

The Difference Between 'Fee-Only' and 'Fee-Based' - Transcript

Tom Mullooly: In episode 89, we talk about the differences between fee-only and fee-based.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly and this is episode number 89. So, we get asked all the time, "Hey, where do you get these topics from? Where do they, how do you think up all of these things." We don't think them up at all. We get them in conversations with our clients, with our listeners, with our viewers, basically with you. So if you've got a question or a topic that you'd like to see covered, get in touch with us. So Tim, what are we going to be talking about today in episode 89?

Tim: What does it mean if my advisor is dual registered?

Tom Mullooly: This is a topic that if you're outside of the industry, you probably don't even know what we're talking about when we use the term dual registered. I've lost count of the times that I've gone to meetings, or you go to a place where you give a little introduction and someone says, "Tom Mullooly is a fee-based advisor" and I just want to cringe when I hear that because there is a grand canyon of difference between fee-only and fee-based.

Fee-only, if you spend more than five seconds on our website you know what that means. Fee-only means we don't get a commission for any of the investments that we make or suggest to our clients. We're always looking to keep your costs as low as possible, your transactions costs as well. So that's fee-only, like the name implies. The only compensation that we get at Mullooly Asset Management, like other fee-only advisors, is the fee that we charge our clients. We get nothing from the brokers that we work with, like we use TD Ameritrade, we have to use Schwab in certain circumstances, but we don't get anything from them.

So what's the difference between fee-based and fee-only? So fee-based is sometimes referred to as dual registered, so a fee-based advisor will charge you a fee. Maybe it's a financial planning fee or maybe it's some kind of low fee that he charges for his advice, but fee-based or dual registered means that they wear two hats.

So the first hat is they're an employee of a brokerage firm. The second hat that they wear is that they're an investment advisor, so at certain points along the way in your relationship with a fee-based advisor, he's going to be charging you for the advice that you're getting from him. But he is also eligible to collect a commission or some kind of charge, a sales charge, for the investments that you actually buy through them.

You can see that there's a huge difference between fee-only where we just work on a fee, and over here fee-based or dual registered not only can we charge you a fee but we're going to get paid. We're going to get a commission when we implement the plan and go into some of these products.

You know, the other method of being in this business is being a broker for a brokerage firm, and there's nothing wrong with it. I did that for 15 years, and those are people that are paid on commission. Now like I said, I did that for a long time early on in my career. There's nothing

wrong with that. Just understand with all of these, just understand how your advisor is being paid.

So a broker is being paid, he's an employee of a brokerage firm, he's getting paid a commission. It may be a sales charge going into a mutual fund or you know, some other way he's being compensated for that transaction. A fee-based advisor is going to be able to charge you some kind of fee but then also get commissions on top of what he's doing. Fee-only advisor doesn't get commissions. They charge a fee for their clients.

Every situation has pros and cons, so you need to determine what's going to be right for your situation. You may find that, "Hey, I really like this guy. He's a fee-based advisor. Yeah, his costs are a little more but it works for me." So everyone's different.

The main thing that we try and make sure that our clients understand is just know how your advisor is being compensated. That's so, so important.

Thanks for watching episode 89. Next one's going to be number 90. See you then.