HOW DO

FINANCIAL ADVISORS

GET

PAID?

AUM

Assets Under Management

The advisor receives a yearly % on the balance of your invest ment account.

Pro:
Advisor's incentives are better aligned with the client's. The more your investment grows, the more money the advisor makes.

Con:
Minimum balances of investable assets generally have to be upwards of $200K.

PER TRADE

Commissions Paid Per Trade

A financial advisor charges a commission every time they buy or sell any stock or bond on the client's behalf.

Pro:
The advisor receives a yearly % on the balance of your invest ment account.

Con:
The advisor receives a yearly % on the balance of your invest ment account.

COMMISSION

Commissions From Sold Products

When advisors buy certain mutual funds or life insurance products on a client's behalf, they collect an up-front sales commission or "trail commission" each year.

Pro:
No cash needed.

Con:
The more trades are made, the more money the advisor makes. The advisor is incentivized to trade a lot in order to generate fees. This often creates a trading mentality.

FLAT FEE

Flat-Fee or Retainer Fee

The client pays the advisor a flat annual fee to provide them with financial advice and to invest on their behalf.

Pro:
Since flat fee advisors do not have any other source of fees, besides the client's, and the fee is not directly tied to the size of the managed investments, the advisor's incentives are most aligned with the client's, they will also refer to themselves as being fiduciary.

Con:
Out-of-pocket fee every year.

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