NEWS Practice Management

Stock pullback has more advisers diversifying away from asset-based fees

As account balances shrink in stride with the financial markets, RIAs are increasingly embracing flat-fee pricing.

December 20, 2022 *By Jeff Benjamin*

Advisory ***fees pegged to client assets*** continue to dominate financial planning fee models, but new research shows flat fees are gaining traction as advisers scramble to stand out in a crowded marketplace.

An analysis of more than 1,000 advisory firms that use the ***Advyzon technology services platform*** shows that 39% are now offering a flat-fee option, which is up 26% from a year ago.

One factor likely pushing registered investment advisers to diversify away from asset-based fees is the bear market for stocks, which has pushed down account balances on which fees are based.

While most registered investment advisers employ multiple fee models, the Advyzon data show trends toward more flexibility and customization when it comes to fees.

For example, the study shows the practice of monthly billing gaining popularity. And unique among advisers charging asset-based fees is a trend toward tying fees to each account's average daily balance.

Charles Rowlan, senior vice president of business development at Advyzon, said the increased application of averaging account balances for billing purposes to 19% from 16% a year ago is largely attributable to technology.

"Five years ago, average daily account billing was close to zero," he said. "Technology is driving this uptick."

The appeal of averaging an account's balance over a billing period is that it's fair to both adviser and client, Rowlan said. "It's hard to find an argument against average daily balance fees."

Prior to technologies that made average daily balance billing possible, advisers would often prorate asset-based fees if accounts experienced large deposits or withdrawals.

Rick Ferri, an *advocate for lower advisory fees as founder of Ferri Investment Solutions*, says the Advyzon research illustrates how advisers are responding to the marketplace.

"As individual investors become more aware of the dollar cost of fees, they are taking a hard look at how they pay their adviser," Ferri said. "This is causing disruption in the industry, resulting in alternative fee structures that better align the actual work performed by advisers with the fees they charge."

Along those lines, the research shows 92% of RIAs using multiple fee models, which is up from 81% a year ago.

Kashif Ahmed, president of American Private Wealth, said offering multiple fee models will become standard fare for RIAs, "simply because one structure may not be suitable, or desired, by all end clients."

"Those firms that dig into one structure and lay claim to its superiority over others may end up discovering that they lose clients and/or prospects," he added. "As much as the AUM fee structure's demise has been predicted for a long time, it is not going away any time soon."

Ahmed said the main appeal of asset-based fees and the reason that continues to dominate all other fee models is "simplicity is what resonates with end clients."

"They understand that the fortunes of their advisers will mirror their own portfolio performance," he said. "All other attempts in conjuring up newer fee structures were born out of a need to differentiate one financial adviser from another. Most of the time it is a futile exercise, wastes time and does not sway most advisory clients."

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