Fee-Only, Fiduciary and Independent: Why it Matters

Like most professional services, the financial services industry has its own set of acronyms and language that can be confusing to those searching for a financial advisor. investors. When searching for an advisor, investors will need to find the right one for their situation. Understanding the difference between a “fee-only” financial advisor and a fee-based advisor paid by commissions is a crucial starting place for all investors.

Fee-only vs. Fee-Based

Fee-*only* advisors are free from the potential conflicts of interest that other advisors may have when part of their compensation is based on commissions or sales. **The term "fee-only" describes advisors who are only compensated by their clients. They do not sell financial products (like insurance or stocks), receive commissions or other revenues or payment from third parties.**

Although often confused with an hourly or project-based compensation arrangement, fee-only financial advisors typically charge a percentage of assets under management and/or a flat retainer fee. When an advisor is compensated only as a percentage of the assets that they manage on your behalf, they're with you when the market goes up - and when it goes down, effectively sitting “on the same side of the table” as their clients.

Investors are typically more comfortable with the fee-only arrangement because it sets the stage to develop a long-term, trusting relationship. Rather than feeling like you're being "sold" something, fee-only advisors can be an objective source of financial advice.

Fee-*based* advisors are compensated by both commissions received for selling financial products and securities as well as fees charged for planning and other advice. Unlike fee-only advisors, who receive no financial incentive for trading on a client account, fee-based advisors may also be compensated for trading securities and other financial products.

Fee-based advisors usually sell financial products in addition to securities, such as insurance and annuities. The commissions on these products can be quite large, and the products that are recommended may not be in the investor’s best interest.

Fiduciary Standard vs. Suitability Standard

By law, registered investment advisors (RIAs) are required to act at all times in the sole and best interests of their clients. The “fiduciary standard” to which they are bound is the highest legal and professional standard in the financial industry and requires the advisor to put their client’s interests before their own. Their recommendations can only be based on what is best for you!

Fee-based and commission only advisors are held to a lesser “suitability” standard of professionalism. This means that recommendations need only be “suitable” for a client’s financial situation and not necessarily the “best” solution for them. For example, a fee-based advisor can legally recommend a “suitable” mutual fund (for example, an all-stock equity fund) that pays them a high commission and 12b-1 fee.

Independent vs. Captured

A truly independent financial advisor is not obligated to a large brokerage firm, bank or credit union, an insurance company, accounting firm, or anyone else. Why is that important?

As an independent fee-only advisor, we have established a solid team of proven professionals who share our values and standards, as well as our commitment to putting our client’s interests before our own. Although we have a lot in common, these professionals are not affiliated with us and we are free to make a referral based only on our client’s need.

When creating investment portfolios, independent firms can select from a virtually unlimited number of investment options. In most instances, firms affiliated to broker-dealers, insurance companies or other fee-based advisors may be limited in their investment selections and will often be loyal to fund families offering favorable compensation agreements, commissions, and other fees.

Today, many financial advisory and wealth management firms operate as a subsidiary of another larger, parent firm such as LPL Financial and Merrill Lynch (now Bank of America). Although the smaller firms can call themselves "independent" or a registered investment advisor, they still need to disclose the relationship. In this type of arrangement, a client referral would likely stay within the network.

From its beginning, Clearstone Wealth Management has been and continues to be:

- **Fee-only**
- **Fiduciary**
- **Independent**