

Investors call planners to charge performance-based fees

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Performance-based fees have traditionally been the domain of fund managers - but research shows a growing number of investors are urging financial planners to start adopting this fee structure.

Mark Johnston, principal of research firm Investment Trends and speaker at this morning's Rainmaker Marketing Symposium, said an emerging trend among retail clients is their preference for advisers to charge performance-based fees, rather than a commission or asset-based model.

"About 19 per cent of investors say their preferred model for paying an adviser is performance-based fee."

"That's one area that has a little bit of differentiation, [in that] advisers try and convince their clients that an asset-based fee for service [model] is really like a performance-based fee anyway," he said.

Calls for changes in adviser remuneration also go along with increasing client dissatisfaction with fee levels.

Around 40 per cent of investors expect to pay lower advice fees following the dent to their portfolios in the wake of the GFC.

And while discussions continue to swirl around fees for service versus commissions, with the government proposals to ban commissions by July 2012, the difference of fees charged for both models can sometimes be negligible.

"Above a certain threshold of assets ... the actual advice fees, not counting the product and administration fees, is almost always about 70 to 80 basis points on average.

"That's actually true regardless of how it's collected. You'll find that 70 to 80 basis points come through whether it's an asset-based fee, fee for service or commission model," he said.

Johnston said the renewed focus on low-cost investing has accelerated demand for exchange traded funds (ETFs), direct shares and separately managed accounts (SMAs).

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