

DAVIES WEALTH MANAGEMENT

The Fee-Only Advantage: Why How Your Advisor Gets Paid Changes Everything

An in-depth guide to understanding financial advisor compensation
and why it matters for your wealth.

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Inside This Guide

Everything you need to understand how financial advisors get paid and why it matters.

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01 What "Fee-Only" Actually Means

The terminology is confusing by design. Let's fix that.

The financial services industry uses terms like "fee-only," "fee-based," and "commission-based" in ways that can feel intentionally opaque. Understanding these distinctions is one of the most impactful things you can do for your financial future.

The Simple Definition

A **fee-only financial advisor** is compensated exclusively by client-paid fees. They do not receive commissions, referral fees, or any other compensation from third parties for recommending financial products.

WHY THIS MATTERS

When your advisor earns more by recommending certain products, their advice may be influenced — even unconsciously — by their own compensation rather than your best interest. Fee-only advisors remove this potential conflict entirely.

Fee-Only vs. Fee-Based: One Word, Huge Difference

The term "**fee-based**" sounds almost identical to "fee-only," and that's part of the problem. A fee-based advisor charges fees *and* may also earn commissions or receive third-party compensation. This creates potential conflicts of interest that may not be immediately obvious.

According to a 2023 study by the National Association of Personal Financial Advisors (NAPFA), fewer than 10% of all financial advisors operate under a true fee-only model. The rest may have financial incentives that don't always align with their clients' goals.

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of financial advisors in the U.S. operate under a true fee-only compensation model, according to NAPFA.

02 The Three Advisor Compensation Models

A clear comparison so you know exactly what you're paying for.

Feature	Fee-Only	Fee-Based	Commission-Based
How they're paid	Client-paid fees only	Fees + commissions	Product commissions only
Third-party compensation	None	Possible	Primary income
Fiduciary duty	Always (if RIA)	Sometimes / partial	Suitability only
Product bias	Minimized	Possible	Inherent
Fee transparency	Fully transparent	Partially visible	Often unclear
Common fee structures	AUM%, flat fee, hourly	AUM% + product commissions	Sales commissions, trails
Typical cost range	0.5%–1.5% AUM or flat fee	0.5%–2%+ AUM (plus hidden)	3%–8% front-load + trails
Regulatory oversight	SEC / State RIA	SEC + FINRA (dual)	FINRA / Broker-dealer

AUM-Based (Assets Under Management)

The advisor charges a percentage of the assets they manage for you. Common range: 0.5%–1.5% annually. This model aligns the advisor's income with your portfolio growth.

Flat Fee or Hourly

Some fee-only advisors charge a set annual fee or hourly rate regardless of asset size. This can be beneficial for clients with complex situations but smaller portfolios.

03 The Hidden Cost of Fees

Small differences compound into life-changing amounts.

Many investors focus on investment returns without realizing that fees are the single most controllable factor in long-term wealth accumulation. Even a 1% difference in annual fees can have a dramatic impact over a 25- to 30-year investing timeline.

The Compounding Impact: A Real-World Illustration

Consider an investor with a \$500,000 portfolio earning an average annual return of 7% before fees, over 25 years:

Scenario	Annual Fee	Net Annual Return	Portfolio Value (25 Yrs)	Fee Drag
Low-cost fee-only	0.75%	6.25%	\$2,278,000	—
Average fee-based	1.50%	5.50%	\$1,902,000	-\$376,000
High-cost commission	2.50%	4.50%	\$1,498,000	-\$780,000

Up to \$780,000

in potential wealth erosion over 25 years from higher-cost advisory models on a \$500,000 portfolio. That's more than 34% of total potential growth lost to excess fees.

The Layers of Hidden Costs

Advisory fees are just one layer. Commission-based and fee-based models often stack additional costs that compound the problem:

- **Fund expense ratios:** Internal mutual fund costs (avg. 0.50%–1.25%)
- **12b-1 fees:** Marketing and distribution fees embedded in fund costs
- **Front-end or back-end loads:** Sales charges of 3%–5.75% on each investment
- **Surrender charges:** Penalties for exiting annuity or insurance products early
- **Trading costs:** Transaction fees and bid-ask spreads
- **Account fees:** Custodial, transfer, or platform charges

TOTAL COST CAN EXCEED 3%

When you stack advisory fees, fund expenses, 12b-1 fees, and transaction costs, investors in commission-based models may pay 2.5%–3.5% annually — often without realizing the full extent. A fee-only advisor using low-cost index funds can help keep your all-in costs below 1%.

04 Fiduciary vs. Suitability Standard

The legal standard that governs your advisor's obligation to you.

Not all financial professionals are held to the same legal standard of care. This distinction is fundamental to the advice you receive.

Fiduciary Standard

Must act in the client's **best interest** at all times.

- Legally required to put your interests first
- Must disclose all conflicts of interest
- Must provide full transparency on fees
- Duty of loyalty and duty of care
- Applies to Registered Investment Advisors (RIAs)

Suitability Standard

Recommendation must be "suitable" — not necessarily the **best** option.

