



Advisors Pan Schwab, TD Ameritrade Fee Rebate Offers

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October 21, 2014

With Charles Schwab and now TD Ameritrade offering money-back guarantees to managed-account clients, will independent advisors be forced to respond?

Not if advisors have any say in the matter. A number of advisors and planners contacted by Financial Advisor magazine said they have no plans to offer a similar guarantee, and in fact, many think fee refunds could be counterproductive to client behavior by encouraging short-term reactions to market movements. Furthermore, advisors resoundingly reject the idea that they should work for free during tough markets when they work hard to keep clients' trust.

This month, TD Ameritrade joined Schwab in offering a refund of account-management fees to clients who aren't satisfied.

The new program from the Omaha-based discount broker is based on managed-account clients losing money for two consecutive quarters. Qualifying customers can get a refund on fees paid over those two quarters. Schwab's rebate deal, which it has been relentlessly promoting in its "accountability guarantee" ad campaign, will refund one quarter's worth of fees due to dissatisfaction for any reason.

TD Ameritrade plans to begin actively promoting its offer later this month.

The satisfaction guarantees may make sense for mass marketers like Schwab and TD Ameritrade if the pitch attracts new assets, advisors say. As for offering a refund in their own practices, advisors say that won't happen.

"To me that's a strange place to go with your value proposition," said Jay Healy, president of Century Wealth Management LLC in Memphis, Tenn. "A value proposition should not be based on quarter-to-quarter happiness of a client. It should be on meeting long-term goals."

A fee rebate won't help recover a loss, Healy adds. "It seems like it would just be a way to punish the advisor."

"I work hardest for you in a bear market. If someone asked me for a rebate, I'd have to ask the client if this is really the right relationship," said a rep with Wells Fargo Advisors.

"What's the criteria for being unhappy" and getting a rebate? asks Bradley Dillon, CEO and founder of Dillon Wealth Management in Vincennes, Ind. "That will be interesting to see. ... The part that scares me is that [guarantees] promote a bit of a chasing-returns mentality" on the part

of the client, he said.

Tom Lydon, president of Global Trends Investments, thinks the rebate offers, together with the brand power of Schwab and TD Ameritrade, will attract assets. But he wonders what will happen in the next “major correction in the market [when the firms] have to write lot of checks?”

“We have not seen anything abnormal in the past couple weeks during the more volatile market activity,” said Schwab spokesman Michael Cianfrocca in an email.

Schwab’s Accountability Guarantee program “is about far more than performance,” Cianfrocca added. “Performance matters, but this is a promise to be accountable to clients, stand behind what we say and what we do, and deliver services that meet their long-term needs.”

Could the rebate promotions put further fee pressure on full-service advisors? Maybe.

“Investment management is becoming a bit of a commodity,” Dillon said. “Those advisors hanging their hats solely on investment management ... could end up competing against” lower-cost providers who offer refunds.

“There’s definitely been a new wave of fee sensitivity [from] a long period of time when portfolio returns have been so insufficient,” said Paul Boyd, managing partner at ClearPath Capital Partners.

The refund offers fit with that trend, Boyd said, along with the new low-cost robo-advisors. But he thinks the competitive impact will be felt mostly in the mass market served by the traditional discounters.

Advisors should not be quick to dismiss a money-back guarantee, though, said Anna Bernasek, an economist, consultant and author of the book “The Economics of Integrity,” (2010, HarperStudio).

Bernasek implored a group of advisors at a recent conference to offer a “100 percent satisfaction guarantee.”

Why? The financial services industry still has a “huge integrity problem,” she told Financial Advisor.

“If you really believe in what you do, why not put your money where your mouth is?” Bernasek said.

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