



Is fee compression real? Panelists discuss at MarketCounsel

Schwab's Paul Ferguson and Advisor Growth Strategies' Brandon Kawal discussed the hot topic at the Miami event.

By: Andrew Foerch for CityWireUSA

MIAMI— The Loch Ness Monster. Bigfoot. The Chupacabra. And... falling AUM fees? Add it to the pantheon of legendary mythological creatures.

Panelists at the MarketCounsel Summit in Miami this week agreed that fee compression, a much-touted concept over the last several years, hasn't materialized in any meaningful way.

Paul Ferguson, managing director of relationship for Schwab Advisor Family Office, referenced data from Family Wealth Alliance that shows 'there hasn't been a lot of fee compression over the last five or 10 years ... their research goes back to 2007, and they said fees are not appreciably different from 2007 to today.'

What has changed, Ferguson said, is that RIAs are under pressure to provide 'a lot more services for the same fee. That's for advisors of all types and sizes.

RIA consultant and Advisor Growth Strategies principal Brandon Kawal said this trend means some RIAs may now be undercharging clients and could consider raising their fees to account for services added in recent years. Those who choose to do so will need to justify such changes to clients. Properly articulating the value of those new services typically stems attrition, he said, and can even be an opportunity to highlight what differentiates a firm from the competition.

Along with an increasing cost of both talent and technology, the trend of service expansion has led to interesting developments in how RIAs structure their fee models. Younger clients, in particular, question why services like financial planning or bill pay, which aren't tied to the size of their portfolio, are billed on a basis points or percentage of AUM model.

That doesn't mean the AUM fee model is dying on the vine. Ferguson said 98% of firms still charge AUM fees 'at least some of the time.' But the fastest-growing model, he said, is a hybrid option that charges AUM fees on portfolio management and a flat or retainer fee for additional services.

Kawal said clientele in the future will want more fee customization around the particular services they need.

'The research trends towards a la carte fees, which is specific fees for specific services. The client knows exactly what they're getting and what they're paying for,' he said.

