kind of a retainer, but the water starts to get muddy," she said.

In the 2010 *InvestmentNews/ Moss Adams Financial Performance Study of Advisory Firms*, about 68% of advisers said that they base their fees only on assets under management for at least 75% of their clients.

But one-third said that there are other factors when they set fees.

Asset-based fees range from a median of 1.2% for accounts of \$250,000 or less to 0.5% for accounts larger than \$10 million, the report said.

Ms. Hudgens recently conducted an informal survey of hourly fees that some advisers charge for special projects, and found that rates varied widely from the \$150 an hour charged by an adviser in Washington, D.C., to \$500 for a Long Island, N.Y., adviser.

"If they were to go to a retainer, the climate of the market at the time is an issue," said former adviser turned business coach Diane MacPhee of DMAC Consulting Services. "They don't want to be seen as locking in a fee with a retainer if the market is perceived as going down."

Mr. Anderson isn't recommending that advisers make any sudden moves; he thinks that many investors, after waiting years for things to improve, are beginning to get fed up.

"I think what you will see is a lot of clients raising their heads up, saying, 'The last four years stunk, performance stunk, communications stunk. I need to make a change,'" he said. "Advisers are saying, 'What can I do to attract new clients?' I think you will see a lot of movement in 2012."

As evidence, Mr. Anderson pointed to a June study by PricewaterhouseCoopers LLP that found wealthier clients feeling much less loyalty to their advisers. It hasn't resulted in a lot of client movement yet, but he thinks that it will.

Some advisers Mr. Anderson works with have begun to change the way that they talk about their fees, mainly by emphasizing the other services they perform that add value.

One example: "We charge \$5,000 for our planning and 30 basis points for investments and asset allocation," he said.

So far, only a few larger and more progressive firms are taking that approach.

"It is a trend I would love to see, because it puts the emphasis on what clients value the most in the relationship with the adviser," Mr. Anderson said.

Moving from asset-based fees to a retainer is becoming a more popular topic, but that is about as far as it goes, said George Tamer, director of strategic relationships at TD Ameritrade Institutional.

"I hear more talk, but I haven't seen a shift from assets under management to a flat fee," he said.

Most of the advisers Mr. Tamer works with still base their fee on assets, though some have offered to freeze their fee.

Some have raised their fee, but only after they built a strong case for it, he said.

"If you have a good [customer relationship management] system and can track your time, you can show the client all the work you do for them that justifies a fee increase," Mr. Tamer said.

They may structure the increase in a variety of ways, such as by implementing a minimum fee or charging separately for a financial plan, he said.

The biggest shift in client assets over the next few years will be investors who leave the wirehouse environment, Mr. Tamer said.

"We continue to see those clients vote with their feet and move assets to fiduciary advisers. You will also see more retail investors who have been do-it-yourselfers look for an adviser," Mr. Tamer said.

"I don't know if we will see clients fire one fiduciary adviser and move to another," he said. "I haven't started to see that."

One adviser who raised her fees not long ago said that it didn't go as badly as she had feared. Three clients out of about 60 left, though one account was sizable.

"Be prepared to have to resell yourself and the firm," said Lisa A.K. Kirchenbauer, president of Omega Wealth Management LLC.

Advisers should also "stay vigilant during that next year for areas where the relationship may need strengthening," she said.

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