What's the price of telling the wealthy what they want to know?

The Truth About Fees

By Mary Rowland

THIS IS A QUIZ. PLEASE consider the following "advice" to planners and select the answer that best matches your response to it: When dealing with wealthy clients, tell the truth, the whole truth, and nothing but the truth about the fees you charge. Financial advisers perform an important job and deserve to be well paid. Don't feel guilty about charging the fee you deserve. Don't apologize for it. Don't hide it. Don't assume that your fee is nothing to a wealthy client. Don't assume it's too high. Never say, "No problem. There's no fee for this." Never equivocate.

A. My policy in a nutshell
B. That's the most ridiculous thing I've ever heard
C. Sounds good, but I don't think it would work
D. I don't have wealthy clients.

If your answer was C, you would have found company in the group of advisers Thayer Willis and I addressed at the IMCA Spring Development Conference in Palm Springs, Calif., in April. We called the session we presented "The Trouble with Money." Willis is

Illustrations by Serge Bloch

an heir to the Georgia Pacific lumber fortune and a psychotherapist who works with other inheritors. We decided to team up because we started at opposite ends of the wealth spectrum and somehow ended up in the same place. That place has nothing to do with how much wealth each of us has—we're in different camps—but rather that we both feel we've relegated money to its proper role in our lives.

It wasn't always so. While Willis was growing up in a posh suburb of Portland, Ore., learning that money grew on trees and she need never worry about it, I was traveling around northern Minnesota in a camping trailer while my dad looked for work. I learned to be suspicious of rich people because they made their money off the backs of the working poor. People like Willis particularly intimidated me because they always knew which fork to use and how much to tip the bathroom attendant. Over the past several years, Willis and I have come to know each other and have been surprised at how similar our journeys to resolve our very different money problems have been. We decided we might have valuable insights to offer financial professionals from our hard-won experiences.

In our workshop, we talked about the five key points advisers should keep in mind when working with inheritors:

- Be genuine. Know yourself. Think through your values. Find out what your client values. Money is not a value. What's more, if you envy the client's money, the relationship is not going to work out. Willis says inheritors have highly sensitive antennae for detecting envy. We gave some examples to the group, and the point was well received.
- Find out what the client wants to know and understand about money. Don't assume that he just wants to be taken care of. Don't assume he wants to know everything. Don't assume that because he's wealthy, he wants to set up charitable trusts or travel first class. Take the time to explore what he wants.
- Develop a plan to help the client set goals and reach dreams. Being rich is not a satisfying goal for most people. Appreciate the client's need for self-esteem that doesn't come from having money. Don't be afraid to reduce the portfolio to increase the wealth of a life. One of Willis's young clients was told by her adviser that she should not work because it would cost her so much in taxes. An important goal, Willis says, is to help the client build competence in life. For many, great wealth means one can avoid the harsh lessons that build a satisfying life. Help your clients understand this, especially the young inheritors.
- Keep your counsel within the bounds of financial planning. Life planning has become a popular trend over the past five years. Those who do it best keep a client's concrete goals in sight such as: I would like to live in the mountains, I want to develop my talent as an artist, or to travel with my granddaughter. These goals for achieving a satisfying life require planning. But Willis warns that you must discourage a client from revealing private and troubling facts about his life. When a person opens up a deep pain—his father never approved of him, his wife is having an affair—he is getting ready to deal with something critical. Without the tools and training of a therapist, you can't help him do that. Advisers often think that exploring sensitive territory will bring them closer to a client. Just the opposite is true. An unskilled attempt to address such issues could be damaging to a client. Ultimately, he may be ashamed of having revealed secrets to his adviser and withdraw from the relationship. Willis suggests that you acknowledge the problem and tell the client that you can recommend a therapist.

Then the workshop moved on to fees, a subject Willis insisted we make one of our five key points. I agreed. In the 20 years I've been writing about financial advisers, what and how to charge clients have been the biggest spoilers.

