MILLS WEALTH ADVISORS

Why We Refuse to Become Fee-Only Advisors


Mike Mills, CFP, CLU, CFS

At Mills Wealth Advisors, LLC, our team of Certified Financial Planning professionals are 100% committed to acting as fiduciaries, the highest legal standard in a client/advisor relationship—a standard we believe all clients should demand! I believe any advice not delivered through this standard can never be “best-in-class” advice. When advisors give guidance under the weaker suitability standard, clients can never be completely sure if it is the advisor’s best recommendation or simply an “okay” solution in the best interest of the firm. The legal suitability standard governs about 90% of current financial advisors and agents and has been responsible for the financial crisis, the mutual fund scandal, and many other abuses that have harmed clients.

Under a fiduciary relationship, not only must advice be an advisor's “best” for the client’s situation, but conflicts must be disclosed. Trust is the most important ingredient in a long-term advisor/client relationship. Anything that could undermine the quality of advice and lead to a lack of trust is not good for the relationship or the industry as a whole. We feel strongly that conflicts exist in every compensation structure—some transparent and some opaque. The fiduciary standard gives clients recourse, assuring them that advisors and their firms are only acting in the clients’ interests. High standards attract the best people attempting to provide the “best” advice.

As Upton Sinclair so keenly observed, “It is difficult to get a man to understand something when his salary depends upon his not understanding it.”
I believe this statement was descriptive of Wall Street, especially in the 1980s and 1990s. Ultimately, a group of wise, ethical young advisors shunned the conflicts on Wall Street and throughout the brokerage, banking, and insurance industries and created NAPFA, an organization committed to delivering high-quality financial advice that met the fiduciary standard.

When created, the idea behind this organization was wonderful and necessary. However, as times have changed and the fiduciary standard has gained a foothold, I believe this organization has evolved into a **marketing approach** that does not deliver the highest-quality advice the organization originally intended. This is most apparent regarding advice about and implementation of the protection portion of the financial plan. Protection is one of the six main components of the financial planning process, but because of past abuses in the insurance industry, NAPFA has shunned all forms of commission for its members, even if the commission provides a lower total cost to clients and could be considered “best.”

It is my personal belief that fees or commissions are really one and the same. **It really doesn’t matter how you are paid as long as you are doing what is right for your client.**

Here’s what I know to be true: America is dramatically under-insured regarding life and disability protection, and if America’s top independent advisors refuse to help clients get the coverage they need, these clients will continue to fail. Transferring catastrophic risk is a key to financial success, and investors need advisors that can uphold the fiduciary standard regardless of their compensation type. If insurance continues to be painted as “evil” and full of conflicts, young advisors will not take the time to get educated on insurance. This will lead to more insurance minimization within the industry. Over time, this could make the problem even worse, and more Americans may continue to receive poor advice concerning building a solid defense.

We believe the fee-only certification is primarily a marketing ploy to help differentiate advisors and attract clients, not a code of conduct to deliver the best advice, as it was originally intended. In theory, I like the sound of being fee-only, but as a practicing financial planner intent on serving my clients’ best interests, I believe being fee-only would restrict my ability to always provide the best solution combined with the best client experience. I generally believe that **“best is best,”** and anything that restricts that pledge has just as much potential to harm clients as pretending that being fee-only could improve it.

As our profession has adopted the fiduciary standard, and as it has expanded, we should not expect any standard higher or better than “best.” We must have faith that professionals will be professional. If we remove compensation where many hours and much expertise are required, the industry will suffer through lack of mastery. (Regarding the area of insurance, I believe we need more fiduciaries giving advice, not less).

I’m one of the few people in the world who has woken up disabled twice, and I’m here to tell you that it does not matter how my agent is paid. I just want to know that if I can’t go to work tomorrow, my family will be protected.

At MWA, we are 95% in alignment with the beliefs of the fee-only camp. (In fact, nearly all of our compensation is fee-only.) It is the other 5% with which we adamantly disagree. We believe that properly trained fiduciaries are best qualified to deliver advice. Many of the conflicts of interest that come from up-front insurance payments are counterbalanced or negated by advisors offering both investments and insurance. Insurance pays once (typically upfront because that’s where the work is done), and investments pay more in the future, assuming the account grows. Neither compensation method is bad; they are just different. Used together, they can keep advisors in business with a profitable growing practice, enabling them to hire staff and help more people desperately in need of quality fiduciary advice, especially since fiduciaries only make up about 10% of advisors.

If you asked clients to choose a fiduciary relationship based on a standard of “best” or a suitability relationship based on a standard of “okay,” which do you think they would choose? I know that the fee-only and fee-based camps can agree on that. While it is practiced differently, I think we also agree with the conclusion that “When it comes to advice, best is best.”

— Michael A. Mills, CFP®, CLU®, CFS