

## Know How Your Advisor Gets Paid - Transcript

**Tom Mullooly:** In Episode 74, we're going to talk about the importance of knowing how your advisor gets paid.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 74.

Story today, right off the presses, January 10, 2018, lead story in The Wall Street Journal, will probably be in tomorrow's paper as well, discount brokers win bonuses to push costlier products.

The first thing I want to say is let's clarify because we work with some of these brokerage firms, but we don't work with the branches. What the article in The Wall Street Journal is referring to are the brokers that sit in the branch offices across the country.

It turns out that they're getting paid incentives to put people into some of the managed products and not necessarily the low-cost investments that they might have originally wanted. They might have been talked into something.

Doesn't mean that they're necessarily bad investments, it just means that they went into something.

Now, I want to clarify. In the '80s, if you took someone who wanted to be in stocks and bonds and put them into an oil and gas limited partnership, it was the difference between getting paid a one-time commission versus making 9% commission.

I mean that was outrageous what was going on. We're really splitting hairs, or I should say The Wall Street Journal is really splitting hairs on this because, instead of someone paying 4 or 5 or 6 bucks in a commission to buy a stock or an ETF, they may be going into a managed product where they're paying basis points, 20 basis points, 30 basis points a year.

Every situation's different, former employees who leave the firm, they got some ax to grind. There's always a story behind the story.

I've learned to say to a lot of clients, "There's three sides to every story. There's your side, his side, and somewhere in the middle is the truth."

One of the quotes that was in the article is clients hear that the representatives don't work on commissions, and they think that means that the representative doesn't work on incentives.

I have to admit that when I read the article I was like, "Are you kidding?" We're really splitting hairs now. What's the difference between a commission and an incentive? One of the other quotes in the article ... Again, this is sensationalism at work.

One of the former reps said, "There is no way I can be a true fiduciary acting in the client's best interest when someone gets paid more to sell clients other products." I don't know.

You could still be doing something good for a client. It really kind of depends on a case-by-case basis.

The Wall Street Journal also made it clear they wanted to point out that these firms that were mentioned in the article have controls in place, or they said they had controls in place, to make sure that the representatives don't unduly push any kind of product or service.

I can vouch ... I worked on commission for the first half of my career. I can tell you that these firms are very good in measuring how much commission an account is generating, what kind of return on assets does the firm or the broker get.

They're not stupid. They know what's going on with this.

Like I said, I've worked on commission now in the first half of my career. There are some clients out there that like paying a commission once and holding onto something.

There's literally nothing wrong with paying commissions or paying fees, but the main point that I want to drive home after reading this article today was that it is on you to know, and it's in your best interests to know, how your advisor gets paid.

We need to know does the advisor get paid a commission? Does the advisor work on a fee? Is there some kind of incentive? Now we have to ask, "Is there some kind of incentive you're going to get by me going into a managed product?"

That kind of thing never happens at a fiduciary firm like Mullooly Asset Management. We're a fee-only firm. The fee schedule that we print and we hand to you when we get started is the fee that you're going to pay, and that's the way it should be at most firms.

If you've got questions, you need to ask. If you've got a question and you don't have an advisor to speak with, get in touch with us.

Otherwise, look forward to seeing you in Episode 75. Thanks for watching.