



Janice A. Swenor, MBA, CFP®

Why Hourly, As-needed Fee-only Financial Planning?

General Philosophy

The emphasis is on total financial planning, rather than just investments.

Some of the most valuable advice may pertain to your estate plan, insurance portfolio or tax situation.

The hourly, fee-only fee structure allows us to give high quality advice to those who may not have large amounts of monetary assets.

Not everyone needs the same type of advice. Maybe you are a high income earner with a complex financial situation whose balance sheet hasn't caught up with your potential. Maybe all of your assets are tied up in your home or a business. Or maybe you're just starting out, where advice on your cash flows or a bit of guidance on your 401(k) options may be all you need. In all cases, you may not be a good fit for firms who have a minimum "assets under management" but can still benefit greatly from objective advice.

Our fee structure eliminates as many conflicts as possible.

Since our fee is not tied to monetary assets, you can be certain that our advice is as unbiased as possible. We can freely advise on whether to use debt or cash to buy.

Our fee structure allows complete cost disclosure - the advice cost is separated from the transaction cost.

Many times, products recommended in a transaction based approach may be those that generate the largest commission, rather than those that are best for the client. We do not take commissions or referral fees, nor do we have any financial interest in your choosing where you put your money. The only compensation we receive is for the advice we give you.

Compensation Related to Investments

Fee-only Investment Philosophy

Many people implement their investment plans using mutual funds. An hourly, fee-only financial advisor does not get compensated for the sale of a particular mutual fund. They are compensated for the amount of time they spend to evaluate your situation and prepare the investment recommendations. Because of this, fee-only financial advisors can choose the best product for you.

Typical fee-only approach

Fee-only advisors often use “no load” funds. These typically have no 12b-1 fee, but may have a fee on the order of 0.25 percent. This fee typically goes to the discount broker as compensation for the administrative costs of handling the mutual fund through their mutual fund network. The advisor does not obtain any compensation from this.

A fee-only planner tends to recommend that the client implements any recommendations using a discount broker, or by direct purchase through the individual mutual fund company. There may be no transaction fee if you purchase directly from the mutual fund, and a typical charge may range from \$25 to \$75 if you use a discount broker.

In addition to cost, another benefit of using a discount broker is that you can consolidate your assets in one place and reduce the number of statements and year-end 1099 tax forms you receive without incurring any additional costs associated with the full-service broker approach.

Typical full-service broker approach

Full-service brokers obtain their compensation from the sale of the mutual fund, and there are different “share classes” with different commission structures. The two main classes are:

Class A: In this class, an up front commission of typically between 3.5 and 5.75 percent of the purchase price is charged. There is no charge for a sale, and usually there is no charge to switch between funds in the same “fund family”. In addition to the normal management fee of the mutual fund, there is often a “12b-1 fee”, which covers the marketing and distribution of the fund. The broker may sometimes get a portion of this as part of his compensation. For Class A funds, the 12b-1 fee is typically on the order of 0.25 percent of assets annually.

Class B: In this class, there is no up front commission. But there is a deferred charge that declines over time. Typically, the deferred charge is 6 percent the first year, 5 percent the second, and so forth. There is also a considerably higher 12b-1 fee, typically on the order of 0.75 percent of the value annually. If held long enough, Class B shares sometimes convert to Class A shares, and the 12b-1 fee is reduced to the level associated with the Class A shares.

Costs associated with Class A and B shares

Amount of Assets	Class A Sales Commission @ 5%	Class A Annual 12b-1 Fee @ 0.25%	Additional Class B Annual 12b-1 Fee @ 0.75%
\$50,000	\$2,500	\$125	\$375
\$100,000	\$5,000	\$250	\$750
\$250,000	\$12,500	\$625	\$1,875
\$500,000	\$25,000	\$1,250	\$3,750
\$1,000,000	\$50,000	\$2,500	\$7,500

Deferred Charge associated with Class B shares

Amount of Assets	Year 1 @ 6%	Year 2 @ 5%	Year 3 @ 4%	Year 4 @ 3%	Year 5 @ 2%	Year 6 @ 1%	Year 7 @ 0%
\$50,000	\$3,000	\$2,500	\$2,000	\$1,500	\$1,000	\$500	-
\$100,000	\$6,000	\$5,000	\$4,000	\$3,000	\$2,000	\$1,000	-
\$250,000	\$15,000	\$12,500	\$10,000	\$7,500	\$5,000	\$2,500	-
\$500,000	\$30,000	\$25,000	\$20,000	\$15,000	\$10,000	\$5,000	-
\$1,000,000	\$60,000	\$50,000	\$40,000	\$30,000	\$20,000	\$10,000	-

Follow the Money

It seems like everyone calling themselves a financial advisor these days claims the same thing - that they provide **independent, objective and unbiased advice in your best interest**. So how can you tell the difference between objective advice and a sales pitch? Follow the money.

Commission-Based Advisor



Often referred to as "free advice," in this framework you get the type of advice that product providers are happy to pay for. Insurance and investment companies pay out the highest commissions for their most expensive products, to encourage their sale. Even if an advisor is 'independent' in the sense that they don't work directly for a product provider, financial advisors working for commissions have strong financial incentives to recommend highest cost products, and to present them as favorably as possible to their clients. After studying the issue for four years, the UK's financial regulator concluded that *the conflict of interest commissions create is so prone to abuse that they decided to ban them*.

Fee-Based Advisor



With stories of abuse increasingly common, some investors began seeing commissions as 'bad' and fees as 'good.' In response, a number of firms began charging fees along with commissions, and called it 'fee-based' advice. Sounding awfully similar to 'fee-only' but with a big difference, Wall Street did what it could to shift the focus off of what matters – commissions and the conflict of interest they create. Don't be fooled.

Fee-Only Advisor



'Fee-only' refers to the method of compensation in which planners are only paid fees directly by their clients, and do not accept commissions or compensation from any other source. In this framework, your recommendations are not influenced whatsoever by incentives to steer you toward particular products or companies. Taking commissions and kickbacks out of the equation, you're opened up to the full spectrum of products available - including low-cost insurance, discount brokerage firms, and no-load mutual funds. Truly independent and unbiased, you can rest assured your recommendations are free of any hidden agendas.

If you're looking for independent, objective, and unbiased financial advice that's in your best interest, find out how your advisor is paid.

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