More Investors Want Advice, But at What Price?

By Grace Williams January 12, 2017

The high profit margins wealth and asset managers alike once literally banked on are becoming a thing of the past. And as a result, financial advisors now need to make way for a landscape that includes heightened focus on fees and asset flows into passive products.

So says a newly-released report by Cerulli Associates that tackles the topics of digital advice, fees and client attitudes. Cerulli found that while investors have increased their interest in paying for financial advice, they continue to be wary about fee structures.

All told in 2008 some 40% of survey respondents were interested in paying an advisor. This number grew to 50% by the third quarter of 2016. At the same time, Cerulli learned investors under the age of 40 expressed the most interest in getting financial advice, as they begin to find themselves experiencing more "intimidating" financial events.

The increased willingness amongst the under 40 crowd to pay for advice is no surprise, according to Dan Kern, chief investment strategist of Boston, Mass.-based TFC Financial, a firm managing $840 million. Kern believes the reach of the financial crisis continues to loom over this demographic, even as it comes of age financially.

"Not only did people's nest eggs take a hit, but the value of their homes took a hit," he says in an interview with FA-IQ. At the same time, legacy companies such as big banks and automakers began to belly up.

"They woke up from years of saying 'I've got a job, it's good some days and not others, but I have an income. I can take care of my family,' to thinking: 'If these companies can go under, how secure am I in my job and the planning I've done,'" says Kern.

Given Cerulli's predictions that robust profit margins are a thing of the past, this information presents potentially good news for advisors looking to add clients. But there are still a few points to ponder regarding fees. Just last month, FA-IQ reported that Fidelity was asserting that fee pressure would cause a crossroads for advisors.

Rob Mooney

Up the food chain, Cerulli says asset managers will need to examine their active mutual fund products and compare fees against their peers. And fees should be lowered to remain competitive "where feasible."

At the same time, only 10% of asset managers didn't express concern about fee compression and its impact on their business in the coming 24 months, according to Cerulli.

In a fiduciary environment, these concerns take on a whole new meaning. Fee wariness among clients is justified according to **Bill Keene**, founder and CEO of Overland Park, KS-based **Keene Wealth Advisors**, a firm managing $280 million.

Keene said one way advisors can ensure they are on the same page with their clients is by laying out fee structures from the start.

Telling clients what a product actually costs, rather than simply pointing to the fee, takes away anything that could potentially be hidden.

"You can see it in the prospectus if you look at the advisor fee on top of mutual funds," he says. "There can be layers of fees there, even if it is a no-load fund."

Ensuring upfront transparency with clients will also benefit advisors under the **Department of Labor**'s fiduciary rule. However, proactive advisors should be taking steps to assure clients they, and their firm, are working in their best interest.

Rob Mooney, managing partner and CEO of **Snowden Lane Partners**, thinks advisors can take it another step further.

By putting themselves on the line as long-term financial coaches and by running a sound, trustworthy shop, advisors should be able to reap the benefits of doing well by doing good.

"The independent advisor industry is very well positioned," says Mooney, whose New York-based firm manages $3 billion. "There is so much going on that's positive and I believe that's absolutely where the puck is going in terms of being on the right side of the rule."