Financial Adviser Compensation Options

Why BFM chose to be « Fee Only »

Before you can figure out which kind of financial advisor might be right for you, it helps to get a basic idea of the different compensation options they could work under. It's important to know the type of compensation method used but it shouldn't be the sole decision making criteria when choosing an advisor. There's much more to it than just that. You might think from a dollars and cents perspective, one option is clearly better than the other, but in many cases I would argue it is not that cut and dry.

We are **fee only financial planner** and we do not accept any commissions so that we give **objective advice with no conflict of interest**. **We act in your best interest**. We do not sell any financial products and we do not charge by the hour since we want to talk to you as many times as you need. Our monthly services usually cost between $200 and $500. We believe that low costs are very important to reach your long-term financial goals and to build long lasting relationships. Since we receive no other compensation, you can trust that the recommendations and action plan designed to efficiently and cost effectively assist you to move towards your objectives.

We receive no asset management fees or any hidden fees. While US stocks quadrupled (more than 300%) between March 2009 and 2017, our fees were the same compared to advisers who charge a fee based on the assets. Our pricing model means you only pay for counsel and you can be confident it is objective because we don't receive commissions on products we recommend. No hidden fees or commission means that you can be confidence you are not paying for anything but solid financial counsel. We serve the middle income and the wealthy alike with our pricing approach which provides objective analysis and advice.

1. Salary Only

Advisors do not receive bonuses or commissions on top of a base salary.

Cons

- Advisor has **no incentive to "go above and beyond"**, they continue to earn their salary as long as they perform basic functions
- **Turnover can be high** with the company as advisors may leave for a higher paying model after establishing relationships with clients (may try to take them with them), or just gaining experience and wanting to grow or face new challenges
- **Investment shelf may not be complete** – less likely to offer access to much basic advice

2. Salary Plus Bonus

The bonus is essentially based on a number of factors such as the number of dollars they had clients transfer in to mutual funds, bank accounts, etc. Advisors may get rewarded for bringing in business to other areas of the bank such as the mortgage department, creditor insurance policies, referring up to the full service brokerage, etc.

Cons

- Bonus structure puts **emphasis on products**
- Advisor may deal with over 1,000 clients – makes it harder to develop deep relationship between advisor and client
- Investment product shelf limited to mostly mutual funds, some emphasis on proprietary portfolios
- **Less competitive on costs** as portfolios grow in size (perhaps beyond $100,000)

3. Commission Based

There are a number of different commission based advisors out there.

Cons

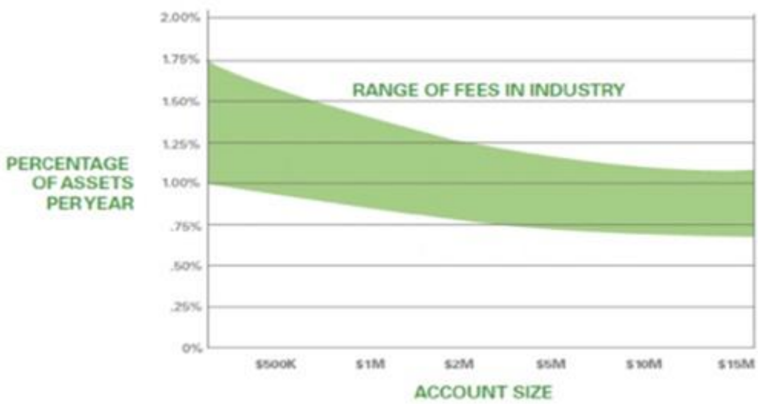
- **Advisor has conflict of interest**: can be focused more on product than the person, may recommend investing over debt reduction due to compensation difference (for example)
- **Fees embedded in products** means it's harder to determine what you are paying for products and what you are paying for advice
- Advisor may be more motivated to start relationship and **less motivated to maintain relationship** if using "front loaded" products – these would be products like DSC mutual funds or insurance policies which pay large commissions up front but smaller ongoing commissions
- Advisors can be **incentivized to use higher risk products** (as higher risk products can pay higher commissions)

4. Fee-Based

Fees may be tiered, meaning they are reduced as your portfolio grows.

