Episode 92: Understanding an Advisor's ADV Part 2 brochure to evaluate how an advisor may work with you - Part 1.

00:00
Bob French
The purpose of Retire with Style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to Risaprofile.com/Style and sign up to take the industry's first financial personality tool for retirement planning.

00:25
Ryan Walter
Sav part two.

00:45
Bob French
You can think of it like your car manual, but please don't put it in your glove compartment. Read it.

00:51
Alex Murguia
Hey, everyone. Welcome to retire with style. Alex here and we're continuing our conversation with Ryan. Walter. Hey, Walter. How are you?

01:02
Ryan Walter
Hey, I'm doing great, Alex. How are?

01:04
Alex Murguia
Nice, nice. So what's changed since the last time we've spoken?

01:08

Ryan Walter
Yeah, not a whole lot. Not even my shirt?

01:12
Alex Murguia
No. Well, I did get a cup of coffee, so there is that. But today we're doing the unthinkable. No one has the guts, but we stand up and we will do this effectively. We are going to review our firm's adv. What do you think? Stop the insanity.

01:39
Ryan Walter
The most common thing I hear from the advisors I work with is why do we have to have this document? Nobody ever reads it. But I think as we go through this, you're going to find there's a lot of really important, useful information in there. So people who aren't reading it, you should read this. It's going to give you a ton of insight to the people you're working with.

02:03
Alex Murguia
No, I agree. Again, theme here is like the Business of Advice, simply because we know for well that majority of our listeners are consumers. And the reality is we've gotten questions about engaging with an advisor or someone that's with an advisor and they're asking us questions that are like business related, if you will. And one of the best things is really just look, we wanted to have a few episodes on the Business of Advice, just explaining what are the different types of advisors, what are they bound to custody, et cetera. And today, I think this is one of the most important episodes we've had on our show. Because really, what it breaks down is how to read what an advisor is doing for you and how to discern the signal from the noise to make sure that in addition to the trust and the personal relationship, that this is a very credible person.

03:03
Alex Murguia
And an advisor is required to, on a yearly basis, update their adv. What does Adv actually stand for?

03:10
Ryan Walter
It doesn't really stand for anything. It's adv because it's filed and prepared and maintained by registered investment advisors.

03:21
Alex Murguia
Oh, the adv is there you go.

03:24
Ryan Walter
Yeah, it's not an acronym. Broker dealers have a Form BD that they file broker dealer form BD. Investment advisors have the form Adv.

03:37
Alex Murguia
I guarantee you if I ask any advisor right now, what does Adv stand for? I don't think 95% of the people know this because it's a trick question.

03:46
Ryan Walter
And it stands for nothing.

03:49
Alex Murguia
All right. But it stands for nothing, but it's about everything. So in addition to that, there's one more question before we begin that comes up here. Why is advisor in the English language spelled with an O? And why when you see it in legal papers and things along those lines spelled with an E?

04:14
Ryan Walter
Yeah. Do you know they mean exactly the same thing? So don't get bogged down in the spelling if that's something that's been tripping you up. The law that created investment advisors as an industry and where all the rules and regulations that they're subject to are found is the Investment Advisors Act of 1940. That's advisors with an er. When a lawyer writes something, they will use the Er form more often than not because that's what the law is. When almost anybody else writes advisors, they're going to use the or form, but they're saying the exact same thing. There's no actual distinction between advisor with an Er and an or. It's just a preference for most people. And for lawyers that means the Er more often than not.

05:13
Alex Murguia
Got you. I always find it because then when we write in our marketing site or on our website, we always do the or just because, I don't know, it closely aligns with the English language.

05:23
Ryan Walter
Everybody has their favorite, but it makes no difference.

05:27
Alex Murguia
Okay, so Len, let's break down the adv. We'll choose McLean simply because that's our firm and we'll completely transparent and I feel better about doing that than pulling some random firm's adv and talking about their business. So the purpose here is we're using McLean's and we'll have it downloadable in the show notes. You can download the know, it may be helpful, just download it and as we're talking you can kind of see it just the same or just listen in, that'll be fine. But I don't know, I thought it'd be kind of cool to do it in that manner as well. So let's take it away. Ryan, it's your show at this point.

