Bourbon Financial Management, LLC
Excellence. Experience. Ethics.

Financial Adviser Compensation Options

Why BFM chose to be « Fee Only »

Before you can figure out which kind of financial advisor might be right for you, it helps to get a basic idea of the different compensation options they could work under. It's important to know the type of compensation method used but it shouldn't be the sole decision making criteria when choosing an advisor. There's much more to it than just that. You might think from a dollars and cents perspective, one option is clearly better than the other, but in many cases I would argue it is not that cut and dry. Also, these delineations do not speak to the actual abilities or individual attributes of the advisors – it's possible that an advisor that operates under one option (which might be generally better for a certain type of investor) would work out better for you.

As discussed, we are **fee only financial planner** and we do not accept any commissions so that we give **objective advice with no conflict of interest**. **We act in your best interest**. We do not sell any financial products and we do not charge by the hour since we want to talk to you as many times as you need. Our quarterly services usually cost between $400 and $900. We believe that low costs are very important to reach your long-term financial goals and to build long lasting relationships. Since we receive no other compensation, you can trust that the recommendations and action plan designed to efficiently and cost effectively assist you to move towards your objectives.

We receive no asset management fees or any hidden fees. Our pricing model means you only pay for counsel and you can be confident it is objective because we don't receive commissions on products we recommend. No hidden fees or commission means that you can be confidence you are not paying for anything but solid financial counsel. We serve the middle income and the wealthy alike with our pricing approach which provides objective analysis and advice.

1. Salary Only

Advisors do not receive bonuses or commissions on top of a base salary.

Cons

- Advisor has **no incentive to “go above and beyond”**, they continue to earn their salary as long as they perform basic functions
- **Turnover can be high** with the company as advisors may leave for a higher paying model after establishing relationships with clients (may try to take them with them), or just gaining experience and wanting to grow or face new challenges
- **Investment shelf may not be complete** – less likely to offer access to much beyond GICs and Mutual Funds

2. Salary Plus Bonus

The bonus is essentially based on a number of factors such as the number of dollars they had clients transfer in to mutual funds, GICs, bank accounts, etc. Advisors may get rewarded for bringing in business to other areas of the bank such as the mortgage department, creditor insurance policies, referring up to the full service brokerage, etc.

Cons

- Bonus structure puts **emphasis on products**
- Advisor may deal with over 1,000 clients – makes it harder to develop deep relationship between advisor and client
- Investment product shelf limited to mostly mutual funds, GICs, some emphasis on proprietary portfolios
- **Less competitive on costs** as portfolios grow in size (perhaps beyond $100,000)

3. Commission Based

There are a number of different commission based advisors out there.

Cons

- **Advisor has conflict of interest**: can be focused more on product than the person, may recommend investing over debt reduction due to compensation difference (for example)
- **Fees embedded in products** means it’s harder to determine what you are paying for products and what you are paying for advice
- Advisor may be more motivated to start relationship and **less motivated to maintain relationship** if using “front loaded” products – these would be products like DSC mutual funds or insurance policies which pay large commissions up front but smaller ongoing commissions
- Advisors can be **incentivized to use higher risk products** (as higher risk products can pay higher commissions)

4. Fee-Based

Fees may be tiered, meaning they are reduced as your portfolio grows.

Cons

- Advisor may have a **high minimum portfolio size requirement**, almost always in the 6-figure range
- Some advisors only offer investment management and others offer financial planning on top of investment management – need to make sure you are comparing apples to apples. Investment management and financial planning at 1.25% might be better than just investment management at 1.00% (for example)
- **Product fees** (ETF MERs and F-Class Mutual Fund Unit MERs) **still need to be added to Client Advisory Fee** to calculate total costs (MERs are embedded in product and not readily transparent). For example, a portfolio manager who will run a portfolio of stocks and bonds for 1.25% might be cheaper than someone who charged 1.00% but uses ETFs or F-class mutual fund units which have embedded costs of 0.50% (for a total of 1.50%) – but also note that cost is not sole determinant of portfolio performance
- **Advisor has conflict of interest**: may recommend investing over debt reduction due to compensation difference

5. Fee-Only (Our Model)

Pros

- **Fees are transparent**, making it easier to see what you are paying for advice
- Substantially **eliminates conflict of interest between products and advice**
- May be the **least expensive option** for medium to large portfolios

Source: BFM and Wheredoesallmymoneygo.com