

Finding Your Advisors Hidden Fees





There's a dirty little secret that the financial industry doesn't want you to know – there's a hole in your retirement investment bucket that in many cases is draining your financial future.

Hidden Fees.



Even a small percentage difference can make a huge impact on your returns over time.

Most people don't know what they pay their financial advisor, and some don't believe that they're paying their advisor anything. The truth is that you are paying for wealth management services, and even for fiduciaries there is latitude around what their fees and commissions are.

Take for example two people, both 35 years old, who invest \$100,000 in their 401(k) with a 6% annual return, and neither of them add a cent more to that fund. One person pays 3% in fees, and the other pays 1% in fees, but neither of them are aware of the fees they're paying.

Fast forward 30 years, they are 65 years old with drastically different outcomes. The one who paid 3% in fees now has a portfolio worth \$432,000. Not bad. But it looks paltry compared to the person who paid 1% in fees and has a portfolio nearly twice that at \$761,000. If each take out \$60,000 per year in retirement, the one who paid 3% would run out of money at age 79; the other at age 92. That's a 13 year difference.

It's worth your time to discover your advisor's hidden fees and we created this resource to help you do just that.

WE'LL EXPLORE:

- How to discover your advisor's fees
- What impact your product's hidden fees (a mutual fund, 401(k), etc.) can have on your retirement
- How to know if what you're paying is fair for the value you're getting
- An assessment to measure the value you're receiving from your advisor

Discovering Your Advisor's Fees

To discover your advisor's hidden fees, simply ask them for a list of fees or commissions you pay for their services.

Don't be alarmed if they refer you to their Investment Policy Statement or their Advisor Disclosure Vette (ADV). Both of these documents outline the advisor's fees, but not the fees or commissions you're paying on each product in your portfolio. Unless you're an attorney or have a background in finance, these dense legal documents may appear intimidating and difficult to determine how the advisor is compensated. If that's the case, ask them to provide a summary of their fees. If they are unwilling to do so, it may be time to look elsewhere for an advisor.

Types of Fees

Advisors make money in two ways: fees and commissions. The following list is not comprehensive, but outlines some of the common fees and commissions.

Assets Under Management (AUM)

This is the most common fee structure, and is based on an annual percent

of your total assets under management (AUM). The more you have invested under their management, typically, the lower the fee. The most common rate is 1% of your AUM annually, but they can be higher—even up to 3%. Unless there is unique and immense value being added to offset the cost, high annual fees are a good signal to reassess the value of the relationship you have with your advisor. If you engage with a wealth management firm, then a team of financial professionals work together to analyze, prepare, and strategize your retirement portfolio. This is an attractive model since for one fee you have access to a team of experts, compared to the hourly fee structure where you rely on a single person.

Hourly Consulting

You pay your advisor for the amount of time they put in on your portfolio. This fee structure is most common when you work with a single advisor. But when you rely on a single person, that means that there is a single point of failure: if they retire, have health issues, or if something happens to them, that advisor is the only one who is familiar with your portfolio. That also means that there's no one else who can provide a second opinion on the plan. And since you pay an hourly consulting fee for a firm, the costs add up quickly when there are teams of professionals reviewing and stress-testing your account.

Retainer

In this fee structure, you pay your advisor a fixed fee on an annual or quarterly basis for a set of services. This is a similar model to AUM, but with a retainer it is a fixed fee rather than a percentage of your investment assets.

Fixed Fee

This fee model is most common for people who want to execute the plan him or herself. You pay upfront for the advisor to create a one-time custom, comprehensive retirement plan, and then you generally don't engage with the advisor on an ongoing basis. If you do, then you would pay for hourly consulting if you needed services beyond the comprehensive retirement plan.

Commissions

When a commission-based advisor recommends an annuity, fund, or any other investment product, you're sometimes charged off the top of your investment.

These will typically cost you between 3-6% and in some cases, you won't see the charge in your account reports. Sometimes the company whose product the advisor is selling also pays the advisor a kick back. The company thinks of it as a marketing expense.

This creates a conflict of interest because the advisor has a cash incentive to put their interests above their client's.