06:11
Ryan Walter
Yeah. And so form, adv has multiple parts. You've got Form Adv part One, which an investment advisor files online. It's kind of a data entry form based on a set of questions and response options. That is something that's filed directly with whatever regulator the firm is registered with, either a state one or more states or the SEC. That's not the subject of this discussion. That's the adv. Part one. There's the two A, the disclosure brochure. That's what we're going to be focusing on here. That's really the meat and potatoes of an advisor description of the advisor's business and fees, services, conflicts, things of that nature. There's the two B, which is a brochure supplement that's kind of a miniature biography of the investment advisor representatives who are going to be actually giving you the advice. The individuals of the firm who are going to be working with you give some information on their background, their education, history, business background, their outside activities if they have other businesses or other ventures beyond being an advisor representative and some of their personal conflicts of interest.

07:31
Ryan Walter
And then you've got Adv part three, which is the client relationship summary or form CRS interchangeable terms there. That's a two page document. Could be two or four pages, depending on the firm. That's kind of a book report version of the disclosure brochure that we're going to be talking about here. Just very abbreviated discussion of the firm's business and fees and conflicts. But really, I think the most meaningful document is this two A that we're going to be looking at.

08:04
Alex Murguia
Yeah. And look, I would say this. Why is there an abbreviated version of a document we're going to talk about? It's human nature, right? Look, this is an important decision, and some people say, well, I don't like to read or I don't like to do this or just tell me what to do, that kind of thing. And I get that. I'm like that with certain things. Right. But this is hugely important and it's just your responsibility, even for your family's assets. If you seek financial advice, you need to just read this. It's one of those things. You could say it's just boilerplate. It's not boilerplate. There's some language that you need to follow, but the reality is it'll tell you

a lot about the firm in which you're entrusting your assets to that you spent 30 plus years building. So honestly, if you don't do it now, when exactly?

09:05
Ryan Walter
This is your shot. If you're hiring an investment advisor, this is your shot to really vet them out, feel them out, get a sense for what they stand for. And one of the best ways to do that beyond just talking to somebody is through this adv.

09:18
Alex Murguia
Yeah. And talking is important, but it's not the end. It's not like, you know what? I like Ryan. He's a cool guy. I'm going to go with no, a.

09:26
Ryan Walter
Lot of cool guys out there, but I wouldn't trust them all with my money.

09:29
Alex Murguia
Yeah, Ryan passed the first step. Now we got to see him. All right, so what do we have here? So I'm opening up the adv, and.

09:38
Ryan Walter
The first thing you're going to see for almost any adv to A, the disclosure brochure is the COVID page. There's 18 items that all firms need to address in the adv. Some firms need to have a 19th item if they're state registered, but we're going to focus on 18 because that's what everybody addresses. And item one is the COVID page. And this is just giving you bare bones details. Who is the firm? McLean Asset Management Corp. Where are they located? How can I contact them? Phone number, email address, what have you. And it also gives you the date that this version of the adv. So we're looking at the March 7, 2023 filing from claim here.

10:24
Alex Murguia
And a firm has to do these every year.

10:26
Ryan Walter

That's right. At least once a year during the yeah, you're right. If a firm material update, they have to update it during the course of the year, but everybody has to update it at least once a year.

10:41
Alex Murguia
Okay. And so then, sort of like the State of the Union address, you got to at least talk once in front of the nation. Exactly. The results vary. All right, so number page two.

10:52
Ryan Walter
Yes. Page two, you're going to find the material changes. So this section is going to talk about all the material changes that took place since the last annual Updating amendment that was filed. So in this case, we're talking about all the material changes that took place since March 9, 2022, which is McLean's last annual amendment filing before this March 7 23 version. Won't give a lot of specifics. Usually it'll just say we updated item X to do some vague thing, but it'll at least give you an indication of where to look for what changes have taken place.

11:35
Alex Murguia
Okay. And so then there's a table of contents about the items, the 18 items that you mentioned, and then it gets into the brass taxes with item four, where we're talking about our advisory business. Now, what are some tells? And you can obviously use McLean as an example of what the tells are there.

11:57
Ryan Walter
Yeah. Really? You're looking at a number of different things in this section. Who are the owners of this firm? MAMC is principally owned by Alex Easy. Very straightforward. Who are your primary clients? Individuals, retirement plans, trust estates. Again, very straightforward. What a lot of people are going to be interested in are, what are the services you're going to offer me? And these services can come in a variety of different shapes and sizes. You may have investment management, just pure money management, either on a discretionary basis or a nondiscretionary basis. Discretionary versus nondiscretionary meaning do they have to tell me before they want to do something in my account? Nondiscretion means that my advisor has to call me or email me every time they want to make a trade and make sure that I'm okay with it. That's a nondiscretionary engagement discretion. That speed bump doesn't exist.

