



## What You're Paying Your Financial Advisor (And Whether It's Worth It) [Ep. 4]

*Transcript*

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When looking at the difference of fee only, or fee-based advisers, that you would hope somebody looked at, what would it be? I don't want to do what I know deep down inside is not right for the client. It's messed up. That's why sometimes I think our industry does get a bad rap, and rightfully so. It's crazy. Can it be that high? Oh, yeah. And most people don't even know... Nope. ...that's impossible. Because that's the thing. It doesn't have to be transparent.

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(Music)

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All right. Here we are. Welcome to the new space. What do you think, Robert? I love it, man. The team did a great job with all of this. So I'm excited to be here. Well, you want to kick us off? I do. Like Glen said, welcome to *GDS Unplugged*, the financial team that talks about financial topics that most advisers don't want to touch. And today's topic, we're going to dive into the difference between fee-based advisers and fee-only fiduciary advisers.(...) And I look forward to that topic because I know that there's so much controversy. People don't understand because most advisers try to make them seem similar when they're not.(...) So, Glenn, I'd love for you to just take it away and tell us what are the main differences between fee-based advisers and fee-only advisers? There's a million differences, but I would start from the compensation aspect, right? If you're a fee-based adviser, chances are you're getting compensated not only from your

clients potentially of that quarterly fee, but in addition to that, you can do proprietary products, you can do commission products. There's a million ways that you could get paid that the client may or may not even know.(...) Fee-only adviser, the only way you're getting compensated is from that client quarterly fee or monthly fee, however it's set up, but there's no additional compensation, whether it's commission, proprietor product. There's nothing going on, so it's a little bit more transparent. That's from a high level. Well, back up on that. So, you talked about proprietary products and other fees. Can you dive a little bit deeper in that? What do you mean? Why would a proprietary product even matter in this topic of fee-based? It generates more revenue, right? A lot of firms out there have a ton of proprietary products. I'm not going to specifically for now mention a bunch of them, but we were at a couple of them in the last 20 years, and as you know, a lot of them have proprietary products or they have ways that they can generate more revenue for the firm or for the individual.

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Firms may have something called pay-to-play, which is exactly what it sounds like, right? That product has to pay the back-office money just to be on our platform. When you see these financial advisers take these extravagant work trips, (...) they call them recognition trips, right? Why is that? And who's paying for that? Well, the products that they're paying, six figures, seven figures, just to have access to the financial advisers and whoever sells more of those products, they wouldn't use recognition trips. And it's just a little bit, it's, I think it's a little slimy if you ask me, well, why are you getting paid from a third party when your loyalty should be just to the client? That's making your living, paying your mortgage. So, okay, thank you. Because I want to make sure I understand this. So you're saying not only in a fee-based scenario, whether it's proprietary or not, can the firm make more money, but also the adviser pitching it can make more money. Is that correct? That's right, that's right. How can that be? Why is that even legal?

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There's a lot of things that are legal. It's a gray area, right?

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When you're, they're held to different standards. When you're fee-based, you're held to a suitability standard. When you're fee-only, as are we currently, and have been for a long time, you're held to a fiduciary standard, completely different. It's how you're held accountable.

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As we do this podcast, we can give you examples, but I actually looked up the exact definition of it, just for our listeners out there. So suitability standard, that is your fee-based adviser. If you have an adviser that you work with that works at a Merrill, a UBS,(...) JP Morgan, Edward Jones, they are a fee-based adviser or they're offering you commissionable products, one or the other. They are not a fee-only adviser. So if they're a fee-based adviser, then they are held to

what's called a suitability standard. And I'll read you the following. So definition of a suitability standard is,(...) adviser must have a reasonable basis for the recommendations, but they are not required to recommend the best or most cost-effective option. What does that mean?(...) If you're working with an adviser on a suitability standard, there could be two products that are identical, but one, the fees maybe are two times it or three times what they need to be. They are permitted to sell that product, right? And who's paying that fee? The client, the consumer.(...) Even if a lower cost option exists, they can do that. In terms of ongoing monitoring, if you're a fee-based adviser, there is no requirement for ongoing monitoring of investments after the initial recommendation, unless then a new transaction occurs. That's crazy. So they recommend something, may or may not make sense, could have been the most expensive thing on the planet, and now they have no obligation to stay on top of it. That's crazy. In terms of a fiduciary standard, completely different. What the definition of that is, adviser is bound by the fiduciary standard must act in the client's best interest, ensuring that every recommendation prioritizes the client's financial wellbeing over personal gain.

