The Value of Fee Based ***Independent*** Advice

Since June 2005, any financial adviser using the word "independent" in their title or style, must at least *offer* clients the option of paying a professional fee for the advice. Many well known financial advisory firms have dropped the description "independent", and become multi-tied sales agents.

Previously many "Independent Financial Advisers" operated on what is known as the "commission-only" basis. They gave advice, and made recommendations, free of upfront charges, in the hope that the client would accept recommendations to buy financial products which paid the adviser commission. The adviser remained liable for the advice delivered, even if it was not transacted through him.

On this basis, as commission was the only source of remuneration to the IFA, it became clear that there was a commercial imperative for the IFA to favour client circumstances and recommendations which favoured higher commission-paying product solutions. Often, course of action or inaction which may have been best for clients, but which would not have generated sales commissions, would be ignored. This was particularly true in the field of Estate Planning and Inheritance Tax mitigation.

Clearly, this situation was not entirely compatible with impartiality of advice.
One may question the value of something that is given away free of charge or commitment, as an enticement to buy a financial product. Essentially, such "advisers" are really just salespeople.

In larger organisations operating on this basis, the "advisers/salespeople" are set sales commission production targets, usually monthly, and sales managers can exert pressure on the advisers to meet such targets. This could result in the advice becoming coloured by commission bias.

IFAs can still advise on this basis, though they must at least *offer* the alternative of a fee-based advisory process. However, they may set the fees at levels designed to deter clients from accepting this option, to steer them back to the "commission-only" basis.

I decided when I established Midas Fides, that I would *only* offer advice on a fee basis, but that I would offer my clients a range of choices as to how the fee agreement was to be drafted, before they entered into it. I am fully independent, and also directly authorised by the FSA, not park of a network, so I conduct my own investment fund and product research, unfettered by any bias of ownership or other hidden agendas.

I do not give free advice, because my advice is valuable and properly qualified.
All clients must sign a "Letter of Engagement", which is a binding fee agreement, before advice is given or recommendations made. This sets out the client's circumstances, objectives and resources, and establishes the scope of the advisory exercise and the cost.

This may be a flat amount, or a percentage of funds advised on, percentage of tax saved, or an hourly rate. Clients can choose the "pure fee" option, where they pay the fee from own resources and any investments are made on a nil commission basis with enhanced allocation; or they can have a "commission offset" basis, where commissions generated by implementation of the recommendations are offset against the fee, and often eliminate it completely.
Ongoing servicing and management is charged for at a minimal percentage of funds under management, plus performance fees, agreed in advance using a mutually agreed benchmark.

Most discerning investors would recognise the value of this fee based advisory process, reinforcing, as it does, the legal obligation I have to deliver "suitable advice" drawn from the whole market place.
Non-independent advisers, such as "multi-tied" advisers cannot offer this complete impartiality.

Ask yourself, is your "adviser" *truly* independent, charging professional fees for impartial quality advice, or is he a salesman in disguise?