candid financial advice
bringing down the cost of advice

The Cost of Advice

A Candid Financial Advice guide.

Straightforward guidance
helping you make good decisions

Candid Financial Advice
About Us

Premium financial advice at a fair price

Candid Financial Advice was born out of old colleagues, Justin Modray and Ian Millward, wanting to launch an advice firm that does the right thing for its clients. Since launching in 2013 the business has flourished, thanks to attracting a steady flow of clients and looking after them well.

We provide independent financial advice to individuals across the UK from our office in Bath. Our expertise is looking after people who are retired, or organising their finances in readiness for retirement.

Our role is to help you make great decisions and then take away as much of the pain as possible, giving you peace of mind that your financial affairs are being handled professionally and cost effectively.

What sets us apart is putting your interests first, providing premium advice and service at an affordable price. We work with clients remotely via phone and/or video chat, forging really strong working relationships. The overwhelming feedback is a significant advice and service upgrade, along with greater trust and confidence. The bonus is cost savings often running into thousands of pounds a year.

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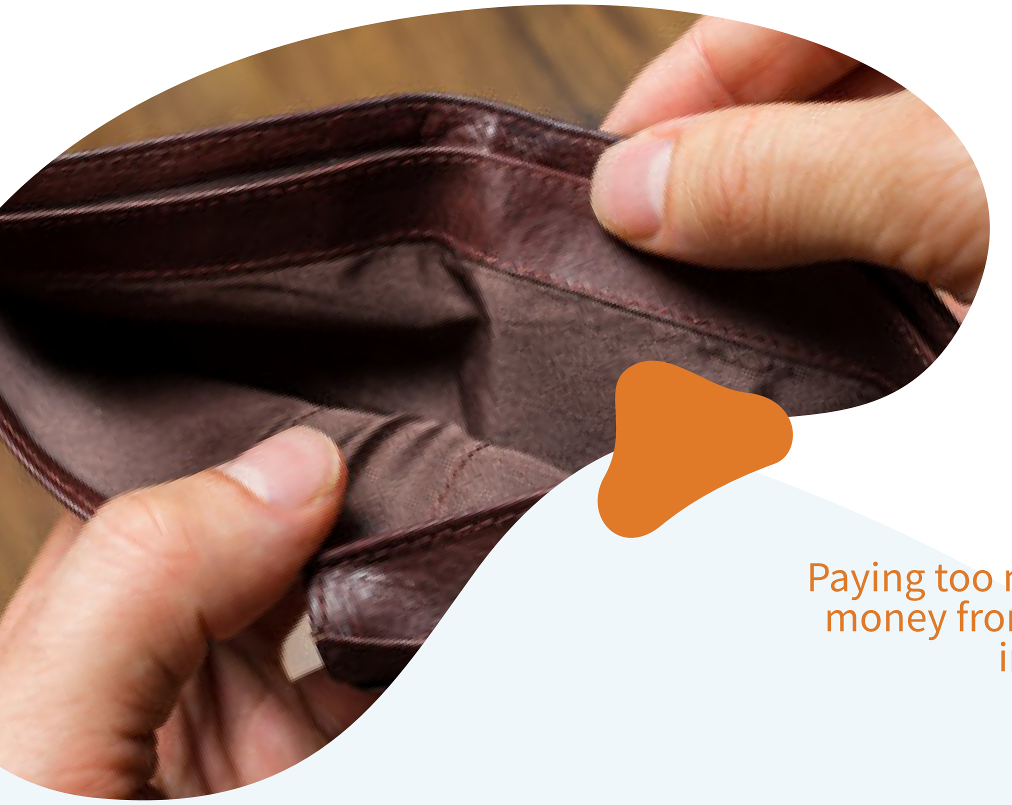
The Cost of Advice

The cost of advice
An introduction



Paying too much for advice is like taking money from your wallet and putting it into your adviser's

In 2013, new rules came into force that stopped fund managers and life offices paying sales commission to financial advisers.

The unintended consequence

Since then, you pay explicitly for advice, with the intention of improving transparency and enhancing trust by ensuring investors easily understood the true cost of advice.