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Requirement, fiduciary advisers must seek the best possible outcome for their clients, fully disclose fees, potential conflict of interest, and any incentives that could influence their guidance. In terms of ongoing monitoring, if you're working with a financial adviser who's a fiduciary, a fee-only fiduciary, fiduciaries are required to provide ongoing management and oversight of investment strategies and ensuring that they continue to meet the client needs over time. So it's two different, complete standards. So that brings a question to mine.(...) When we start talking about different financial firms, wealth management firms, banks, institutions, to me while you're reading, it seems like a no-brainer that I want a fee-only fiduciary, me personally, and I would think the majority of people do. But with that said, why do most firms, wealth management institutions, banks, pitch fee-based or more transactional stuff and not fee-only?

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I think they're driven by the revenue.(...) So two-part question, why are firms offering that? Because it generates more revenue for the firm and the adviser. Why are clients going with that? I don't know. Why wouldn't somebody purchase a vehicle, they get different prices? Maybe they didn't do due diligence, they didn't get it through the Costco program, or they didn't do enough research. For us, it's been, as you know, I've been doing this 20 years and you're right behind me. It's been progress; it's been an evolution. In the 20 years I've been doing this, I started as a fee-based adviser. Quite frankly, the way business is done today wasn't even available to me 20 years ago. But things have evolved, there's more technology. People expect more out of financial adviser. I started my career at Lehman Brothers, then went to AG Edwards. I loved AG Edwards, I didn't want to work for a bank.

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I wanted to work for a firm that allowed us to do what's best for the client, which I felt AG Edwards was. Unfortunately, they got acquired by Wachovia, which was acquired by Wells Fargo.

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It's a lot of acquiring. It was, it was. So left Wells Fargo to not be with a firm that's owned by a bank.

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Went to Merrill, Merrill Lynch, they were called at the time, now they're Merrill.

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Loved it for a few years, and unfortunately, they got acquired by Bank of America. I was there for 11 years. Again, they have a fee-based model.

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And I remember there's a couple things that kind of were wake up calls for me.

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My son, who's a junior in high school now, of course, as you know, I have a daughter at UT Austin and a son in high school.(...) And my son, when he was, I don't know, fourth grade,(...) he brought home a yearbook one year where he wanted to be a financial adviser. He held it up that he wanted to do that, that on a professional tennis player.(...) And for me, that was like a punch in the gut. That's a realization. I love this industry. I love our clients. Yet now I'm being pressured to do things that I don't feel comfortable. So again, I'm not doing them, but now our compensation as a team is getting hit. I'm being frowned upon by management because I'm not doing things that, candidly, I don't think are ethical, right? I didn't become a financial adviser to peddle credit cards, to peddle lending, to peddle proprietary products.(...) I half joke, half serious say that, I want to do this job forever, but I don't want to go to hell. I don't want to do what I know deep down inside is not right for the client.

(...)

And that was a wakeup call to be at an institution that I would want, who knows what my kids will do when they're older, but if they were to work with me, I would want them to be in an environment that I could be proud of. And that's why in 2017, we departed,

