Dear Editor,

While I understand much of the case Veres is making, he misses two very important aspects about how and what advisors should be charging as well as what consumers might be willing to pay. Shouldn’t experience and education also play a part in how advisors set their fees, and what they expect a consumer to pay?

I work with advisors on a contract basis to strategize and execute their marketing and communication efforts. I’m also a consumer of advisory services. Veres’ point about fees being all over the board couldn’t be more true, and it’s a continual discussion I have with clients. It would be great to see some leveling out. That being said, not all advisors are created equal.

As Veres points out, doctors, lawyers and accountants (at least CPAs) charge relatively similar fees, but they all also have an educational path they have to take in order to obtain the right to use their respective titles. For the financial advisory profession, there is still no clear and defined educational and experience path one has to take in order to call him/herself a financial advisor, financial planner, investment advisor, etc. You can take any number of certification and licensing programs to help but again, they are not all created equal. And unlike doctors, for example, there is not a residency requirement (unless you go for the CFP) to make sure you are gaining hands-on training with experienced professionals.

Further, I’d love to ask those who said they don’t charge what they could just because they love the job: Did you undergo a career change? The advisory world is made up of a tremendous number of career changers, and yes, for many of them, they love the job because they hated what they used to do. They have flexibility they never had before, and they get to be their own boss. But again, considering their career change, have they obtained the right education and gained the experience necessary to really justify the higher fees?

Geography might also play a role in some of the randomness. From the modest research I’ve done on this, it appears that more advisors are charging separate fees for investment management and financial planning in the major metro areas versus secondary markets.
Thanks again to Veres and *Advisor Perspectives* – definitely good material for advisors to be reading about!

Julie Couser  
Invest MarCom & Events  
New York, NY  

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**Bob Veres replies:**  

*Julie, thanks for your comments.*

You’re raising some great points about the advisor profession as a whole and how our not-yet-totally-evolved professional structure almost certainly does contribute to a not-totally-rational pricing experience. In retrospect, I might have suggested, at the end, that the profession is still evolving in so many areas, and perhaps in the future, as we get more uniformity in credentialing and training and service models, we’ll get more uniformity in pricing as a result.

I suspect, however, that if you controlled for all these factors, you’d still find that many advisors with a lot of experience and expertise (and credentialing) are charging lower fees for their services than many advisors who are less well-endowed professionally, and that there is an overall randomness about compensation in our profession that is hard to explain strictly by the logical issues you’ve raised. More than that, I would guess that if we could ever determine precisely what the market will bear, you would find very few advisors voluntarily moving their fees to that level.

Hopefully, by raising the issue in the first place, and by discussing it and adding new insights from comments like yours, the profession will move incrementally closer to better, more efficient pricing structures.

*I think you’re right about the geography issue. I’ve always thought it was unfair that advisors in California, Metro NY or Washington, DC, for instance, typically have higher income clients than, say, advisors in Bismarck, ND or Wheeling, WV. So the metro advisors can experiment a little bit with fees and still protect their profit margins.*

*Personally, I think retainer fees are the future of the profession – for a variety of reasons. I will address this subject in an upcoming article.*

Dear Editor,

This was an excellent article. Maybe one approach to begin the fee elevation process would be to reframe Veres’ theme into material geared to clients that can enhance their understanding of our value proposition. It is a very difficult task and we can use all the help we can get in that regard.

As usual, Veres gets to the heart of an issue quickly, insightfully, and effectively. Our profession is fortunate to have his insight.
Bob Veres responds:

Thanks Jeff. I did actually write something in my newsletter comparing the all-in fees (including the AUM fee) of a financial planner with the all-in cost of a broker-managed portfolio, and all the math was done by a former broker who simply looked at his portfolios before and after. It turns out you can buy a nice trip to Europe, every year, on the difference on a $1 million portfolio.

But I think the value proposition is much more than that, with the planning work and helping clients organize their financial lives and helping them avoid making awful mistakes with their portfolios – and those things are harder to quantify. I took a stab at it with my last article for Advisor Perspectives, The Value of Planning.

We’ll eventually figure this out.

The following is in response to Larry Siegel’s article, Benchmarking Your Retirement Portfolio With a Risk-Free Strategy, which appeared last week:

Dear Editor:

I appreciate Siegel’s considerable work in putting this article together. But like many articles of this ilk there are two serious fundamental flaws:

1. What would happen to the price of TIPS if even a small number of retirees actually shifted assets into this strategy? The US government is not going to issue a significantly larger percentage of TIPS as part of its total debt package, because paying off nominal debt with depreciating dollars is the only politically acceptable way the Treasury can ultimately make good on the debt. TIPS debt has to be paid off with higher taxes or budget surpluses through lower spending, neither of which the US government is eager to do. Therefore, the pool of TIPS will always be too small. Siegel notes the current slightly negative real return on 10-year TIPS. How will the strategy work when the rate goes to -2%, -3% or - 4% as more retirees mindlessly embrace the strategy?

Any strategy proposed for the masses has to work for the masses. So many of these ideas involve taking alpha. The question always is: from whom?

2. If these articles are going to be useful to advisors, name names. I tried to make the numbers work on a strategy like this using a New York Life DIA and they didn’t. In the current low rate
environment the price of that product is too high, meaning too much has to be pulled from current investments to fund it. Met Life purportedly has a product, but their sales office told me the product has been approved in very few states. My guess is that few state regulators can get their minds around an investment product that is bought with a lump sum and has a reasonable likelihood of never paying out (the attribute it needs to work in the first place). So what provider, of better than average credit risk, has this product at a viable price? And, going back to objection #1, is there enough capital at enough insurance companies to underwrite anywhere near the amount needed for all those retirees eager to implement?

Thanks for the opportunity to comment,

Mark R. Maisonneuve, CFA
Center for Financial Management, LLC

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Larry Siegel responds:

You’re right – if a TIPS-and-DIA strategy were adopted by all or most investors, the supply of TIPS would be insufficient. This would be revealed by yields falling to the point where TIPS were so unattractive as to render the strategy useless. However, most financial innovations are adopted slowly, if at all; Sexauer et al. would probably consider it a huge success if their strategy attracted $100 billion in new investment (across all managers), whereas there are approximately $1.5 trillion of TIPS outstanding. Some of these funds are already in TIPS, so the net amount of new investment in TIPS would be smaller; and investors such as myself who are already predominantly in TIPS might actually have to sell some of them to buy the DIA.

The only investment strategy that is macroconsistent (meaning that everyone could hold it with no securities left over) is cap-weighted indexing. With any other strategy, there are too many of one kind of security and not enough of another for everyone to adopt the strategy. Even an index strategy is not completely free of capacity constraints because the asset becomes overpriced if everyone wants to buy it. This does not mean that researchers should not test various strategies and advocate those that appear promising. The TIPS-and-DIA strategy is both capacity-constrained and not macroconsistent. However, it is beneficial for at least the first $100 billion of assets that flow into the strategy. If we can help just a few hundred thousand people who are saving for retirement, our work will not be in vain.

Moreover, by varying the strategy, the capacity constraints can be lifted. A stripped portfolio of equity dividends will have a TIPS-like payoff if dividends grow with inflation. So do corporate, municipal, and foreign inflation-indexed bonds. There is more than one way to skin this cat.