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FINANCIAL ADVISORS

Newly Minted Advisors Must Choose A Fee Model

MOREY STETTNER | 07:00 AM ET 09/22/2022

Switching careers solely to make more money is rarely a good idea. Passion should play a role. Still, money matters — to new financial advisors and their prospective clients.

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Structures vary for financial advisor fees. The most common approach is to charge a percentage (often 1%) of a client's **assets under management (AUM)**. Other options include charging an hourly fee or a monthly or annual retainer.

What fee model should new advisors use? Career changers should consider their target market. What do their clients seek in an advisor? And how much can and should they pay?

"I'd start by identifying where your clients will come from," said Michelle Francis, an advisor at **Life Story Financial** in Arvada, Colo. "Think about their needs. Do they need financial advice?"

If so, then advice-based fees might make sense. "If they're more established in their careers and have moved around, do they have a need for investment management? Then consider AUM or a combination of different fee models," she said.

A former owner of a public relations and marketing firm, Francis sold that business to launch her career as an advisor nearly five years ago at age 42. She joined a small advisory firm that used an AUM model. In 2020, she went to a larger firm that also charged clients a percentage of assets under management.

Financial Advisor Fees: Find The Right Formula

In May 2022, she set up shop on her own. A fee-only advisor at first, she now favors a hybrid fee approach. She charges a flat fee for financial planning along with an assets under management percentage if she manages a client's investments.

"Neither of my prior two firms had advisors who charged financial planning fees," Francis said. "Some advisors (at those firms) said to me, 'It's a lot of work to put together a comprehensive financial plan. Why would you do all that work?' "

But when she launched her own practice earlier this year, she knew that many people in her network didn't have investments to manage (largely because their assets were tied up in 401(k) accounts). Their primary need was financial advice and planning.

Her fee formula? She charged an initial planning fee based on her estimate of the number of hours it would take to assemble a comprehensive financial plan and the desired hourly rate she sought to earn.

She has since tweaked her formula. Her planning fee is now based on complexity. She multiplies a client's annual income by 2% and adds 0.5% for their investable assets with a cap on the maximum fee.

Fee Options That Fit Clients

Like Francis, many independent advisors opt for a hybrid model. Some offer even more options.

Brian O'Neill, a certified financial planner at **Winged Wealth Management and Financial Planning** in Niceville, Fla., launched his fee-only firm in January 2021 at age 46 after retiring from the U.S. Air Force. He offers four different fee models: hourly fee, one-time engagement, ongoing financial planning without investment management and ongoing financial planning with investment management.

"My sense is people like the transparency and having a choice rather than just having one model such as AUM," O'Neill said. "But probably every career changer will have impostor syndrome and set your fees too low at first."

Should You Consider A Career Change And Become A Financial Advisor?

Career switchers who decide on one structure for financial advisor fees can change their mind later. As they gain experience, they may get creative and introduce different levels of service based on a client's income, portfolio complexity or other factors.

In 2021, Shane Sideris switched to advising after spending almost 10 years as an asset manager at a big investment firm. Initially, he and his firm's co-founder used a standard assets under management model "because that was all we knew," Sideris says.

They quickly shifted gears. With some experience under their belts they concluded a flat-fee structure would work better.

Align Fees With Client Services

"Within a few months, we learned that the (financial advisor fees) you charge should be aligned with the services you provide," said Sideris, an advisor at **Synchronous Wealth Advisors** in Santa Barbara, Calif.

Because their fledgling firm had few clients at the time, it was relatively easy to change the fee structure. Sideris was already leaning toward embracing the flat-fee model. But he was further convinced to make the switch when a prospect — a young real estate investor — sought to pay a flat fee.

"He told us we should charge a flat fee because he had liquid assets that fluctuate a lot," Sideris recalled. "And he didn't like a percentage fee (for assets under management) eating away at (the growth) of his assets over the next 40 years."

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