Commissions are not inherently bad, but you want to hire a fiduciary that is legally bound to put your interests first. Even among fiduciaries, advisors are not bound to stay under a certain percentage, so there is room for interpretation about what is best for a client.

Types of Commissions

Embedded or Hidden Commissions

These are most often seen in insurance products, mutual funds, Real Estate Investment Trusts (REITs), and hedge funds. In these commissions, any up-front and ongoing costs are often buried in the fine print of a legal document. And they are usually long and complex—designed to ensure that the investor doesn't know what they're paying. Actually, it's extremely rare to even find an advisor who knows the underlying costs in each product that they sell since every product often has dozens of versions and comes with extensive legal documentation.

Trade Commissions

Some advisors charge you a commission for every securities transaction you make. For example, if you buy or sell \$15,000 worth of a stock, you may pay between \$75 and \$300 in commission to process the trade. If you don't trade frequently, then this probably won't affect you heavily. However, for those who do trade frequently, it can be expensive. One concern with this model is that it incentivises your advisor to recommend more frequent trades, while the commissions eat away at the profit in your portfolio.

Front-End Loads

A front-end load is a commission that charges you a transaction fee that the product provider takes from your investment up-front. This commission structure is most commonly used with mutual funds and is usually within the 3-6% range, but can be as high as 8%. If the fund charges a 5% load, for example, and you invest \$20,000, only \$19,000 gets invested and the rest goes to the firm. A front-end load usually comes with lower annual fees than other mutual funds. However, it will take years to make up for the up-front cost.

Back-End Loads (Or Deferred Sales Charges)

Also used in mutual funds, this commission structure can be implemented in many different ways, but the basic idea is that rather than paying a commission up-front, the product provider will charge you if you sell the fund before a certain date. This time period can be as long as six years, after which you can sell the fund without penalty. The terms of the commission and how long you plan on holding the investment will determine if this is a good option for you.

Types of Commissions

Embedded or Hidden Commissions

12(b)-1 Fees or “Level Loads”

This commission is in every front-end and back-end load, and in most mutual funds. 12(b)-1 Fees are an ongoing commission taken from your investment and given to your advisor in the form of a higher expense ratio. And since these fees are hidden, they can be difficult to uncover.

Hidden Product Cost

In addition to what you pay your advisor, you are also paying for the vehicle itself (the mutual fund, investment, or other product), and some of these costs were covered in the previous section about commissions.

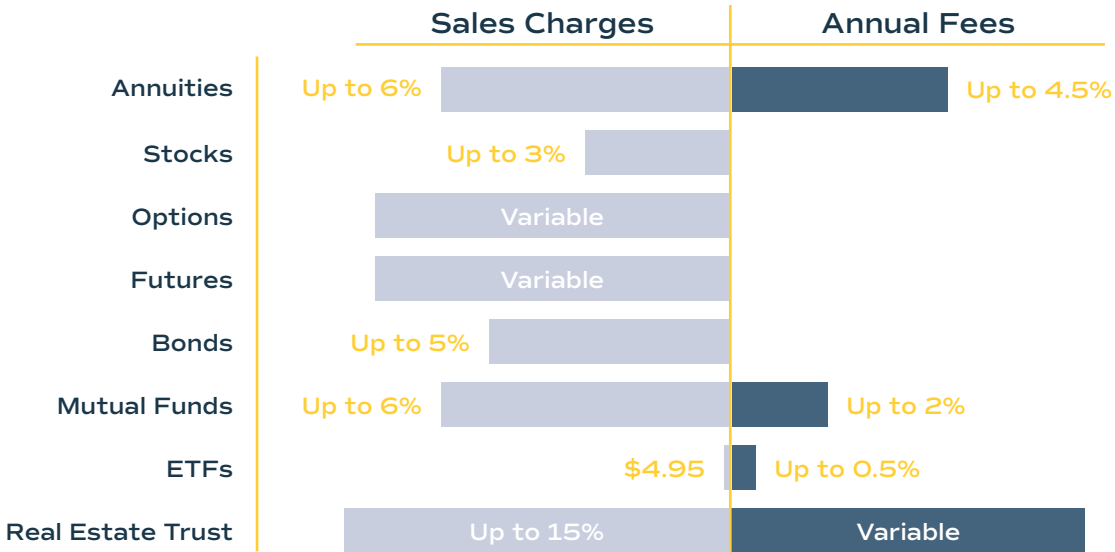
But what does that mean for each of the products in your portfolio?

