

January 16, 2017

Dear Sir/Madam,

I am an experienced investment advisor and my firm's model is the imbedded fee model. So we are paid directly by the mutual fund companies, monthly.

I have spent the last two years explaining to my clients how we are paid and why we are paid (and what I use my compensation for: like paying my rent, my assistants salary, my license costs, etc...). My most important and largest clients have been explained the fees many times. I haven't had one complaint about paying too much.

It has been my experience that the embedded model works best for most people. If we remove imbedded fees the small clients will have to pay much more. For instance I just booked an appointment with a client that has \$7K with me - basically I net \$50/year. I would have to either give that client up or charge them more to deal with me. Being paid directly from the fund company allows me to continue to service this client - if we change that, these types of clients would get no service.

If you ask the client, they prefer imbedded fees. I carefully explain to them that their returns are after fees. If you ask them (and I do) - would you prefer the fess come from your account - they always say no. If you look at brokerage fees (many have un-imbedded fees that are much higher than 1%, especially for the average sized client) - the fees eat away at the returns. Many of the dividends coming into the account are consumed by the fee, especially if the client has a smaller account and is paying more. Many brokerage accounts that I look at have substituted ETF's and Index Funds and then upped their un-imbedded "trailer fee" to 1.5% from 1%. They do this because they are under pressure from the bank dealer to pay more for overhead costs and bank profit. If you count the 1.5% and the ETF cost - this comes very close to what a mutual fund charges. No mutual fund pays a trailer fee of more than 1%.

I feel very strongly that explaining the fee to the client is enough. They understand what they are paying, in dollars, and we print it on their statement now, so if they chose to they can move their funds elsewhere (perhaps at a negotiated rate). Most like the service they get from us,

we don't gouge, we are fair (in my opinion).

Un-embedding the fee I believe will lead to a different type of excess. One where you will start to charge the small client a larger fee. Most of my larger clients started small and I helped them grow their account to the large size it is today. Compensation is one of the reasons I have spent the many years learning that I have. It isn't easy to make money for people. We have to temper expectations when things are good, and push people to do the right thing when things are down. We are paid well but I believe most of us deserve to be. We have a unique skill that adds value.

Sincerely,

Kevin Hayes
CFP Professional