

# Billing for Advisory Services

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# What are Advisory Fees?



- Fees paid to a financial professional for providing a broad range of financial services, such as advice, or planning.
- Fees are a key factor for making investments in professionally managed portfolios.
- The most common types of advisory fees are either asset-based or flat-fee.

# Who Charges Advisory Fees?



Individual Investment Advisor Representatives who are properly licensed with an RIA firm (Series 65 or equivalent)

- Dually Licensed Broker Dealer / Registered Investment Advisors (RIA)
- Dually licensed individuals who are BD Representatives and IARs of their own “outside” RIA
- Large RIAs
- Independent Boutique RIAs

# Advisory Fees vs Commissions?



- **Commission:** A commission is a service charge assessed by a broker for providing investment recommendations or handling purchases and sales of securities for a client.
- **Fee:** A flat rate for managing a client's money. This may be either a dollar amount or a percentage of assets under management (AUM).

There are important differences between commissions and fees, at least in the way these words are used to describe professional advisors in the financial services industry. A commission-based advisor or broker makes money by selling investment products such as mutual funds and annuities and conducting transactions with the client's money. A fee-based advisor charges a flat rate for managing a client's money.

# Commissions Require a BD



- Advisor MUST be associated with full-service broker-dealer to accept commissions for a transaction.
- Advisors may also charge for other financial services such as insurance products, through an Outside Business Activity.
- Advisors have a fiduciary duty to select investments that are in their clients' best interest. Reg BI requires that Advisors must clearly define all conflicts of interest.
- No BD no commissions.

- Your duty is to be fair, honest, accurate, and to treat all customers with equality.
- Fees are the most reviewed area of a practice by examiners.
- Disclosure is everything.
- Fees must be Reasonable and in line with the local market and services being offered.

# Equitable Treatment



- Under the Advisers Act, an adviser is a fiduciary whose duty is to serve the best interests of its clients, which includes an obligation not to subrogate clients' interests to its own
- For example, an adviser cannot favor its own interests over those of a client, whether by favoring its own accounts **or** by favoring certain client accounts that pay higher fee rates to the adviser over other client accounts.
- In order for disclosure to be full and fair, it should be sufficiently specific so that a client is able to understand the material fact or conflict of interest and make an informed decision whether to provide consent. For example, it would be inadequate to disclose that the adviser has “other clients” without describing how the adviser will manage conflicts between clients if and when they arise, or to disclose that the adviser has “conflicts” without further description.

- Two Most Common Types:
  - Asset-Based: investors are charged based on a percentage of their Assets under Management (AUM).
  - Flat-Fee: investors are charged a standard fee for services such as planning or advice.



- Investors pay their financial professionals for services such as advice and financial planning.
- Fees are charged based on a straightforward percentage of the AUM, generally between 1-2%
- Advisors have a fiduciary responsibility to manage these assets in the best interests of their clients.

- Advisors collect pre-determined fees for their services
- Investments must be actively managed properly, and in the best interest of the client
- Some fee-only advisors may institute higher minimum balances, as they are not compensated for the individual investments.

# Determining a Range of Fees



- A fee schedule is utilized to determine how advisors will charge their client, particularly based on their AUM.
- Generally, RIA's will charge between 0.5-2% of the AUM.
- Flat-fee structures are determined by what service is being utilized and if there will be an hourly fee.

# Determining a Range of Fees



**INDIVIDUAL** **FIRM**

Firm Name or CRD/SEC# (optional) in INDIANAPOLIS, IN **SEARCH**

**i** Please be aware that fraudsters may link to Investment Adviser Public Disclosure website from phishing and similar scam websites, trying to steal your personal information or your money. Make sure you know who you're dealing with when investing, and contact FINRA with any concerns. For more information read the investor alert on imposters.