Cons

- Advisor may have a **high minimum portfolio size requirement**, almost always in the 6-figure range
- Some advisors only offer investment management and others offer financial planning on top of investment management – need to make sure you are comparing apples to apples. Investment management and financial planning at 1.25% might be better than just investment management at 1.00% (for example)
- **Product fees still need to be added to Client Advisory Fee** to calculate total costs. For example, a portfolio manager who will run a portfolio of stocks and bonds for 1.25% might be cheaper than someone who charged 1.00% but uses ETFs or F-class mutual fund units which have embedded costs of 0.50% (for a total of 1.50%) – but also note that cost is not sole determinant of portfolio performance
- **Advisor has conflict of interest**: may recommend investing over debt reduction due to compensation difference



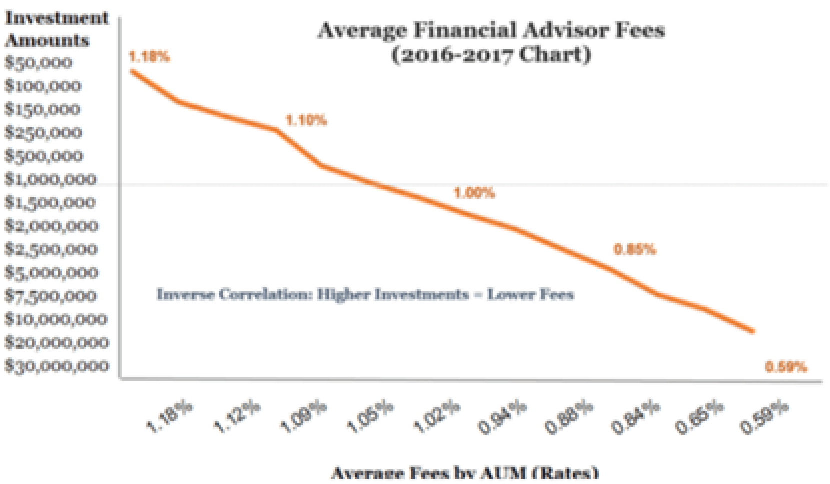


Image Source: AdvisoryHQ

5. Fee-Only (Our Model)

See the video at http://www.bourbonfm.com/video-straightforward-fee

Pros

- **Fees are transparent**, making it easier to see what you are paying for advice
- Substantially **eliminates conflict of interest between products and advice**
- May be the **least expensive option** for medium to large portfolios

Source: BFM and Wheredoesallmymoneygo.com

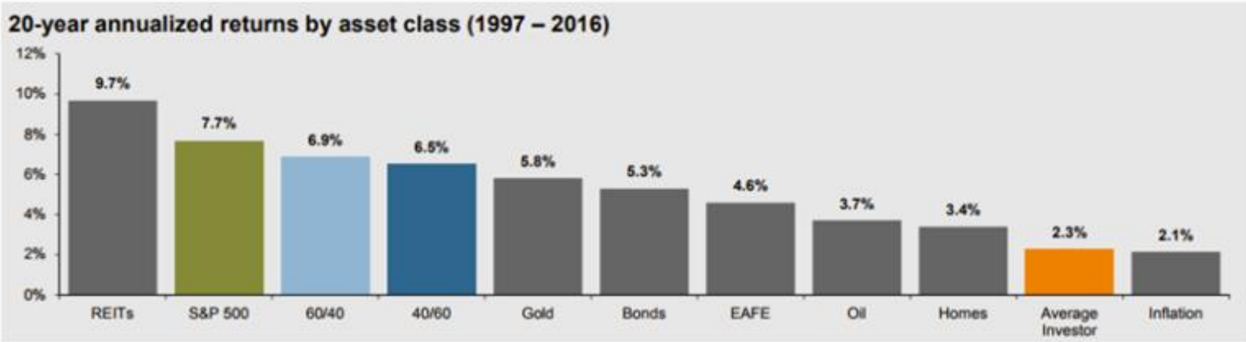
In summary, **we help our clients make better financial decisions with non-conflicted advice that are customized to them. We are their "Personal CFO"**. Our clients don't have the time, desire or knowledge to manage their assets.

I am not sure how much value do you place in your time and having peace of mind with your investments. I suggest you take a look at the value of financial advisors http://tinyurl.com/BFM-Value-Advice.

In addition of financial/tax planning, we offer investment management services. Doing investment research takes time: http://tinyurl.com/BFM-FundSelection. I can send you another email on that topic if you are interested (an example how to pick to a fund).

