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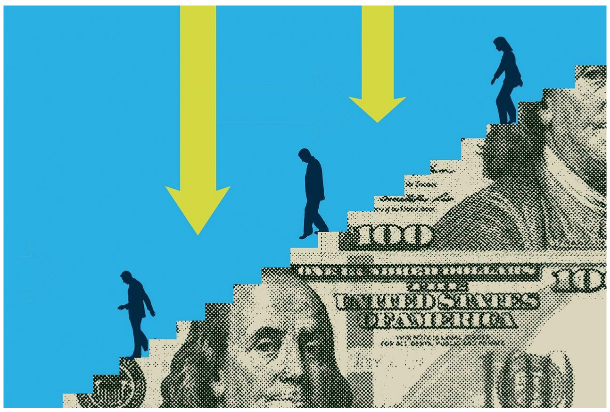
The Price of Financial Advice Is, Finally, Falling

As the rest of Wall Street cuts all kinds of fees in a race to zero, financial advisers have been the exception. That is changing.



Financial advisers these days are having to work to justify asset-management fees of 1% or more. ILLUSTRATION: OLIVER MUNDAY

By Lisa Beilfuss

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Mutual-fund and index-fund fees keep falling. Trading is free, depending on where you do it. Even hedge funds have started to drop their notoriously high charges.

The only holdouts in the race to rock-bottom fees have been traditional investment advisers. Now that is starting to change.

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Technology is reshaping the wealth-management industry, bringing down the cost of delivering advice and putting pressure on traditional fee models. At the same time, the massive, continuing transfer of wealth from baby boomers to their children means heirs are re-evaluating their financial relationships and putting advisers on the defensive. MS **-3.34%** ▼

The result: Some big players—such as Morgan Stanley MS **-3.34%** ▼ —have begun to trim fees for traditional advice. What's more, some of those big names are launching automated systems called robo advisers, which offer investors simple guidance at extremely low prices. Vanguard Group charges 0.3% of assets annually for its robo adviser, for instance, while Charles Schwab Corp.'s SCHW **-4.95%** ▼ offering has no management fees.

"The tipping point is now," says Jay Shah, chief executive of Personal Capital. "Advice is being delivered at less than 1%."

That is a huge change. Currently, the bulk of investors with $1.5 million or less pay human advisers between 1% and 1.5% of their assets annually, according to Boston-based research firm Cerulli Associates.

Two reasons the decline has so far been slow-moving is a lack of disclosure and the fragmented nature of the business. There isn't one set rate that any firm or adviser charges clients—advisers have leeway in what they charge from one client to the next.

"People don't know what they pay," says Denise Valentine, an analyst at research firm Aite Group.

No one suggests that financial-advice fees will go literally to zero soon. Many investors will always pay because they think it's worth it. And some investors will always value a relationship with an human adviser enough to pay a bit more than what they otherwise might for digital advice or to manage their own investments.

But "there is significant change occurring, and the types of changes we see point to lower fees," says Devin Ryan, brokerage analyst at JMP Securities LLC.

Here's a closer look at the factors that are starting to drive down the cost of investment advice.

Technology opens up options

From robo advisers to digital tools that make human advisers more efficient, technology will keep disrupting the industry's way of doing business.

Traditional advisers are still at the top of the heap, but robo advisers are slowly gaining share. Cerulli Associates estimates that the robo-advice industry had more than $200 billion in assets at the end of 2017—up from $80 billion a year earlier—and will have $600 billion by the end of 2022, eating into the $20.3 trillion asset base of traditional brokerage firms.

So, even the biggest firms have given in to pressure to modernize their wealth-management operations with lower-cost options in order to be more competitive.

Financial firms are exploring other types of tech, too. Morgan Stanley in particular has invested big in artificial intelligence meant to let brokers take on more business by freeing them from certain daily tasks, such as automating some client communication on volatile days. The idea: By boosting efficiency, firms and advisers can make up for a lower-fee future by taking on a higher volume of accounts.

More scrutiny from heirs

Traditionally, the investment-advice business has been built on relationships, and fees have lacked transparency, says Mr. Ryan of JMP Securities.

But that will change as the children of boomers inherit their assets, a transfer of wealth estimated at $30 trillion, Mr. Ryan says.

When an heir receives an inheritance, he or she will review the parent's adviser relationship, Mr. Ryan says. Younger investors in particular are often more comfortable with digital advice than a human, a reality that will prompt some advisers to cut fees to remain competitive.

"Millennials are asking a lot more questions about 'what you're doing for me,' " says Ms. Valentine.

At Voya Financial Inc.'s VOYA -4.26% ▼ Voya Financial Advisors, roughly 2,100 advisers charge up to around 1.5% of assets, says Tom Halloran, president of the Voya unit. But some have started charging 0.9%, he says, to be more competitive and retain customers considering lower-cost alternatives.

When Morgan Stanley late last year launched its robo adviser with a fee of 0.35% annually, executives said that it was meant to attract a new generation of clients. Many of these new clients are likely to be the children of existing customers now positioned to inherit significant wealth.

Meanwhile, executives at Morgan Stanley have lowered the maximum fee that human advisers can charge clients to 2% of assets from 2.5%.

New arrangements for services

As advisers work to justify asset-management fees of 1% or more, many are pitching clients on their ability to offer financial advice that goes beyond investment allocation.

Some say they can handle taxes, advise on business, prepare clients for retirement years and plan for their children's educations, as well as deliver more specialized services. For instance, Mr. Halloran says Voya advisers are being trained to work with clients who have children with special needs.

Still, some experts warn that investors will want their advisers to offer those services a la carte, letting clients pay for what they want and leave what they don't, Ms. Valentine says.

"Going forward, there will be greater pressure to prove value, and [advisers] will have to have reasons to substantiate their fee," Ms. Valentine says.

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