**Radius (Miles)**

5 10 15 20 25

**Type**

Brokerage

Investment Adviser

Brokerage & IA

**Status**

Actively Registered

Previously Registered

Expelled

Refine Results

We found **281** results

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List View

**PROVIDER FINANCIAL, INC.**  
(PROVIDER FINANCIAL, INC.)  
CRD#: 168964/SEC#: 801-113344

3091 EAST 98TH STREET SUITE 200,  
INDIANAPOLIS, IN 46280

**IA** Investment Adviser Firm

Disclosures **i** No

**MORE DETAILS >**

**CID CAPITAL II, INC.**  
(CID CAPITAL II, INC...)  
CRD#: 160776/SEC#: 801-79434

10201 N. ILLINOIS STREET SUITE 200,  
CARMEL, IN 46290

**IA** Investment Adviser Firm

Disclosures **i** No

**MORE DETAILS >**

**ARCHER INVESTMENT CORPORATION**  
(ARCHER INVESTMENT CORPORATION...)  
CRD#: 136403/SEC#: 801-64607

INDIANAPOLIS, IN **+74**

**IA** Investment Adviser Firm

Disclosures **i** No

**MORE DETAILS >**

**TRUST ADVISORS**  
(TRUST ADVISORS...)  
CRD#: 299528/SEC#: 801-114402

8801 RIVER CROSSING BLVD SUITE 100,  
INDIANAPOLIS, IN 46240

**IA** Investment Adviser Firm

Disclosures **i** No

**MORE DETAILS >**

# Determining a Range of Fees



Firm Name and Location	Fee Structure	Distinctions
Premca LLC; Pflugerville, TX (see Exhibit "A")	1% AUM	Firm does not list financial planning services on ADV.
Fitbux RIA LLC; Pflugerville, TX (see Exhibit "B")	1.5% AUM Charges \$300-650/hr or \$250-2,000 flat for financial planning	Charges flat and hourly fees for financial planning.
Savant Wealth Management; Pflugerville, TX (see Exhibit "C")	0.5 to 1% AUM depending on complexity	Includes financial planning; minimum annual fee of \$10,000.00
Kingswood Wealth Advisors; Pflugerville, TX (see Exhibit "D")	Up to 2.25%; does not disclose low range Charges maximum \$300/hr or \$100-3,000 flat for financial planning	Charges separate fees for financial planning Has excessive fee disclosure in brochure
Advice and Planning Servies; Pflugerville, TX (see Exhibit "E")	.40-1.15% AUM	No separate charge for planning services
Founder Family Financial LLC; Austin, TX (see Exhibit "F")	0.5-2% AUM \$1,000-25,000 flat fee or \$300/hr	Flat and hourly charges for financial planning services
Knightsbridge Ventures Ltd.; Austin, TX (see Exhibit "G")	1-2% AUM \$500/hr	Charges hourly for additional advisement services (listed particularized service, but general rate can be implied).
Barton Creek Advisers, LLC; Austin, TX (see Exhibit "H")	0.6-1% AUM \$500-2,500 or \$150-300/hr	Charges hourly or flat fee for financial planning services
Honest Wealth LLC; Austin, TX (see Exhibit "I")	0.5-1% AUM \$3,000-10,000	AUM fee includes financial planning; charges fixed fee for extra or complicated matters
Guiding Financial LLC; Austin, TX (see Exhibit "J")	.125-.5% AUM 2% AGI (under \$1,000,000) \$12,000-24,000 flat .125% of net worth (over \$20,000,000)	Charges additional fee for financial planning services

# Example of a Fee Schedule



## Account Size Fee (Annual percentage)

\$0 - \$1,000,000 Fee:	1.0%
\$1,000,001 - \$5,000,000 Fee:	0.75%
\$5,000,001 and above:	0.5%

- Fees are typically charged in two way: in arrears or in advance
  - Fees charged in arrears are billed at the end of the month or quarter, covering the advisory services being provided in that period.
  - Fees charged in advance are collected prior to the advisory services being provided.

# When to Bill Fees



- Charging Fees Quarterly
  - These are based off the value of the client's investments at the end of each quarter.
  - Billed in advance or in arrears
- Charging Fees Monthly
  - These are based off the value of the client's investments at the end of each month.
  - Billed in advance or in arrears



# Alternate Fee Calculations



- Charging Average Daily Value
  - Uses the average daily value of the fees at the close of each trading day.
  - Totals each day's balance, divided by the number of days in the billing cycle and multiplied by the percentage being charged
- Charging Daily Fees
  - System Calculates the fee each day
  - Total from each day in the period are added together

# Agreements Covering Fees



- Ensure that your client has a clear understanding of how their fees will be charged.
- Follow what the ADV 2A and/or Compliance Manual states when charging your client's fees.
- Be sure that the client acknowledges the fees and keep a record of these attestations

- Notate and make clear what was charged based on each transaction, or the total of all transactions made in that period.
- Be sure that the client has a clear understanding of their fees when they receive the invoice.

- SEC RIAs may rely on Custodial Statements
- Many States require State registered RIAs to provide a separate invoice.

## ABC Financial, LLC

### Advisory Fee Invoice

Period: 1/1/23- 3/31/23

Period End Value: \$1,000,000

Total Fee: \$2,465.75

#### Current Fee Schedule:

Account Value	Annual Fee
\$0- \$5,000,000	1%
\$5,000,000 - \$10,000,000	.75%
Over \$10,000,000	.50%

Fees are charged in advance. The fee schedule is retroactive meaning that the tier in which the account value falls is the fee assessed to the entire account value for that cycle. The fee is calculated using the value of the account on the last business day of the previous quarter (period end value).

Fees due will be deducted from your brokerage account.

- Maintain files containing all client signed advisory agreements including any amendments.
  - Document reason for variations from standard schedule.
- Ensure Form ADV 2A and Form CRS (SEC Registered RIA's only) are consistent with one another and your advisory agreement.

- Do what your Compliance Manual says.
- Review of customer agreement vs. fee assessed.
- Review of advisory fee calculations.

# Questions?



- Which method makes the most sense for you?
- How hard is to change methods?
- For AdvisorLaw clients, please schedule a call with the compliance analyst and attorney assigned to your team to discuss any of these issues further.