



How to choose between fee-only and commission-based financial advisors

Some advisors may provide a financial plan but their product recommendations may be biased



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The biggest mistake most people make when it comes to their retirement is that they do not plan for it. They take the same route as Alice did in the story “Alice in Wonderland,” in which a cat tells Alice that surely she will get somewhere long as as she walks long enough. Although it may not be exactly where you wanted to get to, but you certainly will get somewhere. Similar is the case with financial planning, if you fail to define your goals, determine your risk tolerance and don’t have a well-defined investment plan which is personally tailored. You may end up saving a corpus, but not the right amount and at the right time. Now, since most of us are tied up with everyday commitments and may not have the time to undertake all this research, we need a financial planner who can help us with this. There are two types of planners: commission-based and fee-only.

Who is a Fee-only financial planner?

Fee-only financial planners charge a flat upfront fee from the client in return for providing holistic financial planning services. They will determine in what life stage you are, what you want to achieve and suggest the right portfolio or set of investments for you. In other words, they create a comprehensive financial plan after assessing your risk profile and even recommend the right asset allocation to safeguard your investments. They do not receive any commissions or incentives from the product (mutual fund, insurance) they recommend and, as a result of this, they can work in the best interest of the client. The fee received from the client is their only source of income. This characteristic of fee-only financial planners makes them unbiased, transparent and fiduciary. Another advantage of a fee-only financial planner is he charts a clear path for his clients. For example, we go to a broker for equity investments, mutual fund distributor for mutual funds, an insurance agent for insurance, a bank for FDs and loans, a CA for tax planning and end up spending on products and advice that could work against each other. A fee-only financial planner integrates all these different pieces of information about your financial lives in his plan and ensures that they work with each other together, towards achieving your life goals.

Who is a commission-based financial planner?

Commission-based advisors do not charge any upfront fee from the client for the financial product they recommend and sell to you, although they receive commissions from mutual fund houses and insurance companies for selling their respective financial products. Therefore, the financial advice provided these planners may be driven by commissions and incentives, and the recommendation or advice provided by these planners may not work purely in the best interest of their clients, given the conflict of interest. So, such planners may provide a financial plan but their product recommendations may be biased. However, there are some advantages of commission-based financial planners over fee-only professionals. The former executes the buying of the financial products on behalf of clients in entirety, whereas, in-case of the latter case, he may only give his recommendation and the execution part needs to be managed by the client itself. Apart from this, you don't have to pay any upfront fee. In contrast, a fee-only planner may charge Rs 10,000-Rs 35,000 annually depending on the complexity involved. Of course, commissions do take away a portion of your returns, which can result in a tidy sum being lost over the long term of, say, 20 years. One important aspect to note is that it's critical to break the mind-set, that hiring financial planners is suitable only for HNIs because even an investment of Rs 50,000 annually, if not done in the right way, can make a huge difference to the wealth you accumulate. In the current COVID-19 situation, people will need to reassess their personal debt strategy and add more buffer to their emergency savings. Therefore, it's important to decide which kind of financial planner you want to work with.

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Views are personal)*

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