THE FUTURE OF ADVICE IS FEE-BASED

What's holding you back?

Three fears hold advisors back from transitioning to a fee-based model. Addressing these fears, and getting the right support, can be a win-win for you, your business, and your clients.

The fee-based advantage

Many advisors are moving away from commission-based compensation and toward fee-based models. Beyond the increased transparency and reduced conflicts of interest, there are many reasons that fee-based models are preferred by both advisors and clients.

IT'S BETTER FOR YOUR BUSINESS

- **Increased revenue and AUM**
  Advisors who grew their fee-based AUM in the past three years experienced a **49% increase** in revenues and a 49% increase in AUM.[1]
- **Revenue that is more stable, predictable, and recurring**
  Fee-based businesses earn **an average of 1.18% per account** versus 0.54% for commission-based ones.[2]
- **Easier onboarding of new advisors**
  Recurring revenue **creates stability,** making it easier to bring next-gen advisors into your firm.
- **Higher firm valuations**
  Advisory valuation multiples for fee-based advisors are **2X to 3X higher** than commission-based advisors.[3]
- **More manageable compliance with evolving regulatory requirements**
  Advisory business addresses fee transparency and conflicts of interest rules.
- **Deeper client relationships**
  Commission-based advisors rely on transactions to earn revenue, while fee-based advisors **have more time to focus** on client engagement.

AND CLIENTS GET MORE

- **More continuity**
  It is estimated **70% of inherited wealth will be lost** by the second generation and **90% will be lost** by the third.[4]
- **More customized advice with**
  Estate planning (91%),[5] retirement income (87%), asset allocation (87%), market analysis (87%), and changes in tax policy (80%).[6]
- **More fee transparency**
  6 out of 10 clients ranked "clear and understandable" fees among their most important "wants."[7] Advisory portfolios clearly communicate fees.
- **More flexibility**
  Addressing client-specific goals like **tax management, ESG, values, etc,** by using advisory portfolios.
- **More alignment**
  of their **interests with yours.** When your clients' assets grow, your revenue grows, putting you on the same side of the table as your clients.

Three fears holding advisors back

With so many reasons to transition from commission to fee-based, why are some financial advisors reluctant to make the move? Fear of the unknown plays a large role.

1 REVENUE

Will my revenue go down if I switch to fee-based? How do I price my services?

During the transition to fee-based, the immediate bursts of commission-based income no longer contribute to the bottom line, and financial advisors typically see a reduction in their income. However, this is generally temporary, as fee-based income provides a sustainable revenue flow.

Look at the impact on cumulative revenue generated by a hypothetical client investing $100,000. At first, the cumulative commission-based revenue generated is higher, but in year 4 and beyond, the fee-based model outpaces the commission-based model.

AssetMark works with financial advisors to create a **Revenue Model Analysis,** a personalized forecast of where their business would be if they transitioned from commission to fee, including breakeven points and income trends.

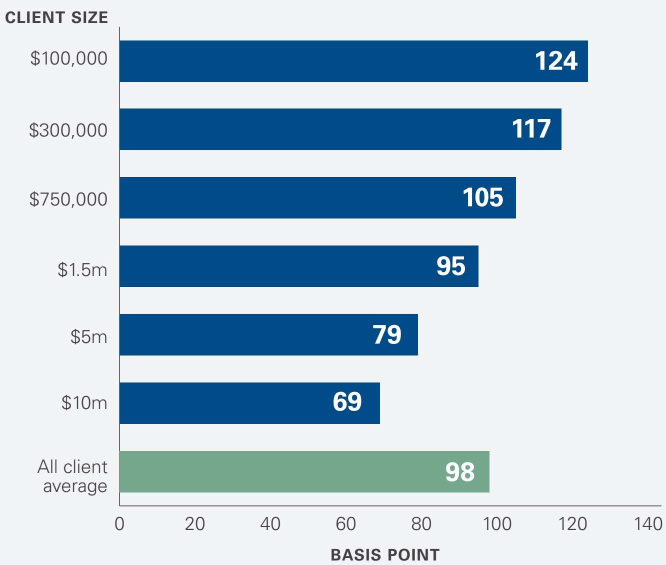
Revenue generated by a hypothetical client investing $100,000

Commission	Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
3%	$100,000	$3,000					
+ Subsequent annual trail of 0.0025	—	—	$250	$250	$250	$250	$250
Cumulative total			$3,250	$3,500	$3,750	$4,000	$4,250
Annual AUM-based fee							
1%	$100,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Cumulative total			$2,000	$3,000	**$4,000**	$5,000	$6,000

Pricing my services

While the 1% advisory fee used in the previous example is common, financial advisors can, and do, charge a wide range of fees for their services.

