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Startup's Transparency Gambit Pits Advisors Against Each Other

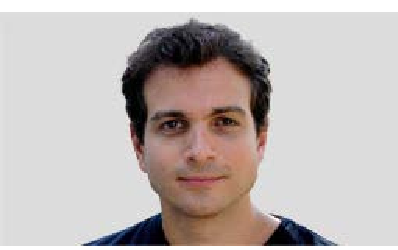
By Thomas Coyle January 28, 2016

Fintech startup **FeeX** wants to match willing advisors with price-conscious consumers — who might otherwise look to low-fee robo platforms for investment services.

Armed with a fee-revealing algorithm FAIQ wrote about on **Jan. 22**, New York-based FeeX just launched a service to put FAs who meet its criteria — and pay a fee — on a recommended list for would-be clients. Boiled down, FeeX is looking for fiduciary advisors who charge around 80 basis points for investment and investment-related-advisory services, all in.

The viability of this service, which FeeX calls "Adviser Center," depends on people getting warier of fees. But with the **Department of Labor** calling for more fee transparency for retirement accounts and robo platforms forcing flesh-and-blood advisors to think about justifying their fees — and maybe providing cut-rate services to less affluent clients — FeeX CEO **Yoav Zurel** sees exactly this happening.

"Everything will change," says Zurel, who wants FeeX at the center of a more cost-aware financial-advice consumer's universe. "Advisors in the U.S. charge $100 billion in advisory fees every year because consumers don't know how much they're paying — and when you don't know how much you're paying, you're already paying too much."



Yoav Zurel

Zurel points to a 2012 study by public-policy consultancy **Demos** that says most 401(k) owners don't know how much they pay, nor what their fees cover.

For instance, while many consumers understand they're charged for fund and securities selection, Demos says they're less attuned to fees for administration, marketing and trading — mainly because these fees can be levied before an accounting is made for pure investment services.

And though 401(k) fees may not come to more than 1% of assets under management, that can add up sharply over time. Again citing Demos, Zurel says a 1% annual fee over 30 years can result in a 30% bite out of a retirement nest egg. "It's value that you lose because the fees don't get a chance to compound," he explains.

And given the advice industry's habit of putting at least another 1% on whatever the underlying asset managers already charge, FeeX sees consumer appeal in a service that makes financial service providers justify these add-ons.

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This premise might be fine for FeeX's other business lines — 401(k)-rollover comparison and implementation services — but Adviser Center calls for FA buy-in. And some FAs just aren't having it.

"This is a terrible idea," says **Patricia Grenier** of **BRP/Grenier Financial Services** in Springfield, Mass., a firm with about $150 million under management. "How much more pressure on fees can we experience before it affects the service and advice we provide our clients?"

Grenier says advisors are already beset by fee compression in the face of rising compliance, technology and staffing costs. "We also provide many hours of pro-bono advice for our clients. That saves them thousands of dollars in mistakes, expenses, taxes and provides what's best of all: peace of mind and protection for their families. How can you monetize that?"

FeeX's Adviser Center has categories that differentiate between acceptable fees for investment-only FAs, financial planners and comprehensive wealth managers who provide tax, estate and other services.

Says Zurel: "If you have a good way of explaining why you charge more than 70 to 80 basis points, you will have no problem."

Advisor **Kashif Ahmed** seems to agree. The head of **American Private Wealth** in Woburn, Mass. — which manages about $30 million "for a very carefully conceived and exclusive client base" — says fee pressure is dangerous only to FAs who haven't "properly articulated all he or she does for the client." Those who have — and he puts himself in this bracket — "will likely not face compression."

But for FA **Eric Roberge**, who runs a planning firm in Boston called **Beyond Your Hammock**, having fees vetted by "an outside party that may not truly understand our business and the value we add to clients" is problematic.

"The risk is that we are rated on items that don't truly show our value, but rather instill more fear in the people we can help most," says Roberge, whose firm charges clients a monthly subscription fee.

Meanwhile Zurel won't say how much FeeX charges FAs for its Adviser Center service – nor will he disclose how many advisors have signed on other than to intimate it's "more than 10 and less than 100."

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