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looked for a firm that's not owned by a bank. In fact, Raymond James owns a bank. And Raymond James, for those of you who don't know, that's our custodian, holds our client's money. They're not owned by a bank, they own a bank, Raymond James Financial.(...) And the beautiful thing is we have no proprietary products. We have no commissions. We're able to do things at the highest level that I think any financial adviser on a planet can do. I want to back up just a little bit, because you talked about your kids, you talked about your life, and I do, I have had the privilege of getting to know your beautiful wife, Gisela, and Lucas, your son, and Natalia, and watching them grow. And I remember back in the day when we were at Merrill looking to make that move and going from fee-based to fee-only, that there was something tugging on your heartstrings. And I know the story, but I'd love you to talk a little bit and tell our audience about how your family played an impact of just being able to rest well at night knowing that you were doing the right thing and how they helped guide you to get here. It's, as you know, in many, many, in many businesses, it's a family affair, even from when my kids were little, it'll help me get stamps on envelopes, whether we're doing seminars or whatnot to continue to go to practice.(...) And we've always approached this business as, how do we give back to others? I have two amazing parents who have dedicated their life to serving others as missionaries.(...) And obviously I'm not a missionary, but I'm trying to find my own way of how do we ethically serve others and add value to people's lives. And again, at the end of the day,

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life is about time. And I want to make sure that my time is invested on adding value to other people's lives and not just worried about me or the firm or our pocketbook, like how do we add value to others? As you know, I like to say, I try to live for my eulogy and not my resume. At the end of the day, that's much more important to me is what's going to be set up my eulogy than what an institution that I work for thinks about me. I've always loved that. Thank you for sharing it. I also want to touch on something you said. It's a little bit off topic,(...) but you talked about Raymond James, moving from Raymond James and Raymond James being the custodian. Can you describe what it I don't think a lot of people know what custodian truly means. Custodian is where the assets are held, right?

(...)

Some places,(...) they could have their assets, the adviser could have those assets in their name. We use Raymond James. They're very,(...) Fortune 500 company, 148 quarters of profitability in a row. You might think, why does that matter? 148 quarters, why do I care if the institution or my money's that's profitable? Well, remember 2008, right? A lot of firms got a bailout.

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That's not fun for the client nor for the adviser. So we wanted to be at a firm that allows us the flexibility to run a practice like we want, but at the same time is there to help us serve clients, whether they have a million dollars or north of a hundred million dollars, where they need

access to PE or different investment research. We want to be able to offer everything we can. Let's go down that rabbit hole too, because I remember when we were at Merrill Lynch, we were looking to make a change. It wasn't just that we decided, let's go to Raymond James. There was a thought process. We interviewed some of the top five firms, what we would consider to be the top five firms out there.(...) And maybe you can dive a little deeper into why we picked Raymond James,

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when we could have picked any firm. All the firms offered to open us an office here, but we picked Raymond James for a specific reason that I think dives into the topics today.

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I think what's important for us is some of these firms out there in the industry, and again, I know that's part of the podcast is we're going to dive into some things that clients might not know, right? Some firms out there might incentivize a financial adviser to go to their practice and write them a check.

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For us, that wasn't a motivator. We weren't going somewhere to make a quick buck. We wanted to be somewhere that we could view ourselves as a part of that culture, a part of that firm for many years to come.

(...)

And we wanted to be somewhere going back to fee only. Some of these firms, you cannot be a fee only, right? If I'm at a, some of the firms already mentioned, a Merrill,(...) a UBS, Edward Jones, JP Morgan, and you're not a fee only. And that was not only important from a standpoint of trying to do what's best for the client, but also we wanted to expand who we're working with. We're working with the NFL.(...) In order for me to continue, I'm an NFL PA, as you know, which stands for National Football League Personal Adviser. I thought it was personal assistant. That's what my daughter calls it. National Football League Personal Assistant. I think she's probably right sometimes. But as a National Football League Personal Adviser, you have to be a fee only fiduciary to be on the page where the players can see and look you up if they were trying to find a local adviser. Wow.

(...)

I think because they don't want their players to be on 30 for 30, right? Not that it guarantees you that your financial adviser's doing everything perfect, but it's at least one more layer of-- Vetting. Vetting, that's a good way to put it, yeah. So can you think of a reason, or maybe name me

some of the top reasons that an average person might pick a fee-based adviser over a fee-only adviser? Might be a trick question, I don't know.

