

Advice: Cut the Costs of Wealth Management (Part 4)

## How Much Should You Pay Your Wealth Manager ?

Aug. 11, 2009

The amount you should pay for your wealth management is determined by your ability to analyze the various cost factors (as we did in our previous articles on [pricing models](#) and [hidden costs](#) of wealth management) and your willingness to pressurize your wealth manager. Research shows that your total costs of wealth management in most cases should not exceed 1% of your total assets per year.

It is time well spent to understand each cost driver, because you find out what levers you have and how you can cut costs without hurting performance. This “self-training” is even more important since the market is not very transparent. Without a deeper knowledge of the different pricing models as well as hidden costs, it will be very difficult for you to compare offers and select the best one for your needs.

To optimize your total costs of wealth management, you should follow six major steps – no matter whether you are a first time investor with your wealth manager, or already have a wealth manager and want to check and renegotiate the fees.

### Step 1: Choose the right strategy

Successful wealth management requires a long term perspective – both with regard to returns and costs. Consequently every client should carefully analyze his needs, restraints and abilities in respect to wealth management to choose an investment strategy best for him and his wealth. However, while individual strategies might differ, a few essential points should be part of every strategy: see yourself as an investor and not trader; avoid a high turnover; do not try to time the market and only buy products you fully understand. Please see our Guide Making the Right Asset Allocation on [www.MyPrivateBanking.com](http://www.MyPrivateBanking.com) for the basic rules of a successful investor and to do a comprehensive Self-Assessment.

### Step 2: Choose a wealth management best for your investment type

After determining your type of investor and right strategy, choose the type of wealth management best for you and consequently, for your costs.

- Option 1: Do it yourself and save costs: If you feel you know what you are doing and want to manage your portfolio completely yourself, a simple account with a good online broker will be sufficient. This will be the most cost effective way to manage your wealth.
- Option 2: Take advice and control costs: If you feel competent, but still would

like to take advice and suggestions, the advisory mandate could work best for you. You can check if you like the products and control the turnover in your portfolio. After a certain number of transactions, it might be advantageous to move from a transaction-based to “flat-fee” model.

- Option 3: Outsource and watch your hidden costs: “All-in-fee” models most likely fit best the inexperienced investor who would like to entirely outsource his wealth management. However, while the “all-in-fee” protects you from the unforeseeable costs of high turnovers, a full outsourcing of your wealth management opens the door for products with high hidden costs.

### Step 3: Choose a price-competitive wealth manager

Once you decide on your investment strategy and preferred form of wealth management, do your research to get to a list of wealth managers you would like to meet. Talk to each of them, ask for a proposal and determine a short list. There is no empirical evidence that a higher fee of a wealth manager goes with a higher performance. Nonetheless, not only the costs, but also the competency of the wealth manager has to be taken into account.

### Step 4: Gain transparency and choose cost-effective products

You can only determine your total cost of wealth management once you know all the cost drivers. Most wealth managers are not very keen to disclose the hidden costs upfront, and have them put in small-print (or not mentioned at all). From wealth managers, demand a full disclosure of all kickbacks received from third parties. From banks, demand the disclosure of the total costs of in-house products. Understand if and how much they profit from high turnovers and the use of certain products. If the wealth manager aims for a long term client-relation and a win-win-situation, he will tell you. Once you have collected all the information, decide what products and strategies your wealth manager should and shouldn't use.

### Step 5: Take out extra services you do not require

Many times wealth managers offer a wide range of services beyond the pure management of your assets. These can be legal advice, tax consulting, financial planning and fiduciary services. Of course, you have to pay for it, either on a per-use basis or as part of an “All-in-fee”. Check carefully which services you really need from your wealth manager. For the services you require, check if a third party might be better equipped and more cost effective than the wealth manager. Take out the services you do not need and consequently, ask for a reduction of fees.

### Step 6: Negotiate, negotiate, negotiate!

While the majority of the wealth management clients will negotiate when buying a new car, only the minority negotiate with their wealth manager – in spite of the far higher savings that can be achieved by reducing the costs of wealth management. Analysis shows that less than one-third of clients negotiate. While, in fact, they can negotiate down the stated fees by 10% to 20% without any difficulties.

This article concludes our series on how to cut the costs of wealth management. For more information please refer to our [comprehensive guide on costs of wealth management](#) and follow our ongoing articles and research on wealth management costs and related topics such as [kickbacks](#), [managed products](#) and [Exchange Traded Funds \(ETFs\)](#).