12:58
Ryan Walter
The advisor is given full discretion to do whatever they want in terms of managing and trading the account. They don't have to talk to me first. They always have to do whatever they're doing in alignment with my goals and objectives and any restrictions I want to place on their authority. But if I grant them discretion,

then subject to those goals and objectives, they have full discretion to do whatever they want in pursuit of those goals and objectives.

13:24

Alex Murguia

Now, a couple of points here. Discretion. We talked about custody in the last episode. It doesn't mean we can make trades and send them to foreign accounts or anything like that. Discretion. Actually, from a workflow standpoint, our firm functions with discretion. If your client that wanted to send us assets to manage and all of it is nondiscretionary. We probably wouldn't take it simply because the logistical hassle of calling somebody every time we rebalance a portfolio or dividends came in and we're going to reinvest it and dealing with sort of having to call you before we do that, like these practical kind of things, it's just not worth it just from a workflow standpoint. Now, that's not to say that we don't have some assets, that we don't have discretion, but that would happen if, like, let's say you bring over a million dollars, right, and 50,000 of that is stock that your grandmother gave you, and you say, hey, look, there's 950,000, but this 50,000 don't touch, because it means a lot to me.

14:29

Alex Murguia

There's a reason why it can't be touched or something like that and we don't have discretion over those assets. That's fine, but it's very difficult and I don't know, I know from McLean, but I don't know if from your experience with other firms, it's very difficult to manage a firm efficiently with nondiscretionary only approach because it'll just shut you down. I got to wait for Ryan to call me back to see what I do with these twenty cents of at and T stock dividend, you know what I mean?

14:59

Ryan Walter

And my hands are tied until I hear back from you. And if you're on a two week vacation, that means your account can't be touched for two weeks unless I could somehow get a hold of you and bother you while you're away. It's one of the drawbacks of having a nondiscretionary relationship, I think. A lot of times retail investors are looking for a discretionary manager. I'm hiring somebody because I don't want to think about this right? So I don't want to be called every time they want to do something in the account. And I think a lot of times, in my experience at least, nondiscretionary is for one of two things. Either a client who is an investment professional and has a good head for this side of the business, and they want to be involved in the decision making because they know what they're talking about.

15:50

Ryan Walter

They want this other expert to give their advice and opinions, but they want to be the final decision maker, which is fine. You may also see nondiscretionary for like institutional clients because they have their own investment team that wants to review all of your recommendations ahead of time and to the client, to the institution, that's a necessary check that they need to have in order to get comfort that the advice they're receiving is appropriate. But for the everyday investor, most of the time they want discretion because they don't want to be bothered with what's going on in the account. They just want to know it's in good hands and that they trust the person who's managing it.

16:27
Alex Murguia
Yeah, and I can't stress enough there's just some logistical admin, things that you just kind of need. It at least that's for 95% of the folks out there. It's not necessarily let's say there's a do it yourselfer and they say, oh, I want an advisor, but I want to know every time a trade is made just so I can approve it. They wouldn't be a client of McLean because that's just not going to work from a standpoint of just efficiency.

16:59
Ryan Walter
And there's probably a better fit out there. Not everybody fits with every firm as great as the firm, as great as the client might be.

17:07
Alex Murguia
Absolutely.

17:08
Ryan Walter
That's something you need to be on the lookout for. And something I think we touched on in the last section is that we're really looking for firms that fit what we want. Right. And if I don't want to be bothered, then I don't want to hire a nondiscretionary firm. I want somebody who will take full discretion and take on that responsibility.

17:28
Bob French
The Retirement Researcher Retirement Income Challenge has started up, and we had a great first day yesterday, but if you missed your chance to take part, don't worry, you can join our Retirement Income Challenge. Waitlist. So you don't miss out next time and make sure that you're able to join Wade, Alex, and I to sign up for the list. Head over to Risoprofile.com/podcast. Again, that's risoprofile.com/podcast. See you in the challenge next time, at least.

18:02
Alex Murguia
Okay. There's no, that's good. So there's other services here as well that we have you may want to yeah.