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Honestly, I mean, maybe somebody out there can. I always think of our clients in terms of what would I want for my mother, my father, my brother, my sister, would I want my family member

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to work with a financial adviser who's fee-based or fee-only? Somebody that's always a fiduciary. I can't think of a reason why I would want my mother to work with somebody who could sell them commissionable products, who could sell them proprietary products. And I'm sure a lot of good advisers are fee-based, and what they would probably say is,(...) yeah, but we don't do that, right? We don't sell proprietary products. We don't sell commissionable products. Well, if that's the case, why don't you drop your Series 7, your Series 6, right? Why don't you drop your ability to do those things if you feel that strongly about it? Why don't they? Because you don't want to, you want to keep, you want to retain your ability to do those eventually. At some point, why would you have a tool if you were never going to use it? That's right, so you had a Series 7. We did, and that's why we dropped them, yep. And why did we do that? Because we wanted to put our stake in the ground and not just pretend that we're using words to pretend we're being true fiduciaries. There's no need. If you are truly not going to sell commissionable products, proprietary products, get paid from third party in any way, there's no reason to keep those licenses, right? It's almost like in anything we do in life, if you're in, go all in. Don't have a foot out the door. Absolutely. Right? That's your scapegoat, that's your excuse. And I think people respect that, right? I think hopefully it comes through. People know that we're all about the client. Well, I know with us, that was a, because I remember studying for the Series 7 tough test,

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but when we talked about doing it, we're like, if we're in, we're all in. If we're going to be fee-only fiduciaries and truly serve our clients, then you got to go all in. There's no backing out. 100%.(...) As we wrap up, if there was one takeaway when looking at the difference of fee-only, or fee-based advisers that you would hope somebody looked at, what would it be?

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I'll give you two takeaways. One is figure out which they are, right? Are they fee-based fee-only? And then make sure you're comfortable with that. It's not only enough to figure out what they are, but are you comfortable with the fact that they could sell you something at some point that is identical to another product, but your fees are 200% of what they need to be. Are you comfortable with that? Are there ways to tell though, just by looking at the investments?(...) Some people might say, I'm fee-only, I'm fee-based or whatever, and it's the same, but how can

you tell if they're being honest? For sure, I mean, you can look into mutual funds, you can look if there's a commission, you can look if there's trails, trails are a way that the investments you have, they're giving a kickback. So you can do a deep dive into the investments and figure it out. They sell me some annuity with a 10-year clause and you're paying 400 basis points a year. If you're fee-only fiduciary, you're not doing that. It's crazy, can it be that high? Oh yeah, oh yeah.(...) And most people don't even know that that's impossible. Because that's the thing, it doesn't have to be transparent.

(...)

So not only are they getting taken advantage of or getting hit, but they're not even upfront enough by telling the client. It's all in fine print, if you will. And that stinks, imagine working with a doctor who you go see for thinking you need surgery and at the end of the day, you don't need surgery, but they're motivated to maybe hit a quota having their 10th knee surgery of that month, fixing somebody's ACL and they get bonus on it. Now you're under the knife to get that bonus. It's messed up. That's why sometimes I think our industry does get a bad rap and rightfully so. There's a lot of great advisers and there's a lot of advisers that I wouldn't want

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anybody near me to deal with. So you're telling me that in a fee-based adviser relationship, client adviser relationship,(...) that a person can believe that they're paying one, one and a quarter, one and a half percent management fee and that's what they see on their statement. But really internally, they could be paying upwards of three, four, five percent per year. We see it all the time. And not even know it. Exactly, exactly. That's crazy.(...) So you have to add it all up.

(...)

