HOW DO

Financial Advisors Get Paid?

The most common types of advisor fees are

Assets Under Management (AUM)

The advisor receives a yearly percentage of the balance of your investment account.

Pro

The advisor's incentives are better aligned with the client's, since the more your investment grows, the more money the advisor makes.

Con

Minimum balances of investable assets generally have to be over $200K.

Commission Per Trade

The advisor charges a commission every time they buy a stock or bond on the client's behalf.

Pro

This is a no-cash-needed method, so nothing has to be paid out of pocket.

Con

More trades means more money for the advisor, so this could generate a trading mentality.

Commission From Sold Products

When advisors buy mutual funds or life insurance products on a client's behalf, they collect an up-front sales commission every year.

Pro

You aren't charged directly for the the advisor's service, only for the trades.

Con

The advisor is incentivized to push a product onto a client that nets them the greatest commission, regardless of whether it's the best product for the client.

Flat Fee

The client pays the advisor a flat annual fee to provide them with financial advice and to invest on their behalf.

Pro

The fee is not directly tied to the size of the managed investments, so the advisor's incentives are aligned with the client's.

Con

Clients pay an out-of-pocket fee every year, making it an expense from their annual income rather than their savings.

ZOE FINANCIAL