18:10
Ryan Walter
And a lot of firms will have multiple different lines of service. Most of them are not just strictly money managers. A lot of them will have financial planning, for example. So maybe they will manage assets, but maybe they'll also help you set goals. What are your retirement needs? Do you have kids who you need to save for education? What's your tax situation like? And they can take all of that information and set up a plan or first identify goals in the near mid and long term, set, like, tangible benchmarks that they try and reach to meet those goals and then put together an action plan of how to get to those benchmarks and ultimately reach those goals. For a lot of everyday investors, that's almost like indispensable in managing the assets, is knowing what you're managing for and how you're going to get there. That all comes from the financial plan.

19:09
Alex Murguia
Okay, and then I see referrals to outside professionals.

19:12
Ryan Walter
Yeah.

19:13
Alex Murguia
Want to talk about that a little bit? What are some things a consumer should be asking themselves that they find the adv and it says, referrals to outside professionals.

19:21
Ryan Walter
Yeah. Who are these professionals? What are you referring outside know, in this case, it might be attorneys, accountants, insurance agents, because maybe the people at McLean or the people at the firm that you're looking for aren't licensed to engage in those services. And so they basically have to outsource those to a third party. But maybe in some instances they outsource to a third party because it benefits them. That's what we kind of want to be on the lookout for. Are you outsourcing because you're not able to engage in this or because you know it's not your area of expertise and you know that you're not the best person to give this sort of advice? Or are you outsourcing to this person because they give you 10% of the fees that they collect from any referrals to you? That's something you really want to be on the lookout for.

20:15
Ryan Walter
And that goes not just to these referrals but to almost any aspect of.

20:19

Alex Murguia

Advice is where do these companies 100%? I've seen many advisors where we're AUM only, that kind of thing. We only get paid for services, but they refer up banking relationships and the bank sort of kicks them out. I'm not saying that's right or wrong. They're transparent about it in their adv, but no one reads it. And so it's one of those things that you should know this simply because you just want to know what you're getting into. We pay actually a retainer, a yearly retainer to a long term care professional that we refer clients to, but we're not getting paid. We actually pay that person a retainer to provide advice to our clients.

21:05

Ryan Walter

Why?

21:05

Alex Murguia

Because it gets complicated, the long term care rules and we'd rather have an expert on that. We have a stable of attorneys and accountants we'll refer to simply because to your point, the level of advice that we give, you want to make sure you don't cross the line and you're actually providing legal advice or you're actually providing like accounting advice. Because we're not CPAs, there's a technical line that we have to follow, right?

21:33

Ryan Walter

Yeah. If your investment advisor is drawing up a new will for you and they're not a licensed attorney, you want to take a step back and say, do I really want to get this important piece of advice and this important document from somebody who's not a licensed attorney? Are they even able to give me this document? There's a lot of training that goes into being an attorney and if you're going to get legal services, there is want it to come from somebody who's authorized to do that. But more importantly, I think is the conflict. Like you said, a lot of people don't read these things, but it's so important that you do read these things because this is where the conflicts for the most part, this is where they're going to be disclosed. And an advisor, in order to meet their fiduciary duty, they have to give full and fair disclosure of their conflicts to you so that you can consent to them.

22:33

Ryan Walter

But what they're not required to do is to actually get your literal consent to that conflict. If they disclose it to you and you don't come back and say, I don't want you to act on this conflict, then you have implicitly given your consent to that conflict, even if you never read the brochure, even if you never read this document where the conflict was disclosed. So it's really important that you read this, that you identify, pull out the conflicts and kind of figure out where the conflicts lie for a particular firm. Because after they disclose the conflict to you, their disclosure obligations are done. As long as they can justify the advice they give as being in your best interest, then it doesn't matter whether you've actually consented to the conflict or not. You consented to it by not doing anything about it, by not restricting their authority or their advice giving ability.

23:24
Ryan Walter
And that's why it's important for you to do your homework and figure out where those conflicts are and this is the place to do it.

23:30
Alex Murguia
So if you're looking at ours, we do employer sponsored retirement plans, we do 401K plans. Invariably there's somebody that comes over that has a, we roll it over into an IRA rollover. There's issues there, you're looking at our things and again, you're a compliance attorney. What would you ask us, warts and all? I'm fine with that. What would you ask us relative to our lines of business that you would think you'd want to kind of just rule out?