Whilst this was a necessary and welcome change, the reality is that, in many cases, overall charges have become more complex and harder to fathom. And the unexpected consequence is that clients of financial advisers now generally pay significantly more in charges than they did under the commission system.

Ten years after the end of the commission system, many people still struggle to understand costs; whilst advice firms have largely been making hay, with many doubling their fees over the period.

This is not good news, as controlling costs is probably the single most important thing you can do to improve returns. Overpaying really is as simple as your money sitting in someone else's pocket.

In this guide, we look at the various parties someone using an adviser might pay, and how much these costs might be. It isn't intended to be exhaustive, but we do hope it helps you better understand charges.

Clients of financial advisers typically now pay significantly more in charges than they did under the commission system

Who you pay

Let's start by looking at the three parties you'll usually need to pay when taking financial advice.

Financial Adviser

Financial advisers provide initial and, usually, ongoing advice. They should gather information about your current situation, help you formulate a plan, and then implement it. The role of a good adviser is to effectively 'stand in your shoes' and help you make the financial decisions that protect you and your family.

They should also handle as much of the hassle as possible, including liaising with platforms and fund managers, to keep things simple for you.

Fund Managers

Fund managers buy and sell underlying investments on your behalf. Funds may be 'active', where managers use judgement to try and outperform the market, or 'passive', where they track a specific market ('Index').

Instead of picking funds themselves, it is increasingly common for advisers to outsource the job to a third party, such as a discretionary manager, multi-manager or wealth or portfolio management service.

Platforms

Platforms provide an administrative 'wrapper' which allows you to buy, hold, switch, and value funds (and sometimes shares too) from across the market. A platform will offer tax wrappers such as ISAs and pensions where appropriate.

You do not have to use a platform and can sometimes still choose to hold investments directly. However, many fund managers now only offer their funds via platforms.

Cost of advice
Financial adviser

Adviser fees often feel a closely guarded secret, with few advisers openly publishing what they charge

Cut three ways

Advisers usually charge you upfront for their initial advice, followed by an annual fee for ongoing advice. They tend to charge in one of three ways, as per the adjacent table.

In reality, most advisers work on a percentage charge basis, but it can get complicated, for example, with a fixed fee for the report but an additional percentage-based fee for implementing any advice.

No one route is better than the other, as each has benefits and pitfalls.

Regardless, it is best to work out all your adviser charges in pounds and pence, so you can compare costs and also ask yourself whether this feels reasonable for the work involved.

Fee Type	Initial Fee	Annual Fee
Hourly Rate	£125 - £300	£125 - £300
Percentage	2% - 5%	0.5% - 1%
Fixed	Varies widely from hundreds to thousands	

Are there other fees?

Possibly. Some advisers adopt more complex charging structures, offering varying levels of service.

Most charge a new initial fee if you add additional monies later on, and some even do so for straightforward ongoing tasks like fund switches or moving money between accounts, for example, to use annual ISA allowances.

What is a reasonable charge?

Checking and comparing advice charges is tricky, since fewer than 1 in 10 financial advisers openly publish their fees.

The Financial Conduct Authority (FCA) published some figures in a December 2020 report, stating the average initial charge is 2.4% followed by an average 0.8% ongoing annual charge. However, these are averages, and include more basic or lower cost services.

Average advice fees

2.4%
Initial Fee

0.8%
Annual Fee

Figures published in the FCA's December 2020 "Evaluation of the impact of the Retail Distribution Review and the Financial Advice Market Review."

It is very common for advisers to charge upfront fees of 3% (matching typical initial commission under the old system) and an annual fee of 1% (double the typical annual commission that used to be paid). There is little evidence that these rates fall for larger investments.

What is reasonable depends on the complexity and amount of work involved.

For example, coming up with a comprehensive financial plan and then organising the transfer of numerous legacy ISA and pension plans with a combined valued of £100,000 might warrant a 3% upfront fee of £3,000. However, a similar undertaking on a portfolio worth £500,000 would not justify a fee of much more than this, let alone £15,000 (i.e. 3%).

