

## Fee-Only vs. Fee-Based - Transcript

**Tom Mullooly:** In episode 144, we're going to talk about fee-based advisors versus fee-only advisors. So stick around.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 144. Thanks for tuning in.

Business Insider, which actually used to be a really great website, now it's just a page full of commercials, actually had an interesting post today on the differences between fee-based advisors and fee-only advisors. I've lost count of all of the meetings I've gone to where I get introduced as a fee-based advisor. Understand from a fee-only guy's perspective, there is a canyon of differences between fee-based advisors and fee-only advisors.

It seems like everybody that's not a fee-only advisor wants to get into our business, so the lines get blurred very often between how we work our business versus how they work their business. We'll link to the show notes so you can read this Business Insider article for yourself, but the first thing that they led off, which I thought was absolutely great, was just ask. Always ask before you hire an advisor, "Do you earn a commission from the products I buy or from the investments that I make?" That is going to tell everything.

You're going to know right away because a fee-only advisor will not accept a commission. Period. Some advisors are going to be on the level and they're going to tell you, yeah. Some, unfortunately, are going to be deceptive. We've heard people come in and tell us that a fee-based advisor said, "Yeah, I do get a commission, but it's only pennies on the dollar." Sometimes these pennies on the the dollar can really add up and they become nickels and dimes. They become very expensive. Or this one... I love this one where they say, "The commission is built into the price." Again, very deceptive. You are paying a sales charge or a commission even if it's built into the price. But my all-time favorite is when an advisor will say, "Well, I get paid by my firm." Ha ha. You're the one paying the fee.

If an advisor earns a commission... and there's nothing wrong with that approach... but if an advisor earns a commission for something that they are directing you into, understand that they are fee-based and they are not fee-only. And there's a huge world of difference. Fee-based advisors will collect a fee from clients, but they may also get revenue by directing your money into a specific product or a specific investment or a family of funds. You get the idea.

Their fees are based... this was from the article... I really liked it, so I'm repeating it... their fees are based in part on where you put your money. It doesn't necessarily mean that a fee-based advisor is bad or it also doesn't mean that they're necessarily working against you. That's important to know. Just know how your advisor is being compensated.

Fee-based advisors also not required to be a fiduciary. That's a huge, huge deal. Fee-only advisors have a fiduciary responsibility to their clients always. Fee-based advisors, not so. Fee-only advisors need to disclose upfront how they're being compensated and what your fees are going to be. Some fee-only advisors, like us, will put the fees right on our website so everyone

can see. I'm surprised that more fee-only advisors don't do that. I think if folks saw how the cost structure works, they'd be a little more open to it. I don't know why other advisors hide that information, and I think it's a big win. It's a big selling point for our industry.

Know the difference between fee-based advisors and fee-only advisors. There's a lot more fee-based advisors out there than fee-only. Thanks for watching episode 144. Catch you next time.