24:00
Ryan Walter
Yeah. So what are you going to give to me? I have a, let's say I have a separate brokerage account that I've just been self directing for the past ten years and then I've got just a pile of cash that's been sitting aside that I've been saving for a rainy day and it's been accumulating, but I haven't done anything with it. And with inflation it's losing value every day. So I'm going to look in here and I'm going to say, well, RISA, sponsored, employer sponsored, sorry, retirement plans. That doesn't really impact me. That's the McLean working with a plan that may not be McLean working with me. And so these services that are geared towards businesses, I'm not super concerned about, I'm more concerned about what they're giving to retail investors. But then I get to rollovers and conflicts that can arise from there. I might see that, it might catch my mind.

25:04
Ryan Walter
I've got a so maybe a rollover is right for me. Well, McLean, if McLean recommends a rollover, they're conflicted because it's going to increase their compensation. Is that a problem? Is that an issue? I at least have caught that I've heard the term rollover. I know that I've got this account that may be subject to a rollover, it may be a good idea to do a rollover. I see these conflicts in place, but I don't have enough information to really reach a conclusion about what McLean is going to do with that account. So it becomes something you want to discuss further with the firm and that's what a lot of this is going to be about. We're reaching a hard and fast conclusion based on what we see here. We're kind of issue spotting for things that I want to talk about further. Oh, you advise on rollovers.

25:54
Ryan Walter
You might recommend rollovers. Is this a good idea for me? And go from there?

26:01
Alex Murguia
No. And I think rollovers that's going to be in everyone's adv at this point, because that's the reality, right. If somebody has an RISA sponsored 401K plan and you're asking them to manage those assets from there, invariably that's always a conflict, because you're asking them to give you the discretion of those assets and the business benefits that come with that.

26:27
Ryan Walter
Yeah, and we're going to get to this in the next item. But a lot of investment advisors are billed on what they would call an AUM fee assets Under Management fee. It's a fee that is maybe 1% to use a round. Number 1% of all the managed assets per year is the fee. And so if they're not managing my 401 but they would manage those same assets after they're rolled over into an IRA. Number one, that conflicts them in giving the rollover recommendation, because the investment advisor obviously is incentivized to increase the assets that are going to be subject to the AUMC. And number two, there are certain processes that they're going to need to walk through in order to give that advice. We don't need to get into that here.

27:16
Alex Murguia
No, I got you. And just keep in mind, why would you do that? Right. Well, usually it's getting better, but the 401K options are much more limited than what you can just get in the open market. And that's really the bottom line. It's getting better because there's such a strong attention nut of fees in the 401K spot that there wasn't even ten years ago. So those are the considerations. You just have a greater option of investment choices away from a 401K plan. So it made it an easy kind of rollover suggestion, but they are becoming more competitive. At least I get that sense. Do you, Ryan?

27:57
Ryan Walter
I do. And I think that's almost by necessity, because if I'm in a plan and my investment options are ten different target date mutual funds, which in a lot of cases, that's what the plan is, and I don't get individualized advice, I don't get planning from anybody. And by the way, I'm probably paying ten to 20 basis points a year to have an investment advisor recommend to my employer what those ten target date funds are. Where do I get the value as a participant in that plan? It's hard to see, whereas it's a lot easier to see where the value comes from. In an IRA, where I'm not limited to ten target date funds, I get discretionary management, perhaps I get financial planning. I pay a little more. Sure. Well, most of the time I pay a little more. But it makes sense because there's value.

28:57
Alex Murguia
There'S value there, right? Yeah. And so the point is, my takeaway is these are more potential issue spotters. Just because something is there doesn't mean that there's an issue happening. It's just if they would come up, it would come up in that realm. That's all it is. But again, the whole theme is making you an informed consumer regardless. Even if you don't pursue not to get advice, you should at least know why you should or why you shouldn't, or making sure that it fits as opposed to just having preconceived ideas about the business of advice.

29:30
Ryan Walter
Right. And I personally, I really appreciate when firms are transparent and upfront with their conflicts. They own the fact that there are conflicts, that they can't get rid of the conflicts, it's just inherent to their business, but they're upfront about it. Hey, this conflict exists. What I don't appreciate as a consumer is firms that try and hide the ball. They may talk about things that are a conflict, but they don't tell me in plain English this is a conflict. They rely on me to kind of reach that same conclusion on my own. That's just me, my personal opinion. I appreciate the transparency that I see in a number of firms that are just very upfront about this is a conflict and here's what we do about it.

30:23
Alex Murguia
I got you. And so item five, we go into the fees and compensation.