The unfortunate truth is that a large portion of the time, your advisor does not even know the fees for each of the products in your portfolio. The company whose product the advisor is selling markets a product both to advisors and to you (the investor) differently than what’s buried in the legal documentation. So neither you or the advisor knows what the true costs are.

The most thorough and efficient way to do this is through a financial firm that offers a second opinion service and will contact the company whose products are in your portfolio on your behalf. And they will dig into the legal documentation to create an outline of every fee associated with your portfolio.

While that is the most effective way to do it, you might be wondering what the common range of costs are for each product. While this is not comprehensive, the following outlines common products included in portfolios along with a range of fees and commissions for each, which probably raises the question: what are you paying and could it be lower?

Common Product Costs



Determine Good Rate & Value

Once you've determined the fees you're paying, the question still remains, is it a fair value for the services you are receiving?

Since most people have had the same financial advisor for many years, they don't have anyone else to compare their service to, making it difficult to know if they're getting a good value for what they pay.

The easiest way to determine this is to get a second opinion from another firm. They will be able to explain what each fee and commission means for your retirement outlook. Having this conversation will lead to two potential outcomes:

1. The advisor tells you that your retirement plan is solid, you're set up for success, and that you're paying a fair price. In this case, stay with your current advisor.
2. They find untapped opportunities in your retirement plan, they could offer additional services, and possibly at the same rate you're paying or less.

An advisor who acts as an account manager just sets up your accounts and forgets about it. Even a 1% annual fee is too expensive to pay for an annual account review without proactive planning.

Advisor Value Assessment

No matter what your advisor charges, they should be proactive about your finances. In addition to account reviews, what services do they provide?

Use the checklist to rate how much value you're receiving from your advisor—if you're trying to determine the value you're receiving for the price, keep in mind there are firms that offer all 12 of the following services for a 1% annual fee (of course depending on account size).

Does Your Advisor Provide:

- ◇ Annual tax strategy
- ◇ Year-by-year financial plan throughout your retirement
- ◇ Cash flow analysis
- ◇ Historical performance of your investments
- ◇ Ongoing analysis if your portfolio matches your risk tolerance
- ◇ Stress testing your retirement plan for market volatility
- ◇ Evaluation of your insurance policies
- ◇ RMD projections
- ◇ Charitable giving plan
- ◇ Plan for IRA conversions
- ◇ Long-term care options built into the plan
- ◇ The ideal time to buy or sell appreciated/depreciated assets

Add up your points to find your score. Each service above is worth 1 point.

Advisor Score: /12

0-6 points = Consider a new advisor
7-9 points = Seek a second opinion
10-12 points = Good value

About Great Waters Financial

We believe that hidden fees shouldn't be hidden, and the path to your retirement goals should be clear, not buried in legal documentation.

That's why we are up-front about how we get paid. And it's why we offer a second opinion service where we dig into the legal documents for all the products in your retirement portfolio, and work with your product owners to uncover the true costs that could be weighing down your retirement outlook.

At Great Waters Financial, we take your retirement seriously. We believe retirement is not the end of the road, but a great, new beginning.

One filled with new aspirations. We want to help you realize those dreams. So, you have our undivided attention.

You will see that attention in the way you are greeted, the way we meticulously craft your financial strategies, the way we ask questions, the way we listen, and in the way we remain engaged with you in the years ahead.

Every one of us at Great Waters is committed to delivering to you a comprehensive retirement plan that meets your unique goals and aspirations.

We'll evaluate investment approaches and tax strategies and implement them so that you don't have to. And we won't stop evaluating and implementing— because the market is always changing and your needs may change too.

We do it because we want to give you the confidence and inspiration to live your new beginning greatly.

To get a second opinion, contact one of our offices.

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