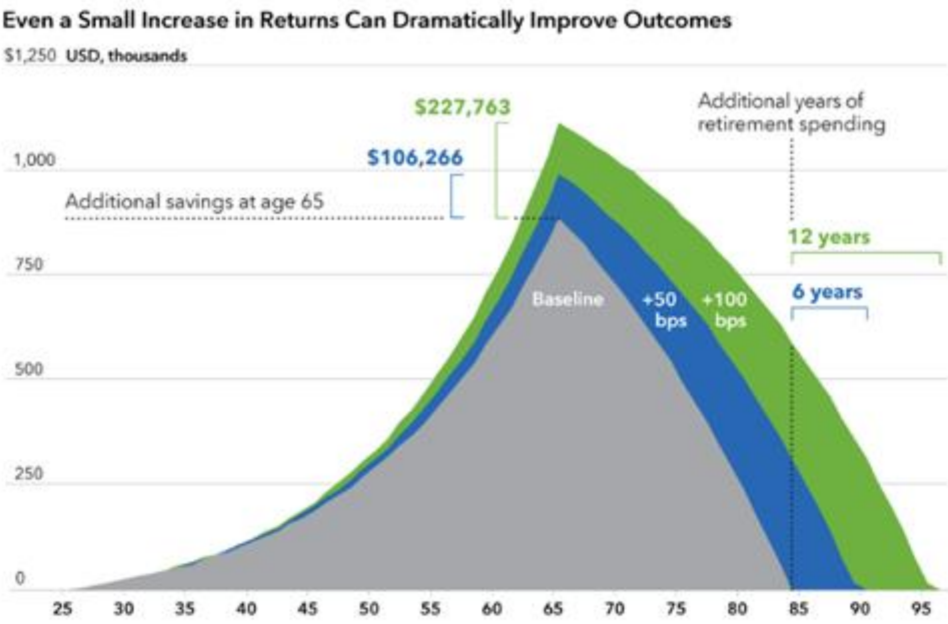
Our clients want peace of mind with good non conflicted investment advice. They want to have low fees to maximize growth for a better retirement so they understand that it is much better to pay an expert a flat fee for the long term. They don't want their fees to double when their assets double. They want to work with a trusted adviser with good investment experience and good credentials (CFA and CFP®).

If you are managing your assets yourself, you may be interested in reading this article. This table below illustrates how much the average investor loses (by being in cash, making wrong investment decisions…).



Source: J.P. Morgan Asset Management; (Top) Barclays, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.

Simple strategies and small annual trades can add a lot of value. You can see the impact on retirement of 1% better portfolio performance.



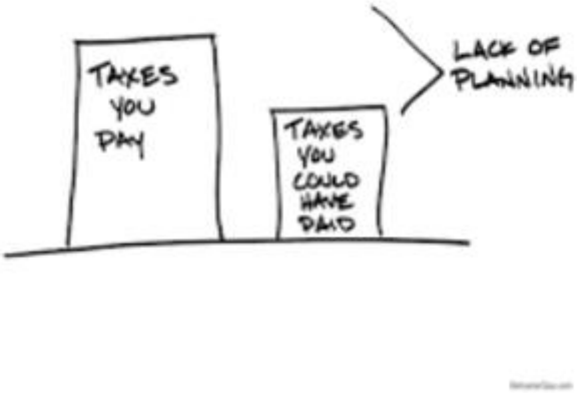
Demographic Assumptions

Starting Balance	$0
Starting Age	25
Starting Salary	$40,000
Annual Salary Growth Rate	3%
Annual Contribution Rate	10%
Retirement Age	65
Ending Salary at 65	$130,482

Scenario Assumptions

	Baseline	+50 bps	+100 bps
Returns Before 65	5.5%	6.0%	6.5%
Returns After 65	4.0%	4.5%	5.0%
Account Balance at 65	$886,415	$992,680	$1,114,177
Withdrawal (Percent of Ending Salary)	50%	50%	50%
Annual Withdrawal Amount	$65,241	$65,241	$65,241

Source: Capital Group, based on an exhibit from Russell Investments. The demographic assumptions, returns and ending balances are hypothetical and provided for illustrative purposes only, and are not intended to provide any assurance or promise of actual returns and outcomes. Returns will be affected by the management of the investments and any adjustments to the assumed contribution rates, salary or other participant demographic information. The additional years of retirement spending are intended to represent a conservative measure. Actual results may be higher or lower than those shown. Past results are not predictive of results in future periods.



Sincerely,

Patrick Bourbon, CFA

"People make better decisions with financial advisers" Dr. Shiller, 2013 Nobel Memorial Prize in Economic Sciences

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Excellence ~ Expertise ~ Ethics

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