30:29
Ryan Walter
Yes. Any tells you want to look for what the fees are, what service am I getting, number one? And then what are the fees for that service? So something like what you'll see here, this is very common, this fee schedule. You've got different levels of assets that you might place under the advisor's management and a descending asset based fee from there, depending on what the levels of assets are, you want to make sure that the fee you're paying is something you're comfortable with. You probably don't want to pay more than like two and a half percent to 3%. Those are like the absolute highest that I've seen in my career.

31:12
Alex Murguia
Is there a legal thing? Is there a legal thing like can you get audited? And the SEC says, what are you doing charging 4% a year?

31:21
Ryan Walter

So you have to charge a reasonable fee, and reasonable can vary. It's in the eye of the beholder. A lot of times, I think a lot of firms or a lot of regulators will put like 3% as the rule of thumb, that if you're paying more than 3%, if you're charging more than 3% as an advisor, you better be prepared to justify that because the presumption is going to be that's an unremissible okay.

31:51
Alex Murguia
Yeah. I didn't know if there was like a magic number that it's.

31:54
Ryan Walter
Baltimore people don't mention not a hard and fast thing. Like I said, it varies depending on who's looking at it. And that 3%. Could include a whole laundry list of things that you might pay separately for with a firm that's going to charge you much lower than that.

32:12
Alex Murguia
To be clear, McLean is not charging 3%. We're choosing 3% right now. I was just wondering what's considered a Usury kind of fee.

32:23
Ryan Walter
Yeah, the 3% I think you're only going to see for something like a wrap fee, engagement wrap fee. For people who don't know what a wrap fee is, a wrap fee might be an engagement where the advisor engages in a ton of trading activity in the account, but doesn't pass along the transaction costs that are incurred for that trading activity to the client. It's something they just absorb out of their fee. And so that might be an instance where it's worthwhile to pay a little more. If the advisor is going to transact very heavily in the account, then instead of paying a $10, $20, $50 ticket.

33:00
Alex Murguia
Charge, that's not even a thing anymore, right.

33:03
Ryan Walter
The way the industry has gone, it's more rare than it was 510 years ago, for sure.

33:09

Alex Murguia
Just because fees are there's no trading. Effectively, trading costs are zero at this.

33:12
Ryan Walter
Point for a lot of asset classes, at a lot of brokers, but not all the time in all cases.

33:19
Alex Murguia
Sure.

33:19
Ryan Walter
Yeah.

33:20
Alex Murguia
Okay, fair enough.

33:22
Bob French
If you're looking for more personal advice, please note that our show is sponsored by McLean Asset Management. Learn more@mcleanam.com. That's Mcleanam.com. McClain Asset Management is a wealth management firm where we help you design and implement the right retirement plan for you.

33:43
Ryan Walter
All right.

33:44
Alex Murguia
And then you have the fee schedule that you could see there the AUM.

33:47
Ryan Walter
Fee schedule, which is usually what you're getting for that fee. Also something that I planning does that be only money management?

33:55
Alex Murguia
So on 100%. And usually the fees are they don't cascade, they're tiered. So the first million is X amount. Then from a million one dollars to whatever, two and a half million, it's X amount and so forth. It doesn't cascade. It's sort of tiered, and that's kind of the industry standard. The other thing about fees is sometimes you could pay them in advance in arrears and based on what valuation.

34:26
Ryan Walter
Right.

34:27
Alex Murguia
Talk about that real quick.

34:28
Ryan Walter
Yeah, if I'm going to bill in advance, let's say, and it's going to give all of these details in item five, it'll say, we bill in advance, we bill in arrears. We give clients the option of either on a quarterly basis, monthly basis, whatever the case may be, and it'll also tell what the valuation date is based on daily average balance during the billing period, the first day of the billing period, last day of the prior billing period. There's no right or wrong for either of those things. I personally prefer paying fees in arrears because I don't want to have to get a refund. That's one of those things. If I pay in advance to an investment advisor and I terminate the agreement with the advisor in the middle of a billing period. Now, I'm owed a refund for those fees that I paid in advance, and do I want to be bothered with jumping through any hoops to get a refund?

35:33
Ryan Walter
Personally, no. And so I would seek an Arrears billing advisor, but it makes no difference. Your mileage may vary, I'll say, on that. You may have different preferences, or you may not care about the yeah.

