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Spiking inflation adds a new twist to the concept of linking advisers' revenues to their clients' portfolios.

June 10, 2022 [By Jeff Benjamin](#)



# TRANSAMERICA MULTI-ASSET INCOME (TSHIX)

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With the May consumer price index putting [inflation at a 40-year-high of 8.6%](#), price hikes continue to ripple across the economy, with at least one notable exception — [asset-based financial advice](#).

Proponents of fees that tie adviser compensation to the size of the client's investment portfolio are finding themselves in a unique position of watching revenues fall in stride with the financial markets, while being unable to justify inflation-linked fee increases along with the rest of the economy.

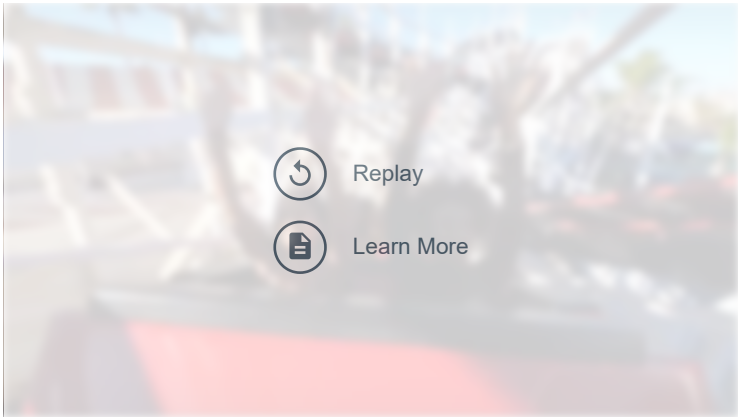
"If the client relationship is billed as an asset management fee percentage, then you cannot increase your asset management fee in a down year; no client would accept that," said Byrke Sestok, a financial planner at [Rightirement Wealth Partners](#).

"Most years AUM revenue goes up as a byproduct of an increasing market," Sestok said. "This year, advisers need to accept that their revenue won't increase from market performance. However, down markets are the best time to bring on new clients, and you can grow AUM that way."

Monica Dwyer, vice president and wealth adviser at Harvest Financial Advisors, expressed a similar sentiment about the drag on revenues when the business model is designed to track investment performance.

"When the markets go up, we grow with our clients, and when the markets go down, we take a pay cut," she said. "If you think about the markets being tied to prices of stocks over the long term, the AUM model should work even during rising inflationary periods over the long run and the problem takes care of itself. I would think that raising fees when the market is down would be a difficult sell for most clients."

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According to the *InvestmentNews* Adviser Benchmarking Study, the median asset-based fee has hovered consistently around 1% since 2018, and in each of the past few years, the majority of firms did not adjust fees.

But among the firms adjusting fees, 18% increased fees in 2018 while 10% decreased fees.

There's no comparable data available for 2019, but in 2020, 16% of firms increased fees, while 7.6% decreased fees. And in 2021, 6% increased fees and 5% decreased fees.

While watching revenues fall when the market corrects might reinforce the standard sales pitch that advisers are "sitting on the same side of the table as their clients," it comes with a double whammy when the down market is coupled with [runaway inflation that's driving up the cost of doing business](#).

Dennis Nolte, vice president at Seacoast Investment Services, said raising asset-based fees in the middle of a down market "is a bit tone-deaf."

"No one wants to hear your rent, gas and licensing fees have increased so you have to keep your business profit margin consistent," he said.

However, Nolte said, for advisers that charge hourly, retainer and flat fees, "I could see a strong case for increasing advisory fees with inflation."

Randy Bruns, founder of [Model Wealth](#), said advisers who don't peg their compensation to client portfolios shouldn't hesitate to adjust fees in accordance with rising costs.

"Hourly-based and flat-fee financial advisers should consider increasing their fees," Bruns said. "This is especially true if the underlying costs to operate their practices are increasing."

Eric Nelson, founder of Independence Wealth, agreed that "for flat-fee or hourly planners, there is definitely a case to raise fees."

Nelson even believes a case could be made for some asset-based advisers to increase fees "as long as more value is created for clients."

Andy Sieg, president of Merrill Lynch Wealth Management, said highlighting the value provided is key to raising asset-based fees, which is something he sees coming.

"I think we're moving into a period where we're going to see fees increasing by financial advisers," Sieg said during an interview on [The InvestmentNews Podcast](#).

"We're starting to see it in terms of some advisers thinking about all they're doing for clients," he added. "It boils down to the word value. The adviser who is closest to the client is providing clear, demonstrable, palpable value and the client can see that and they can appreciate it."

While higher advisory fees might be on the near horizon for those firms that can make the case about added value, Kashif Ahmed, president of American Private Wealth, believes now is not the time to hike asset-based fees.

“Absolutely not,” he said. “I have seen discussions in online forums where financial advisers are saying they can use this excuse to raise fees. Financial advice is not stuck on a ship or container port somewhere. It is not delivered on a truck that burns fuel. Inflation in other things is not an excuse to raise advisory fees, they have nothing to do with one another.”

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