This is even more true when it comes to annual fees, as the potential impact is far greater over time. It is not unknown for wealthier investors to pay their financial adviser annual fees of £10,000 or more, with this bearing little relation to the work involved or service provided.

Many advice firms still operate sales targets, so be very wary where your adviser regularly recommends fund switches that attract new upfront advice charges. And be particularly sceptical of advisers who try and justify high fees on claims of picking winners and outperformance.

Whilst it is proven that clients of financial advisers usually enjoy better returns than most DIY investors, this is largely about the extra discipline they bring and avoiding the emotional pitfalls of selling in a panic or buying whatever happens to be flavour of the month at the time.

Cost of advice
Investments

Investment charges are usually the largest component of overall annual cost

Very few funds have initial or upfront charges these days.

Fund managers levy an Annual Management Charge (AMC), which is a percentage fee on the value of the fund. However, this only covers their management charge. Other costs, such as regulatory and administration fees, are usually added on top. The AMC and other costs are combined to give an Ongoing Charge Figure (OCF), and this is the figure most commonly used when comparing annual fund charges.

However, even this figure does not reflect total charges, as funds also incur costs when buying and selling the underlying investments. Transaction costs are usually lower for a manager who tends to 'buy and hold' a more concentrated portfolio, or for tracker funds, but would be higher for a fund that is very active, and regularly trades investments.

Transaction costs added to the OCF give the Total Cost of Ownership (TCO).

Charges vary between funds, especially between actively managed and passive index-tracking funds, but typical annual charges are as per the above table.

Charge	Actively Managed	Index-Tracking
AMC	**0.60% - 1.00%**	**0.05% - 0.30%**
+ Other Costs	0.05% - 0.20%	0.01% - 0.10%
= OCF	**0.65% - 1.20%**	**0.06% - 0.40%**
+ Transaction Costs	0.05% - 1.00%	0.01% - 0.10%
= TCO	**0.70% - 2.20%**	**0.07% - 0.50%**

Outsourced investment services

There has been an increasing trend for advisers to outsource the responsibility for picking funds and maintaining portfolios to third parties such as discretionary managers, multi-managers, funds of funds and wealth or portfolio management services.

There has historically been very little price competition in the fund management industry

These services seldom have upfront fees, but they introduce a further annual charge. This varies, but is often 0.50% - 1% a year, sometimes with VAT in addition. This can easily push total annual investment costs to 1.3% - 2%. And despite outsourcing reducing an adviser's workload, they rarely reduce their annual fee to reflect this.

The active/passive split

The proportion of actively managed funds versus passive in a portfolio will obviously impact cost.

Whilst an adviser may have a sound investment argument for recommending a passive-heavy portfolio, the low fund costs can help mask higher advice or outsourcing costs. It pays to check.

Value for Money (VfM) reports

There has historically been very little price competition in the fund management industry amongst actively managed funds. It seems a remarkable coincidence that the vast majority of actively managed funds charge an AMC of 0.75% a year, regardless of whether they manage £20 million or £20 billion.

Economies of scale are rarely passed on but, in a bid to encourage competition, the Financial Conduct Authority now requires fund managers to publish annual Value for Money reports.

The reports have yet to turn fund charging on its head, but there have been a few encouraging signs with a handful of managers reducing charges on some funds and failing funds being closed.

Cost of advice
Platforms

Whilst usually a smaller component of annual costs, platform charges vary widely for a similar service

Initial costs are rare, and you should expect to pay only annual charges.

Whilst there are fixed cost platforms aimed at DIY investors, platforms available to financial advisers all charge on a percentage basis.

Advisers may negotiate preferential terms with a platform, and platforms sometimes cap or tier their charges for higher amounts. Expect to pay somewhere between 0.15% and 0.45% a year, with the average being around 0.30%. There is usually no dealing charge when buying and selling funds, but share dealing typically costs around £10 a trade.