35:47
Alex Murguia
And for McLean, we're in advance, so I guess we lost Ryan ever becoming a kid. We'll get you soon enough. And we do average daily. Just from a workflow standpoint, it's what we've chosen. And yes, there's a refund piece, but I don't know, it's just a matter of hitting a button and off it goes. But I can see your point where maybe somebody gives somebody a hassle, but I don't know. I've never heard of it. But that's fine.

36:24
Ryan Walter
I'm sure you want to know these things. That's the overall point. You want to know whether they're billing in advance or in arrears, and you want to be comfortable with that billing methodology.

36:35
Alex Murguia
Yeah.

36:36
Ryan Walter
And if they're billing in arrears, you want to know what's it going to be like to get a refund. Is it just going to be sent to me? Does it say in here, you will be given a refund if you give a written request? And do I have to jump through a that's what you want to be, and it's good.

36:54
Alex Murguia
I mean, even though you think the relationship is long term, you want to know that if you need a divorce, what's the way to go about it so that's fair stuff happens, and you.

37:03
Ryan Walter
Just want to know what's my experience going to be like.

37:06
Alex Murguia
Exactly. What other fees do you see that an advisor can charge for?

37:10
Ryan Walter
Yeah. You might see hourly fees that's big in the planning or in the discrete consulting context. If I only want to meet with somebody once a year for an afternoon or for a few hours, then maybe they'll charge me an hourly fee. They'll tell me 215 an hour, 315 hours, whatever the case may be. That's great. Let's book 2 hours. Let's book 3 hours. I know what my fee is going to be for that. You may also see fixed fees. You want me to write a plan for you? Okay. I'm going to charge you $5,000 or I'm going to charge you $10,000, depending on what the complexity of my situation is, how involved the planning process is going to be. That's going to largely dictate the price, and it's a factor of how much time the advisor is going to have to put into constructing the plan and what they would maybe normally charge on an hourly rate basis.

38:07

Ryan Walter

But you may also, in some cases, you may see $50,000 a year. And you'll get planning services, you'll get investment management services. There will be no asset based fee 100 different ways that these things can play out here. We're looking at 250 to 1000 an hour for hourly engagement and 1000 to 50,000 depending on scope and complexity for fixed fee engagement. But it could be really almost anything.

38:36

Alex Murguia

Depending on how yeah, I mean, the caveat here that always is interesting to me you have to put the highest possible number even though clients on average may not be paying that much. You have to put the highest possible number that you could potentially charge. That way it kind of doesn't restrict yourself later on and so hence you have that. Have we charged anyone a $50,000 engagement? Off the top of my head, I don't remember if we have. It's possible, but that's not like the norm, that kind of thing. But you have to kind of put a high number there just for the heck of it.

39:13

Ryan Walter

That's it. We have to put a range of fees in place and if we don't want to limit ourselves, then we kind of have to say this is like the highest thing we might charge for somebody who has a very complex situation. Just to give yourself that, don't worry.

39:29

Alex Murguia

Ryan, when you come on board, we'll have to change this to 1000 to 51,000. Yeah, 50,000 will go. But no, but it's true. Right? And so you just from a business standpoint, just know that you can always go to the advisor and talk to them about, from a business standpoint, what you think your fee should be. This is not like the market in Morocco or something like that, where everything is. You're negotiating. Negotiating. But again, know that the fees here have to be at the highest watermark from a compliance standpoint. So there's nothing wrong going back to the advisor and asking if you don't ask, you never know, right?

40:12

Ryan Walter

Yeah. This is kind of just pie in the sky hypothetical, but if you go to an advisor and their adv says our fixed fees for this service are 10,000 and they quote you 50,000 for whatever, the same service, that immediately should put up red flags for you. That why do they say that this is their fee and they're doing so? It's a bait and switch. Or that's their initial reaction at least. And hopefully they would have a really good answer for why they quoted you that amount. But it should kind of put off the little or make you stop and think a little bit about why they said one thing and you're doing another.

40:55
Alex Murguia
Yeah, and I see something here. We have it written third party fees. What does that mean?

40:59
Ryan Walter
Yeah, so it may not always be the investment advisor who's charging you fees. In an advisory relationship, we talked about having your assets at a custodian. The investment advisor may not be holding your assets. Is that a custodian? That custodian that broker might charge their own fees. Maybe they charge an account maintenance fee, an administrative fee for having the account open. In some cases, they might charge for transaction costs for the securities transactions that take place in the account. But they charge their own fees and those fees are set by the broker or custodian. And they're totally separate from the fees that an investment advisor might charge for you. There may be fees for pooled investment vehicles, mutual funds and exchange traded funds. Those funds are managed by an investment advisor and they are also held the assets of the funds are held at broker dealers and custodians.