There's one client now that you and I met with three weeks ago that thought their fee was a fifth of what it was, was just looking at it from a surface level and in five minutes we were able to show them a couple fees that they're paying on a regular monthly basis that's coming out of the investments. And she was wondering why am I not making greater returns? Well, it's twofold. One is she didn't have the best investments but even if we put her in the exact same investments and just cut her fee by 250 basis points, she's making two and a half percent more in the same things, right? And that-- And she had no clue. No clue, it's terrible. It happens more time than I like to admit.(...) Agreed. I appreciate it. Any closing remarks that you think are valuable to us on this topic that we haven't touched on?(...) Do your research. You can always do background checks on an adviser right? There are different websites out there. BrokerCheck.Finra.org is a big one. If your advisers have been sued or anything, you can find out for the record all of us have clean records but there's stuff you can do.(...) Fee only, are they a fiduciary?(...) Are they building new financial plans? I think those are low hanging fruits. As you know for all of our clients, we try to do a financial plan. You want to look into, to bring the future into the present and see how all these changes are going to impact, impact your

tomorrow.(...) Perfect, Glenn. I appreciate it. Thanks for taking a deep dive into the difference. I think everybody's going to find some value out of this.(...) So Glenn, we come to the point to where we're the mailbag. We get to ask some questions that were asked by dozens of people around the country. We've picked two just for time constraints. This one's from Taylor in Orlando. Hi Taylor. Hey Glenn. She sent to the mailbag. Deep voice Taylor. Well, you know Taylor can have a deep voice this time.

(...)

She goes, "Glenn, I am worried about inflation affecting my retirement savings. How can I protect my investments from inflation?"(...) Inflation's tough. I think that's the thing that nobody pays attention to. Sometimes people in their portfolio be so focused on maybe preserving the portfolio, maybe not losing a lot. But if you do that, you might not make a lot, right? And you have to keep up with inflation. The Fed is trying to keep inflation at 2%. We're closer to 3% right now. What that means is you have to make 3% on your money at a minimum to break even with inflation. So how do you do that? Well, one is you could do it with bonds, fixed income. The 10 year treasury right now is in the mid four, so call it four and a half. So if you had all your money hypothetically in 10-year treasuries, you're making four and a half after taxes, depending on your tax bracket, say you're at three and a half. If inflation is three, you're only netting a half a percent, which is still good, at least they're keeping up with inflation. So how do you beat that? The main thing to fight inflation are going to be equity, stocks, right? If you own Coca-Cola in your portfolio and there's inflation, what's the only thing that Coca-Cola can do to fight that? I mean, they could increase the price of the soda pop. And if you're like my dad who's addicted to Coke Zero, you could increase the cost of that soda can, a nickel, a dime,(...) shoot, you could probably even do it \$5 and you'll still drink the same amount of sodas. But the cool thing about that as an owner of stocks, right, is if I own shares of Coca-Cola and there's inflation, they can pass that inflation on to the consumer. When you own CDs,(...) money markets, treasuries, your rate of return is your rate of return until that bond matures.

(...)

If there's inflation,(...) you have no way to combat it. The main way you can combat it in general in terms of investing is to make more inflation. How do you do that?(...) I think most people should have at least a portion of their assets in stocks, right? So here's our next question. This is from Jerry in Atlanta. We were talking about hidden fees and staying diversified, but hidden fees in investments, especially mutual funds.

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What is the best way, can I as a consumer go research? Is it public knowledge to find out? Where to find out? I mean, as advisers, we have access to some stuff that most people will not, but that being said, if you're out there and if you have access to the internet, you can pretty much figure it out. Yahoo Finance, or quite frankly, you can Google it. Look at, you've mentioned mutual funds, but it could be annuity, it could be anything. There's typically going to

be a ticker, right? That's typically five letters. Put those five letters in, you can put expense ratio or cost and it'll pop up and you're going to be able to dive into what the fees are and the different layers.

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So it's not just one fee. No, mutual funds could have the expense ratio, they could have the 12B1 fee, which is a industry jargon for a fee that goes back to the adviser. If it's an annuity, again, it could have an expense ratio, it could have an investment fee, it could have a mortality and expense fee. There's like six or seven fees that you can have in there, so you have to add them up, right? Perfect. Well, thank you for answering these two and I want to thank our audience for attending and being with us. Remember, if you do have any questions that you would love us to answer, please email us at [gds@gdswealth.com](mailto:gds@gdswealth.com) and we'll be happy to answer them and look forward to seeing y'all next time. (Upbeat Music)

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