Charge Type	Annual Charge	Fund Dealing
Fixed	£100 - £300	£5 - £10 per trade
Percentage	0.15% - 0.45%	Usually included

'Vertically integrated' firms

Whilst these three elements will always exist (advice, investments & platform), some firms have started to 'integrate'. For example, by offering their own investment management service and/or an in-house platform.

Some still charge individually for each element, whilst others charge a single overall fee.

This can make comparisons more complicated and, as ever, the important thing is to try and understand total costs so you can compare on a like for like basis.

Why worry about fees?
Two examples

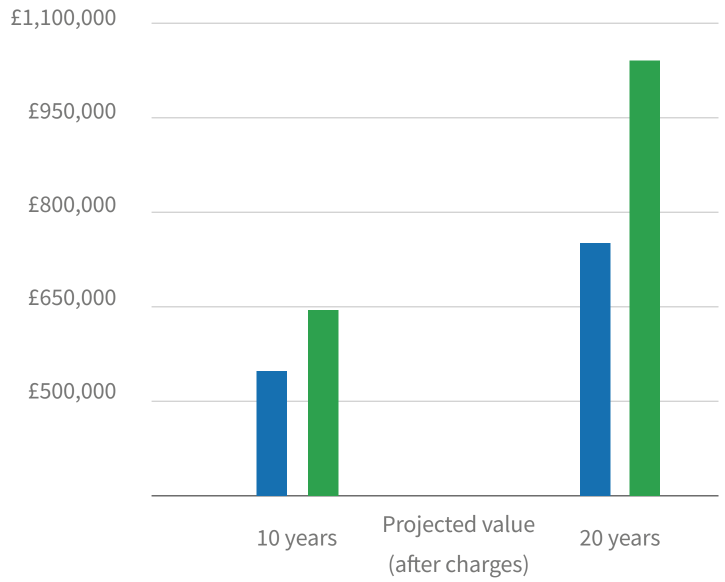
Other things being equal, fees are likely to be the most important influence on returns. Just like returns, they compound over time, and have a staggering impact over the long term. Let's look at two simple examples based on an initial investment of £400,000 and growth (before costs) of 6% a year (which could be higher or lower in practice).

Ron Price

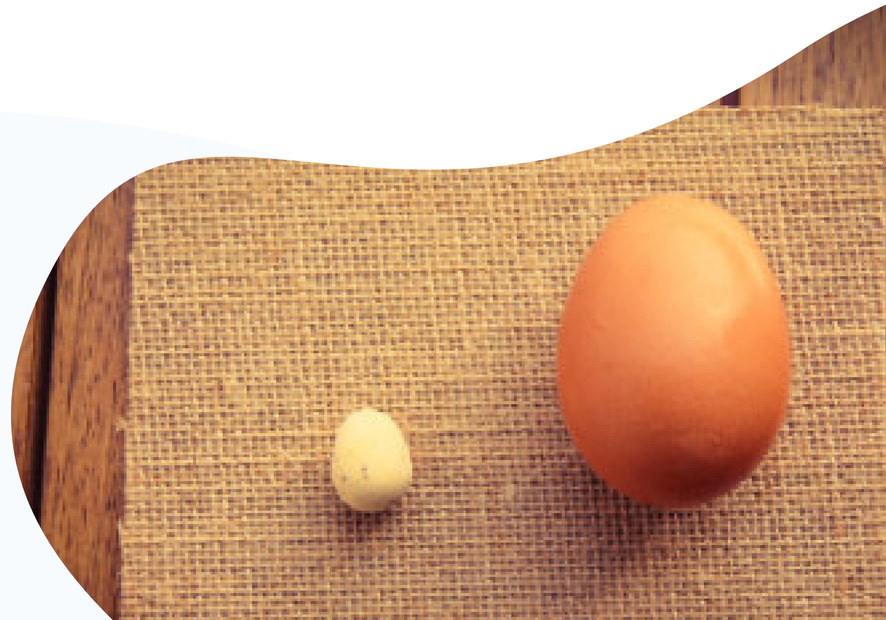
Ron pays his financial adviser 3% initially, followed by 1% a year. His portfolio holds several multi-manager funds, with an average OCF of 1.5% a year, on a platform charging 0.3% a year.