From Willis's experience, a key mistake financial advisers make is being secretive about fees. As she was growing up, her father told her she need never worry about money, other than to watch out for someone who might want to take hers. When she started dealing with her money on her own, she felt incompetent and had no clue about what she needed to do.

"HOW DO WE MARKET OURSELVES SO THAT WE DON'T LOOK LIKE JUST A COMMODITY BASED ON PRICE?" THAT'S THE REAL QUESTION.

At our workshop, when I introduced the idea of telling the whole truth about fees, it stopped the clock. Hands shot up all over the room. One adviser wanted to know how much Willis charges. (It's $150 an hour for therapy sessions, which she does over the phone. The client calls her.) Others said that fees are sticky, not so simple to explain. Another participant said that fees are so complex they would put a client to sleep. One gentleman in the front row reported that he discloses his fees to clients and his competitors love it. One client came in and told him that another adviser could do the same thing he did for $60,000 a year less. Fortunately, this client was willing to bring in the proposal from the other adviser and our friend, after going over it with a fine-tooth comb, realized that the client would actually be paying $120,000 more for the competition's services.

And another, who said he was giving a presentation the following day on "Managing the Endowment Relationship,"

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said that if an adviser can't describe his fee, there's nothing to say but goodbye.

Financial planning seems to be plagued with this nasty tradition of coyness about fees. It likely stems from limited partnership days and before, when the salesperson might say: "Trust me. There's no charge for this." Was the adviser taught to sweep the fee under the rug? Maybe he didn't think he deserved the money. Or maybe he thought the client wouldn't be willing to pay it.

To make her point about candor, Willis told an interesting story. When she insisted that she wanted to understand how the money she held in her name was managed, her father introduced her to a private banker. Willis developed a good relationship with this banker. He answered her questions and explained things without resorting to jargon. In fact, she liked him so much that she considered moving more of her assets to his bank. She asked him what that might cost. His answer? Willis read part of the letter she received from him. "You asked how much it would cost to move more of your assets to our bank. A better question is how much it might cost you in lost performance if you don't move them to our bank." He went on to give the hypothetical answers we all know so well: If you earn 25 percent and pay 1 percent in fees, you have 24 percent. If you earn 15 percent and pay 50 basis points, you have 14.5 percent. Willis didn't know much about managing money. But she did know that he hadn't answered her question. She never moved her money to that bank.

I've found that many private bankers have a problem with being clear about fees. When I spoke to a group of them last year, they took issue with the suggestion that they should reveal fees or that they should offer products other than those produced by their bank. One banker said, "I'm not going to sit here and be made to apologize about selling bank products." Before long, he may have no one left to apologize to.

The IMCA participants were cut from a much different cloth. These people are high-end advisers who fully understand the concept of disclosing fees. And yet, perhaps like many of you, they struggle with how best to do it. Consider the adviser who discloses his fees only to have a competitor claim he can beat them. Not everyone has entered the new age of the financial-advisory business that's based on a problem-solving relationship with the client. I believe advisers should not be competing on the basis of fees, and most of the men and women in our audience clearly agreed. But what the eruption at the workshop made clear to me is that the issue of revealing fees remains unresolved for advisers.

Ten years ago, the media seemed to think the right course for consumers was clear: Find a fee-only planner, the *New York Times,* the *Wall Street Journal,* and so many

others advised. Fee-only typically meant a charge based on assets under management (AUM). But that model has become so muddy. One AUM fee may cover only investments. Another may include comprehensive planning. What's more, it gives clients the idea that they're paying for investment expertise, because the fee is based on the size of their assets. As one of the advisers at IMCA pointed out, he uses index funds and exchange-traded funds and doesn't consider investing to be the biggest value he adds—not by a long shot.

Tossing in the towel, one IMCA adviser came up after our presentation to say: "Okay, I agree with everything you said. But how do we market ourselves so that we don't look like just a commodity based on price?" And that's the real question. A business based on luring clients with lower fees is not going to cut it.

But how do you market your practice to show its real worth to the client? I don't have the answers yet. But that's the question now on my front burner: How can an adviser set a fair price and explain it? I welcome your ideas.

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