The fee-only and fiduciary difference

Financial advisors largely fall into one of two categories: those who sell products and those who do not. In industry parlance, advisors who do *not* sell products are **fee-only** and those who *do* sell products are **fee-based**. While their names are similar, their business models have very important differences that affect your financial future.

Compensation

A fee-only advisor does not earn commissions or sell products. Their sole compensation comes from a simple and transparent management fee paid directly to them by you.

A fee-based advisor typically charges a management fee on the assets they manage, and they can earn commissions on the products they sell you. On top of this, fee-based advisors can earn compensation on mortgage lending and other cross-selling opportunities. The vast majority of financial advisors in the U.S. fall into this category.

Fiduciary vs. Suitability

The other key difference between fee-only and fee-based advisors is their required standard of care. The *fiduciary* standard requires an advisor to put your interests first. The *suitability* standard merely mandates an investment must be "suitable" for you. (Would you rather marry the right person or settle for a "suitable" spouse?)

Fee-only advisors must act as a fiduciary at all times. This is not the case with fee-based advisors. When offering advice, they are fiduciaries. When implementing this advice (recommending products), they are held to the lesser suitability standard. Switching hats mid-stream like this becomes confusing to a client. Pittenger & Anderson, on the other hand, is a fee-only advisor and, therefore, a full-time fiduciary.

So how can you tell whether an advisor is fee-only or fee-based?

If you want to know what type of advisor you're working with, visit their website and scroll down to the bottom of their homepage. If you see language like "Securities offered through..." and/or "Member SIPC, FINRA," the advisor in question is fee-based and compensated by selling you products. Caveat emptor.

Another place to look is in the firm's Form ADV, which is the uniform disclosure document for Registered Investment Advisors. You can find a firm's Form ADV on the Investment Adviser Public Disclosure website. You'll find compensation disclosed under Item 5 - Compensation Arrangements. If the "commissions" box is checked, you know you are dealing with a fee-based advisor.

Finding a fee-only advisor is much easier. They display this term prominently on their website and in their marketing materials. Under Item 5 on their Form ADV, the commissions box will not be checked. Fee-only advisors take great pride in not being paid by commissions because they represent a big conflict of interest.

So, as you embark upon finding a trusted advisor, be sure to understand exactly how you are paying your advisor and whose interests they are putting first. The difference between working with an advisor held to fiduciary standard versus one held to a suitability standard compounds over time. We believe it is important to find an advisor who focuses on keeping your investment expenses low over one who has incentives to keep them high. See the staggering long-term impact of paying higher investment fees.

Pittenger & Anderson is an independent fee-only Registered Investment Advisor (RIA). Our only compensation is the management fee you pay us. We do not sell any financial products, nor do we earn commissions or any compensation from the products we utilize for our client accounts.

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