- Must be appropriate for your general situation
- Does NOT have to be the lowest-cost option
- May recommend products that pay higher commissions
- Less rigorous disclosure requirements
- Applies to most broker-dealer representatives

What This Looks Like in Practice

Imagine you need to roll over a \$400,000 401(k). Under each standard, your advisor might recommend different solutions:

Fiduciary Advisor

Recommends a diversified portfolio of low-cost index funds with a total expense ratio of 0.10% inside a fee-only advisory relationship. Total annual cost: approximately 0.85% (\$3,400).

Suitability-Only Advisor

Recommends a variable annuity with a 5% surrender charge, 1.25% M&E fee, plus a managed fund with a 0.90% expense ratio. Total annual cost: approximately 2.5% (\$10,000) — and you're locked in for 7 years.

Both recommendations may be "suitable" for your situation. But only one is required to be in your **best interest**.

05 Five Questions to Ask Any Advisor Before Hiring

Use these questions to evaluate transparency and alignment of interest.

1 Are you a fiduciary 100% of the time?

Some advisors act as fiduciaries only for certain accounts or services, then switch to a suitability standard for others. You want an advisor who is **always** a fiduciary, in every interaction.

2 How are you compensated — and by whom?

Ask specifically: "Do you receive any commissions, referral fees, revenue sharing, or other compensation from third parties?" A fee-only advisor's answer should be unequivocally "no."

3 What are my total costs, including fund expenses?

Your advisory fee is only one layer. Ask for a complete accounting of all costs you'll pay, including investment product expenses, platform fees, and transaction costs.

4 Can I see your Form ADV Part 2?

This regulatory disclosure document details the advisor's fees, services, conflicts of interest, and disciplinary history. Every RIA must provide it. If an advisor hesitates, consider that a warning sign.

5 What is your investment philosophy?

Understand whether the advisor favors active management (higher cost) or evidence-based/index strategies (lower cost), and whether their approach aligns with your goals and risk tolerance.

PRO TIP

You can verify any advisor's registration, credentials, and disciplinary history for free at **BrokerCheck.FINRA.org** or the SEC's **Investment Adviser Public Disclosure (IAPD)** database.

06 Red Flags That Your Advisor May Not Be Putting You First

Watch for these common warning signs in any advisory relationship.

They recommend proprietary products frequently

If your advisor consistently steers you toward their own firm's investment products, mutual funds, or insurance offerings, they may be incentivized by internal sales quotas rather than your needs.

They can't clearly explain their fee structure

A trustworthy advisor should be able to explain every dollar you pay in plain language. Vague answers like "it's built into the products" often mask layers of hidden compensation.

They push annuities or whole life insurance aggressively

While these products serve legitimate purposes for certain situations, they also generate significant commissions (often 5%–8%). If an advisor leads with these products for most clients, question why.

They resist giving you a written financial plan

A comprehensive financial plan should precede any product recommendation. If the advisor jumps straight to products without understanding your full picture, that's a misalignment of priorities.

They discourage you from getting a second opinion

A confident, ethical advisor welcomes scrutiny. If you're discouraged from consulting another professional or reviewing your portfolio elsewhere, that should raise concerns.

They use fear or urgency to rush decisions

Sound financial planning is deliberate and thoughtful. An advisor who pressures you to "act now" on product purchases or portfolio changes may be prioritizing a sale over your well-being.

07 Why Davies Wealth Management Chose Fee-Only

Our commitment to transparency and client-first planning.

When Thomas Davies, CFS, founded Davies Wealth Management, the choice to operate as a fee-only fiduciary was fundamental, not just a business model decision, but a reflection of the firm's core values.

Our Philosophy

We believe that financial advice should be free from conflicts of interest. When you work with Davies Wealth Management, you can be confident that every recommendation is made with your best interest — and only your interest — in mind.

What Fee-Only Means at Davies WM

We do not sell financial products. We do not receive commissions. We do not accept referral fees from third parties. Our only source of compensation is the fees our clients pay us directly for planning and investment management services.

Our Commitment to You

- **Full fiduciary duty** — We are legally obligated to act in your best interest, always
- **Complete fee transparency** — You'll know exactly what you pay and what you receive
- **Comprehensive financial planning** — We build a plan before recommending any strategy
- **Evidence-based investment approach** — Focused on low-cost, diversified strategies

- **Ongoing relationship** — Regular reviews ensure your plan evolves with your life

Serving Florida's Treasure Coast

Based in Stuart, Florida, Davies Wealth Management is proud to serve families, professionals, and retirees across the Treasure Coast. We offer both in-person and virtual consultations to accommodate clients wherever they are.

ABOUT THOMAS DAVIES, CFS

Thomas Davies is a Certified Fund Specialist (CFS) and the founder of Davies Wealth Management, a fee-only fiduciary registered investment advisory firm. He is committed to providing the highest quality of service and objective financial guidance to every client.

YOUR NEXT STEP

Schedule a Free Consultation

Discover what fee-only, fiduciary financial planning can look like for you and your family. No products to sell. No obligation. Just an honest conversation about your financial future.

[Book Your Free Consultation](#)

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