Penny Wise

Penny pays her adviser a 0.5% initial fee, then 0.4% annually. She invests in of a mix of active and tracker funds, costing an average OCF of 0.6%, on a platform that charges 0.1% a year.



The graph above shows that seemingly small differences in percentages can have a vast impact on returns. Figures are for illustration only and could vary in practice.



Cost of advice
Some rules of thumb

Making a good decision is never as simple as buying the cheapest, but value for money is key

The big takeaway from this guide is that charges really matter, and you need to compare total charges (adviser, investment and platform) to make a fair comparison. This can be harder than it sounds, as some firms are reticent to disclose charges, or certainly not in a way that makes it easy for their clients to understand. Here are our 10 tips to guide you through the maze.

Keep it simple

Generally, the more complex a charging structure, the more scope there is for overcharging.

It is total charges that matter

What matters is the total cost of the advice, investment, and platform charges.

Pounds, shillings and pence

Convert all fees into pounds and pence and be sure it feels right.

Fund manager charges rarely fall, regardless of the amount invested, but advisers, platforms and portfolio management services should all adopt charging structures that fairly reflect the work involved.

Good advisers should be open

Just like any good tradesman or professional, a good adviser should be open and comfortable explaining their charges.

Give up guilt

Never be afraid to walk away. It is terribly British and decent to not want to waste people's time, but these are important decisions, and they are yours to make.

A good adviser should volunteer fair charges at outset

Don't be afraid to negotiate but…

You shouldn't have to negotiate too hard. You are entering into a relationship where you are trusting someone to help you make decisions with your life savings. And a good adviser should volunteer fair charges at outset.

Don't lose track of annual fees

Upfront fees of 3% or 5% naturally grab the headlines.

Annual fees may appear less significant, and can be harder to keep track of, but can have an even greater impact over the lifetime of an investment.

The bottom line is pay close attention to both.

Watch out for multi-managers

Outsourcing investment decisions is not a bad thing, but it does add cost.

Advisers who use expensive funds of funds, multi-manager or discretionary services whilst charging a high fee themselves should serve as a red flag.

Trust your instincts

Any decision to proceed should feel easy. Never be afraid to take your time and trust your intuition, as undoing a poor experience can be costly; financially and emotionally.

Shop around

Nearly all advice firms will offer an initial meeting without any charge. It is generally worth seeing a few as it will give you a much better sense of what's on offer.

Conclusion
Charges matter

Charges can mean the difference between success and failure

Whilst not an explicit goal, it was reasonable to expect that moving from sales commission to explicit adviser charges might have resulted in costs falling.

The startling thing is that costs have generally increased significantly. Advisers have generally raised their fees whilst also using outsourced investment services (adding an extra layer of charges). The upshot is that overall annual charges of 2% or more are now commonplace.

Charges at this level are rarely, if ever, justified. The reason this happens is likley due to the fact that, whilst costs are now explicit, they remain opaque.

Too few people really know what they are paying and properly understand the importance of managing costs.

Time spent shopping around to ensure good value for money could be very lucrative, potentially saving you tens or even hundreds of thousands of pounds over time.

Our clients pay initial fees of 1% or less and total annual costs (i.e., advice, investment and platform) of typically between 0.85% - 1.20%.

A final word
From us

We spend a lot of time helping our clients make good decisions - they usually save a small fortune versus their previous adviser whilst enjoying improved levels of service and trust.

If you have found this guide useful, please visit our website, where you'll find a host of useful information. And, if you have any questions, feel free to give us a call or email.

Best wishes,

Justin

Justin Modray
Founder

Lower Costs	Better Advice	Improved Service	Experts
We expect you'll make significant savings versus any comparable service.	Our advice is centered around putting your interests first.	Our clients rate us over 9 out of 10 across a range of areas, including service.	Our views and comment are regularly sought by the National Press.

Small print

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Please remember investments can go down as well as up in value and there is no guarantee that you will not lose more than you are comfortable with. Investment income can also go down as well as up.

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