AUM-based advisory fees, 2020



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) and The Financial Planning Association® (FPA®).

Analyst note: Advisory fees exclude asset manager fees and are self-reported by advisors.

2 COMMUNICATION

How do I discuss a move to fee-based with my clients? They are happy with our current situation.

More than six in ten households prefer to pay for their advice via a fee (compared with 39% who prefer commissions).[8]

So, while you can expect clients to be happy with your decision to move to a fee-based model, here are some common client questions to get you ready:

- Why are you making this change?
- How does this impact me? Will there be tax implications, new fees, or a change to the team that services me?
- How does this affect my current investments, statements, account access?
- What, if any paperwork is involved?

When you work with AssetMark, our team will assist you throughout your transition to fee-based, guiding you through any issues or concerns that may arise.

3 EFFORT INVOLVED

I don't have time and don't know where to start.

Like any transformational business undertaking, transitioning to fee-based is easier when you have a plan.

AssetMark has supported thousands of financial advisors who switched from commission to fee-based. Here are the primary elements of the tactical framework you can follow to guide your process.

1. Client segmentation

First, assess where you are right now. Use a client segmentation tool to analyze where your revenue is coming from and where your time is being spent. This analysis of your clients will:

- **Reveal** where revenue is generated and where it's not
- **Provide** clarity regarding ideal clients and client minimums
- **Align** services and strategies
- **Uncover** potential cross-selling opportunities
- **Help** you prioritize where to start

2. Fee establishment

A clearly defined and communicated fee schedule provides clients transparency and sets expectations about what services they will receive and the costs they will incur. AssetMark provides many sources of industry fee resources to help guide you.

3. Create an action plan

Your client segmentation assessment gathers the information you'll need to create a project plan that captures the logistics—the who, what, and when—of your transition to fee-based.

4. Communicate with clients clearly and often

It's imperative that you keep clients informed of what's happening, why it's happening, when it's happening, and how it will impact them. Start with a communication strategy, then build out the tactical steps to implement it. Be prepared with FAQs and talking points, so you and your team can answer questions and assuage client concerns.

When you're ready to communicate, use this sample language in your client outreach.

5. Track your progress

Use your project plan to stay focused on your efforts. Build your team to help you manage all your tasks, leveraging both internal and external resources.

Not ready to make the switch? Start small

Many advisors opt to implement a fee-based model with brand new clients and hold off on touching established client portfolios. This **hybrid** business model approach serves as an elegant bridge to the fee-based model, allowing you to onboard new clients into the new fee-based structure, while gradually moving existing clients over.

Hybrid has been a popular choice for advisors over the past decade, as advisors have shown increased preference for affiliation with independent registered investment advisor (RIAs) and hybrid RIAs.

And it's expected to continue: 30% of industry assets will be managed by practitioners in the independent and hybrid RIA channels by 2025.[9]

Advisor headcount market share, 2011-2021

Channel	2011	2016	2021	YOY Gain/loss (% points)	5-year Gain/loss (% points)	10-year Gain/loss (% points)
Wirehouse	17.3%	16.5%	15.0%	-0.4 pp	-1.5 pp	-2.3 pp
National and regional B/D	13.3%	14.2%	15.3%	0.0 pp	1.1 pp	2.0 pp
IBD	24.8%	20.2%	18.5%	-0.3 pp	-1.6 pp	-6.3 pp
Hybrid RIA	6.4%	10.2%	11.1%	0.4 pp	0.9 pp	**4.7 pp**
Independent RIA	9.9%	11.3%	13.9%	0.7 pp	2.6 pp	**4.0 pp**
Insurance B/D	13.3%	14.2%	17.8%	2.5 pp	3.6 pp	4.5 pp
Retail bank B/D	7.4%	8.2%	8.4%	0.0 pp	0.2 pp	1.0 pp

Sources: Cerulli, U.S. Advisor Metrics 2022, Trends in Advisor Compensation.