

How Much is an Investment Manager Going to Cost Me?

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I know I need a new driveway. My present driveway sports a host of large cracks that make driving on it akin to traversing the surface of the moon. But I've been putting off getting a new driveway because I have absolutely no idea what I'm going to pay to have one poured, and I really don't have the time to make phone calls to driveway companies to compare prices. And since those companies don't generally list prices in their ads, I'll remain in the dark and put up with the daily bump-filled ride to my garage.

Most people I talk with have the same "in-the-dark" feeling about the professionals who handle money. They either have no idea of what they're paying their investment manager, or they put off hiring a professional because they're clueless on the costs.

Let's be honest with each other for a moment and admit to ourselves that investing can be a little

intimidating. Whether you're shopping for insurance, buying a car, or working with a broker or an investment adviser, a lot of people are a little intimidated because they just don't know how much things really cost. And this intimidation could be costing you a boatload of cash.

Types of Advisers

So in an effort to keep that boat from sinking, let's take a quick look at the three main types of financial advisers and how they earn their living by playing around with your money.

Let me begin by stating that if you have the time and the talent to navigate the market on your own, you can probably do very well with your treasures and never have need for an investment adviser. However, if you're confused by the lingo, the mood swings and the all-around fickleness of the market, then you're in luck! There's a multi-billion-dollar industry out there, chock full of thousands of "experts" who earn a living by dispensing advice to folks like you. And they'll be more than happy to assist — for a fee and/or commission, of course.

Below I've listed the three primary types of investment advisers.

The Commission-Based Adviser

A commission-based adviser is usually someone who works directly for a brokerage firm as an employee of the firm. They sit you down, look over your financial situation and then try their darnedest to sell you mutual funds, stocks, life insurance or any combination of these instruments. They'll sometimes show you a hypothetical chart with pretty green arrows climbing up and to the right and persuade you that their funds are better than any other thing on the market. And if you buy a mix of them you and your entire family will be set for life (literally).

While these professional advice sessions will most likely be "free," this type of adviser always earns a commission from selling you something. Anything. And many times it's their own brand of mutual funds.

For example, you can walk into any investment office to discuss your finances. Surprise surprise! That nice young man with the shiny tie recommends that you open a Cash Management Account and invest in that company's Fund A, Fund B, and Fund C. He convinces you that you should be invested in his company's funds and you write the check, shake his hand and stroll off into the sunset. And the guy with the shiny tie earns a big bonus for selling you those mutual funds.

See anything funny with this situation? To me it kind of sounds like that company's Cash Management Account retail store.

Anyone earning a commission to sell you something will do their best to get you to write a check, even if there are better options available.

The Chevrolet salesperson will always insist that a Chevy is the right car for you. That BMW dealer will try his

best to put you in a BMW. If a salesperson gets a bigger bonus by selling a showy sports car, you'd better believe he'll try to sell you that sports car, even if the four-door sedan might be better suited to your needs.

Well, the same is true for mutual funds and life insurance, my friends. You buy their product, they get a commission check from their boss, the Wall Street Company. It's just that simple.

The Fee-Based Adviser

A fee-based adviser is someone who will earn a commission for convincing you to invest in certain funds, but they may also charge you an hourly or annual fee for the privilege of taking up their time. The main difference between a fee-based adviser and a commission-based adviser is that the fee-based adviser will most likely have a group of funds they are offering from different mutual fund companies. So these advisers will get paid a commission by the company from which you end up buying the mutual fund, in addition to the fee you will pay the adviser for their time.

Confused yet? These guys sure hope you are because that's their objective.

But all is not lost, because there's still one more adviser type. So read on!

The Fee-Only Adviser

If you're going to choose a financial adviser, this may be the most advantageous option.

Fee-only advisers aren't out to hustle you, since they're only selling their advice for a fee. This is usually in the form of an annual fee that's based on the value of the assets they manage for you. For example, if you have \$100,000 worth of stocks and mutual funds invested with a fee-only adviser, they may charge you one percent (or \$1,000) every year. This one percent is charged regardless of performance (if your account goes up or down). Either way, you pay the one percent in fees.

It doesn't matter which mutual fund, stock or EFT you buy or own. Sure, there may be transaction charges when you buy or sell, but the fee-only adviser does not share in those. Once again, they only receive a fee for their professional advice, much the same way your doctor is paid; for his advice only and not for the medicine he prescribes.

The \$64,000 Questions

So any time you are considering dealing with any kind of financial planner, stockbroker or investment adviser, ask yourself these two key questions:

- How will this person get paid?
- Who is this person really working for?

By following the money trail you can figure out who has your best interest at heart when it comes to investing

your hard-earned money.



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