

Talking openly about fees

Phase 2 of the Canadian Securities Administrators (CSA) client relationship model concerns transparency with respect to fees, broker compensation and investment performance by creating an obligation to disclose this information to investors. This disclosure requires brokers to send year-end reports to clients, so advisors should explain their compensation to clients right from the start.

Investors receive an annual statement detailing the fees charged to them along with a report on their investment returns. This disclosure allows them to better understand the fees paid to the various parties to purchase or manage a product. It also provides advisors with an opportunity to highlight the quality of their services.

It's in the interest of advisors to approach the touchy subject of compensation at the first meeting with their client. Here are some tips for doing it clearly and effectively.

1. Be transparent

With client relations, trust is of the utmost importance. This trust can, however, be undermined if there's a misunderstanding about compensation. Clearly state the role played by each stakeholder (financial institution, management company and advisor) and explain the difference between management fees, trailing commissions and other charges. Your clients will therefore know how much of their money is going toward your work.

2. Put things into perspective

Large numbers can be daunting if they aren't explained in context. For example, if a client is paying an annual fee of \$8,750 on a \$500,000 portfolio, explain that this represents only 1.75% of the capital, or \$24 per day, or \$0.02 per dollar managed. The trick is to talk about both small numbers and big numbers simultaneously!

3. Compare

Put the fees in perspective by comparing them with other day-to-day expenses. For example, the taxes your clients pay every day on almost everything they consume: close to 15% in Quebec, which is well above what they're paying for your services! You can also make a comparison to gas prices. Your profit margin, just like the taxes on gas, is included in the price of some of your products. The idea is to compare your compensation with payments your clients make in their everyday life.

4. Clarify the value of your services

Explain that the fees are not only for carrying out transactions, but also for the efforts you put towards serving them well. Emphasize the value of your advice by highlighting your knowledge of the markets and the economy, as well as your ongoing professional development, which keeps your knowledge up-to-date. Tell them about the efforts you make to stay on top of current trends, as well as the workshops and conferences you attend. They will therefore see how much work you are doing behind the scenes.

5. Emphasis your objectivity

Regardless of how you're paid, clients may think that your objectivity is linked to your compensation. Remind them that your professional obligation is to put the client's interest first. For example, indicate the products you have recommended to them even though you received a lower commission, because they were the most appropriate for their needs.

6. Keep them informed

Each week, send your clients new information or a personal analysis, whether it be via a newsletter, blog or social media. You don't have to be an expert writer; the idea is to demonstrate your expertise and the work you do off the record.

7. Make the connection between service and price

If your fees are based on a client's usage of your services, make sure they understand that their money goes exclusively towards the time you spend managing their assets. In other words they pay for what they get.

8. Take the opportunity to develop your customer base

The conversation about compensation is a good opportunity to discuss the subject of referrals. Tell them that, in addition to being paid per transaction and/or on the basis of asset management, you also benefit from referrals from your satisfied customers. They will therefore see the importance of referring you to their friends and loved ones.