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[Commission-based Financial Advisors vs. Brokers](#)

By

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I don't have much money – how can I find a financial advisor who will work with me?

Investment advisors come in all types and most specialize in a variety of ways, including servicing clients who have funds in a specific asset range. The size of a client's portfolio often dictates how an advisor bills for his or her services, and billing is where one should pay a lot of attention before signing on.

I once mentioned the three main key ingredients to maximizing returns are:

1. Managing fees, such as management fees, commissions, transaction fees and the underlying fund fees
2. Minimizing taxes the portfolio accrues on gains
3. Having a properly diversified portfolio

For those investors looking to invest with less than \$250,000, they will need to work harder to find a low-fee provider who will do a good job.

Any advisor who earns a fee that is a percentage of assets will typically require a client to have \$250,000 or more. The advisor will earn \$2,500 on managing the client's portfolio. Anything below that is probably

not worth the advisor's time, because it costs more to manage the portfolio than he or she can generate in income.

Generally, brokers (often called advisors) and insurance representatives serve this market as they can earn higher fees by taking a commission, which is less visible to their clients. Individuals working with a broker can encounter fees that can add up to the extent that they will significantly impair the portfolio's return.

Here are some of the potential fees on a portfolio being billed on a commission basis:

- Annual maintenance fee: \$1,000
- Commissions on the mutual fund purchases: 5.75 percent of initial investment
- Annual mutual fund management fee, once invested: 1 percent of holdings

All told, fees on a \$250,000 portfolio in the first year can be as high as \$18,000. That means the \$250,000 invested has incurred up to 7 percent in fees. Doing the math, when the portfolio has lost 7 percent of its value, it takes 7.53 percent to return to the starting point of \$250,000. That could be a year of market returns.

My advice: Those with portfolios of \$250,000 or less should consider talking to a discount broker about money management. But they should be aware that even discount brokers have fees that can be a surprise, so they should definitely ask about each and every fee.

My favorite choice is the [The Vanguard Group](#). They ask prospective clients to complete a simple questionnaire and then provide them with a recommendation of how to invest and which funds to invest in. Of course, they offer only Vanguard funds, but those mutual funds have reasonable returns and low fees. The allocation they recommend is simple and straightforward. By selecting this company, investors with small portfolios should be way ahead as compared with a commission type of advisor. When one's portfolio spans somewhere between \$250,000 and \$500,000, it may be time to look into hiring a financial advisor who can provide more personalized service and who charges a percentage of assets for his or her annual fee.

Disclaimer: The views expressed in this article are the opinions of the author and should not be interpreted as individualized investment advice. Investment objectives, risk tolerances and the financial situation of individual investors may vary. Please consult your financial and tax advisers before investing.

TAGS: [investing](#), [making the most of your money](#)



About Susan Carr-Templeton

Susan Templeton is the founder of Stafford Wells Advisors, a wealth management firm serving individuals, families and businesses and advising workplace retirement plans. Stafford Wells was founded in 2008 with the mission of delivering independent, complete, unbiased investment and planning advice, free of any conflicts of interest. Susan Templeton has more than 20 years experience in

investment management. She received her B.S.B.A. degree in marketing from the University of Denver and her M.B.A. from the University of Chicago. Susan is a trustee for the Advocate Foundation where she chair's the Planned Giving Committee and is a member of the Investment Committee. Susan serves on the investment committee for the Visiting Nurse Association (Chicago) and is a former trustee of the Village of Oak Brook Police Pension Plan.