# Don't Pay Twice for Advice

The Motley Fool

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People argue passionately over whether you should pay for professional investing advice at all. What you can't afford to do, however, is pay twice for the same advice.

Yet that's exactly what many people end up doing. Increasingly, financial advisors have moved away from transaction-based commissions toward charging annual fees based on a percentage of your assets. Then, they recommend outside managers to choose investments—tacking on an extra layer of costs that can bring your tab to 3% or more.

### What are you paying for?

Financial professionals point out that what they do for clients goes beyond simply investing their money. By helping clients evaluate their financial goals and come up with strategies to reach those goals, some advisors bring a personal, comforting element to the sometimes-intimidating arena of financial planning—a touch that many clients are willing to pay for.

In addition, with thousands of individual stocks and mutual funds to choose from, professionals claim that the uninformed investor has difficulty picking the best investments. While many people on their own chase performance with disastrous consequences, financial advisors sometimes espouse a more regimented, disciplined approach to investing. During times of market uncertainty, advisors can keep scared clients from panicking.

But none of that changes the fact that there's only so much you can afford to pay if you want a decent return. With some advisor fees topping 1% and many stock mutual funds in the 1%-2% range, you don't need mathanese to know that you're looking at a big bite out of your return—even in good years.

### The big business of financial advice

Of course, there's a huge amount of money at stake for financial advisors. The top firms selling mutual fund advisory programs—including **Ameriprise Financial** (NYSE: AMP), **Fidelity** , and **Wachovia** (NYSE: WB)—have tens of billions of dollars under management.

When you consider mutual fund alternatives, the stakes get even larger. Separately managed accounts—portfolios of individual securities managed specifically for high-income clients—mean over $100 billion in assets under management for **Citigroup** (NYSE: C) and **Merrill Lynch** (NYSE: MER), with other big firms like **Morgan Stanley** (NYSE: MS) and **Schwab** (Nasdaq: SCHW) not far behind.


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On the surface, there's nothing inherently wrong with paying for financial advice. But there's a big difference between paying once for a good financial plan versus paying high fees year after year, through good times and bad. The impact of such fees is huge. For instance, if a 3% annual fee lowers your average return from 10% to 7%, then the amount you'll have at the end of 30 years will be less than half what it would be without those fees. Put another way, those annual fees could cost you hundreds of thousands of dollars in lost returns over the course of your lifetime.

One solution is to pay a fixed fee for a financial plan from an advisor. This can save you a huge amount over time, especially if your plan recommends holding individual stocks or low-cost investment vehicles like index funds or ETFs. However, this sort of arrangement doesn't necessarily give you instant access to additional advice whenever you want or need it.

Luckily, some financial pros are looking for the best of both worlds. They manage assets using those same low-cost methods, but charge an ongoing fee for more general financial advice. By minimizing what you have to pay to fund managers, these advisors can keep total fees at a more modest 1% of assets. Keeping costs down makes it easier for clients to recognize the value of what they do pay—and keeps these client-minded advisors in business.

When it comes to investing, focusing on costs is essential. Learning the basics of investing for yourself can help you save on costs you'd otherwise have to pay to advisors. Yet even if you choose to get professional help, don't let anyone take you to the cleaners. Find a pro who'll remember that it's not his success you're striving for—it's yours.

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*Fool contributor Dan Caplinger gave up on financial advisors when he was 20. He doesn't own shares of the companies discussed in this article. Schwab is a* Stock Advisor *recommendation. The Fool's disclosure policy won't take you to the cleaners.*