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Advisers are raising their fees

By **Brooke Southall**
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SAN FRANCISCO - Emboldened by increasing demand for their services, many financial advisers are raising their fees - or at least thinking about it.

The evidence is mostly anecdotal but nonetheless suggests that advisers are starting to feel more confident about the worth of the advice and guidance they offer investors.

"My impression when I speak to other advisers is that the service that [independent] advisers provide is becoming more and more valuable," said Greg Phelps, president of Red Rock Private Wealth Consulting LLC. He is raising the fee he charges on $1 million-plus accounts to 1.1%, from 0.85%.

Low-balling clients

When Mr. Phelps became a fee-only planner in 2001, he deliberately set his prices below what his former employer, Morgan Stanley of New York, charged. At the time, he said, it seemed like the only way to attract business from the Wall Street firms.

Not anymore.

"Brand doesn't count for as much," said Mr. Phelps, whose Henderson, Nev., firm oversees $20 million in assets. "I've been on both sides of the table. I don't think people are as concerned with having Morgan Stanley or Merrill Lynch [& Co. Inc.] behind the [calling] card."

Advisers say they have earned the raise. Michael J. Garry, vice president of Global Investment Management Inc. said the Princeton, N.J., firm recently raised the fee on accounts with at least $1 million in assets "because we could." The firm manages $150 million.

Other advisers are getting more money from clients by charging for services they normally did for free.

"We're considering a financial planning fee when the relationship commences," said David Bugen, partner for RegentAtlantic Capital LLC in Chatham, N.J., which manages $1.2 billion. "The first couple years are very labor intensive."

Dennis Miller, president of Miller/Russell & Associates Inc. of Phoenix, which manages $1.1 billion, hopes to raise his fees to established clients to 0.9%, from 0.85%. While he raised the fee he charges new clients earlier this year, he is aware that longtime clients may squawk.

"We will not send them a letter," Mr. Miller said. "We'll do it face to face. You need to get their input."

Mr. Miller has plenty of company in his move to higher prices.

A recent survey of 500 financial advisers found that 43% were contemplating a fee hike, according to a report released in September by Schwab Institutional, the unit of San Francisco-based Charles Schwab Corp. that provides custodial, operational and trading support to independent financial advisers.

"If there's so much demand, why not harvest more profits?" said Mark Tibergien, managing partner for Moss Adams LLP, the Seattle-based accounting firm that performed the survey for Schwab.

For all their financial wisdom, advisers often do themselves an injustice by not passing along to clients increases in their own expenses, he said.

No apologies

"This is an industry that has apologized for what it has charged," Mr. Tibergien said.

Mr. Tibergien, who made comments in Seattle in September at Schwab's annual conference, said some advisers may want to take a page from the book of lawyers and consider charging retainers or billing for hours of extra work.

The price hikes come at a time when business is booming for financial advisers.

Nearly 80% of 755 respondents in InvestmentNews' Industry Attitudes survey (InvestmentNews, Oct. 10) said revenue had increased over that of the previous year. More than half of those respondents pegged the increase at between 11% and 25%.

To be sure, not all advisers are on board with the price hikes.

"Prices have always gone one way, and that's down," said Kenneth Schapiro, president of Condor Capital Management in Martinsville, N.J. "It wasn't unusual to see [fees of] 1.5%, but not today."

"I don't think the market will bear" fee hikes, agrees Neil C. Hokanson, president of Hokanson Capital Management Inc., a Solana Beach, Calif., firm that manages $250 million.

Others say that it all depends on what clients are willing to pay.

Indeed, the power of the squeaky wheel cannot be underestimated. Consider what happened to Mr. Garry. Right after he unveiled plans to raise fees, clients began calling to complain.

"Just about every client above $1 million [in assets under management] called to say that they hoped it didn't apply to them," said Mr. Garry.

As a result, he was forced to rescind the fee hike on in-force accounts. "It wasn't going to be worth it if we lost even one client," Mr. Garry said.

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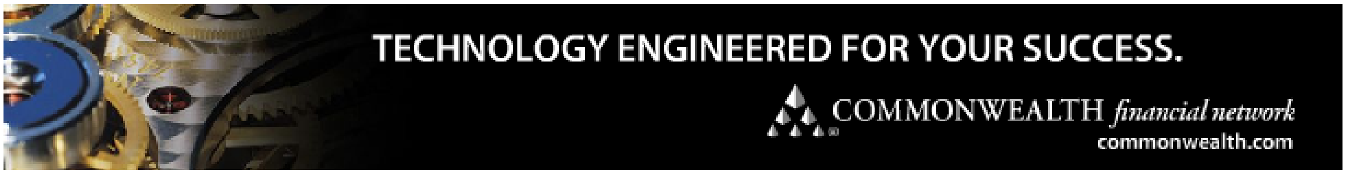

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