42:03
Ryan Walter
And so those professionals have their fees that they assess to the fund in the form of what they might call an expense ratio, basically telling you how much of the fund's assets are eaten up by these costs that are charged by third parties. But so it's not just the investment advisor that charging fees, it's the brokers or custodians who are holding and transacting in the assets. And it could be the assets themselves if they're pooled investment vehicles with expense ratios.

42:37
Alex Murguia
Yeah. And so we have to list what third party fees are. But if you read our adv, it says at the bottom of that point that Mamsey does not accept fees from the sale of securities, blah, blah, blah. So again, you have to list all these things, but continue reading through it and you'll see where the firm specifically stands on that item and maybe for the last point on this episode and we can continue them. I guess it's a two part of the adv explanation is the manner and we talked about it briefly and maybe we don't need to, but another section within five is the manner of payments and calculation of fees. Do you want to maybe go through that a little bit?

43:25
Ryan Walter
Yeah. And a lot of firms, McLean included, will be authorized to directly debit a fee from the client's managed account. May set off custody alarm bells for people who recall the custody conversation from previous episodes. Why is the advisor allowed to just take their money or their fee out of my account? It's because the SEC feels like there are sufficient checks in place, the custodian, the broker dealer or bank

that's actually holding the assets. If the advisor is going to be able to directly debit fees from the client account, then that broker is going to be required to send the client at least quarterly statements of all the account activity that took place. So that as a client, I have enough tools in my toolbox. I've got maybe my IEA, my investment advisory agreement with the advisor, I've got my account statement showing the account value and the fee that was debited.

44:31
Ryan Walter
Put all those things together, I can run the numbers and make sure that the amount that the advisor is taking out of my account aligns with the fee I agreed to pay so that they're not taking advantage of that authority. That's why that's permissible without the advisor taking actual custody and subjecting that to a CPA.

44:51
Alex Murguia
And I'll end it with this, something that you said sparked this in me. The point about custody that we talked about last time, the benefit of also not having custody is that you'll receive separate asset reports on a monthly basis from an independent source. So Schwab Fidelity, or TD will send you monthly statements either by mail or email, however you choose. And then you can kind of reconcile that with what an advisor uses to show you what your statements are and things like that. So you always have that as well, which is, I think, good to have. It doesn't mean you need to every.

45:28
Ryan Walter
Go on to your point. It doesn't mean you have to look at every single statement that comes through with a calculator and run the numbers every month. No, but check in every now and then. Make sure it makes sense that it's not totally off base. Just give it a quick once over to make sure that it aligns with what you expect it to look like. The debit perspective.

45:51
Alex Murguia
Yeah.

45:52
Ryan Walter
You might not get it every month. It needs to go out at least quarterly. Most custodians do it monthly, but the requirement is that it go to the client at least quarterly.

46:03

Alex Murguia
Yeah. And technically, actually, an advisor is not required to provide performance reports or anything like that. So I always think it's good just simply because it keeps the advisor on their toes. The idea is, all right, we're preaching long term investments and then providing a quarterly report, so it kind of runs contrary. It's a bit hypocritical, but I think it's good because it shows to me that the advisor takes their business seriously because there's an infrastructure in place that they can produce these reports. This is my example that I said last time, when it's busy at the restaurant, go to the bathrooms. If the bathrooms are clean, you know it's a good restaurant. Right. So if your advisor is providing quarterly reports pretty on a timely basis and the like, that's a good tell for me. I mean, I know it sounds like a low bar, but it's good.

46:53
Ryan Walter
It keeps the advisor honest because they have to confront their actual performance every reporting period. Right. And they have to answer for it if the performance isn't what they think it should.

47:03
Alex Murguia
Yeah. And you could always reconcile that with the monthly statements from the independent custodian. Ryan, I think we're going through the adv part two. We're by number five, so we don't rush through the rest of them. Why don't we have a two parter in this one? Is that okay with you?

47:23
Ryan Walter
I'll be happy to come back.

47:24
Alex Murguia
I guess I put you on the spot with that one. All right, so we'll stop this for right now, and the adv part two will be a two parter. All right. Thank you, everyone. We'll follow up next week with the rest of the stuff on the adv. Thanks.

47:43
Bob French
Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with a risk, including risk of loss. Past performance does not guarantee future results.