

Fee-only vs. Commission-based: Our Perspective

By: Exchange Capital Management

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When researching the different pricing structures financial advisors may use, you should come across both fee-only and commission-based compensation. We believe that the most transparent way to operate is through our structure as a fee-only wealth management firm. The first step in understanding why we chose to operate under this pricing model is to differentiate between the two structures.

What Is Fee-only Advice?

Fee-only advice is exactly as it sounds. It is payment directly from clients for the services we provide, this includes both our financial planning and portfolio management services. There are a variety of ways to set up a fee-only compensation model, we utilize an asset under management (AUM) fee. We charge a tiered percentage based on the amount of assets entrusted to our care that is withdrawn directly from client portfolios. Compared to other models, we believe this is the most straightforward compensation structure for our clients.

What Is Commission-based Advice?

With commission-based advice, the advisor's revenue primarily comes from the products they sell to clients. Commission-based advisors often are faced with an additional element in their decision-making as they must decide between the best client decision and source of revenue. These often include mutual funds, annuities, insurance products, etc. More often than not, these investments provide advisors with kickbacks when their products are recommended. There is little reassurance that the advisor is giving advice without a conflict of interest. These

relationships tend to be more transactional, and investment-focused compared to the holistic nature of fee-only advice.

Exchange's Perspective

Since we believe in transparency and simplicity, we designed our firm as a Registered Investment Advisor (RIA). An RIA is regulated by the Securities and Exchange Commission (SEC) and is bound by law to uphold a fiduciary duty to clients while operating under a fee-only model. Simply put, we are paid to provide advice in your best interests.

While there are drawbacks to all compensation models, an AUM fee is simple for clients to follow. The reason we didn't gravitate toward a commission model is due to the added level of uncertainty and the introduction of a large conflict of interest.

The Bottom Line

All registered investment advisors must operate under fee-only advice. Exchange believes fee-only compensation promotes trust within our client relationships. If you're interested in learning more about how we strive for transparency, consider scheduling a discovery meeting or giving us a call.