Financial Advisor Compensation Comparison

As you choose an advisor, you should fully understand how they get paid. Advisors who receive commissions are salespeople and often operate under a conflict of interest. Advisors whose only compensation comes from the client is a true *advisor* whose goals and objectives align with the client. The three types of payment relationships:

Fee-Only

- Transparent and in the client's best interests
- Advisors don't sell any products, never accept any covert compensation, nor will they benefit from recommending a specific solution
- The only form of compensation is what their clients pay them directly – their compensation is typically in the form of a percentage of the assets they manage, a monthly or quarterly retainer, a flat fee for a specific engagement, or an hourly charge for a consultation
- Roof Advisory Group's structure

Commission-Only

- Confusing with inherent conflicts of interests
- Traditional sales model: advisors only get paid when they successfully sell a product such as a mutual fund, insurance policy or an annuity; otherwise, they receive no compensation
- Sometimes the compensation will be paid up-front in a commission or "sales load." Other times it will be paid on the back-end as an annual trailing commission or some combination of the two
- Additionally, there can be more covert compensation in the form of direct bonuses and enticing incentives for meeting a quota, or selling a large volume of a certain.

Fee-Based (Different from Fee-Only)

- Confusing with inherent conflicts of interests
- Advisor compensation is a blend of the commission-only and fee-only models and is commonly a misunderstood type of relationship
- The advisor is eligible to receive both direct fees from you as well as commissions and other compensation from the sale of products
- While the term "fee-based" sounds very similar to the term fee-only, the fee-based model is susceptible to the same conflicts of interest that the commission-only model entails

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