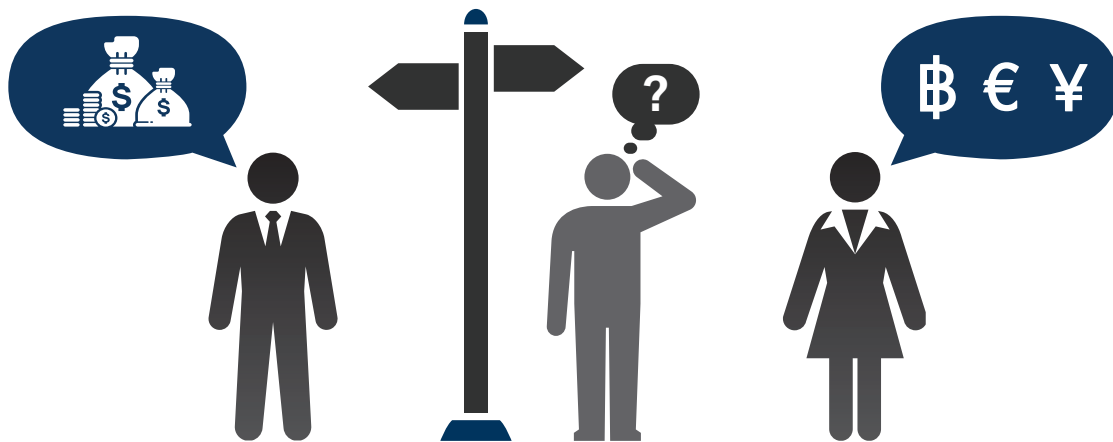


The Cost of Expat Investment Advice: Do You Know What You're Paying?

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Someone once said that nothing in life is free, and that definitely applies to investment advice. You may not realize it, and it may not be transparent, but when expats receive third-party investment advice they pay for it in one way or the other. Unfortunately, a bewildering array of packaging and clever marketing efforts can disguise the issue and make it difficult to tell just how much and exactly what the true costs are. To help you make the best choice, below we run through the main options for managing your investments, outlining what you get, what you pay, and who is best suited for each model.



First, regardless of how they're packaged, all investment services provide one or more of the following functions: advice, management, and execution.

- **Advice** can range from the latest hot tip to the development of an appropriate investment strategy. Just realize that not all "advisors" are truly advisors, regardless of their title. Most are salespeople who are paid to sell product and whose interest is primarily aligned with their employer, not the client.
- **Management** involves the ongoing selection of individual stocks and bonds designed to carry out an investment strategy. Typically, this is carried out at the fund level with an advisor or broker helping to select funds appropriate for the client's situation and investment strategy.
- **Execution** covers the actual trading, clearing, and reporting functions of managing the portfolio. The global investment industry packages and delivers these services in a variety of ways designed to appeal to various client segments.

Do It Yourself (DIY)

What you get: With the DIY approach, you're your own advisor and portfolio manager, and what you pay for is execution. Coupled with an execution-only broker, where you manage a portfolio of individual stocks and bonds or a portfolio of exchange-traded funds (ETFs), this could be your cheapest option. It can also often be one of the most expensive for those who lack experience or knowledge, or who don't have the time or interest needed to successfully DIY. Studies by DALBAR, Inc., have consistently shown that the average mutual fund investor underperforms the markets over 1-, 3-, 5-, 10-, 20-, and 30-year periods. For the 30-year period ending December 31, 2015, the average equity investor underperformed the market by nearly 7% on an annualized basis.

Fees: Commissions at a discount broker run from about USD 5 to USD 40 per trade. Fees on a portfolio of ETFs or index funds can run less than 0.3%. The cost of your time and potential underperformance due to investment errors should also be considered if you're pursuing this option.

Best for: Those who have the time, dedication, temperament, and knowledge to be their own advisor/portfolio manager.

Full-Service Brokerage

What you get: With a full-service brokerage, you pay for the broker's investment advice, fund management, and execution. Typically, the broker will recommend a load mutual fund—a fund with an embedded sales charge—that may or may not have been chosen as part of an overall investment strategy. The broker is compensated indirectly by a sales charge that varies with the fund, which can create the illusion that the advice to the client is free. As with any commissioned-based product structure, there can be conflicts of interest, and advice may be designed to facilitate a sale rather than comprise part of a comprehensive and well-thought-out investment strategy.

There has recently been a move to asset-based fees, where the cost of advice is applied to the amount of assets the broker is “managing” for you on an annual basis, rather than imposing a sales charge that is levied when the client makes a transaction on recommended investments.

Fees: The broker is compensated for “advice” or sales by the sales load embedded in the fund, which can run as much as 5% for a front-end load fund. Ongoing fund fees that cover management and execution costs typically run about 1%–2%.

Asset-based fees range from 0.5% to 2.0%, depending on the size of the portfolio managed and degree of personalized service provided. This does not include fees on the underlying mutual funds, which may run another 1%–2% or so.

Best for: Those who value a personal relationship with their broker via the phone or local branch to help with execution, or those who want help devising and implementing an appropriate investment strategy but don't need the personalization and sophistication required of a wealth manager or don't meet the minimums. Investors need to be aware of the potential conflicts of interest and the limitations of the full-service model in delivering and implementing investment strategies that are truly in the interest of the client.

Discount Brokerage

What you get: A discount brokerage used to be a low-cost, execution-only model, but now ranges from execution-only models to those that offer similar services as full-service brokers and, in some cases, maintain physical branches. With the execution-only model, you serve as your own advisor and manager, using the broker's online platform to purchase stocks, bonds, ETFs, and no-load (no sales charge) mutual funds. Discount brokers with more extensive service models give you the option of picking from a range of services on top of the execution-only model.

Fees: Commission rates can run from USD 5 to USD 40, depending on the size of the trade for stocks and ETFs. Since you are not paying for “advice,” you can purchase a range of no-load mutual funds, ETFs, and index funds. Underlying fund fees on no-load mutual funds average about 1%, while ongoing fees on ETFs and index funds can average less than 0.5%.

Best for: Do-it-yourselfers who are comfortable with an execution-only model; those who are happy to deal online and don't need the personal support of a full-service broker or require the more extensive services of a wealth manager.

Wealth Management/Advisory

What you get: With a wealth management/advisory approach, you get customized advice, management, and execution. Wealth managers employ comprehensive analysis and sophisticated strategies in the development and management of client investment strategies. Some provide financial planning advice as well.

Fees: Wealth manager/advisors typically charge 1% for the first USD 1 million under management. Underlying fund fees typically run another 1%. Portfolios comprising primarily ETFs and index funds can run less than 0.5%.

Best for: Those looking for or needing a comprehensive, personalized service and who can meet the minimum asset requirements. Many wealth managers require a minimum asset base of USD 1 million or more.

Offshore Options

What you get: The options in the offshore markets are similar to the above, but are dominated by insurance-linked investment schemes sold by an army of independent financial advisors (IFAs). The private banks generally occupy the full-service brokerage space, but typically require minimum asset sizes. Additionally, there are some emerging offshore discount brokerages and wealth management/advisory practices catering to the expatriate population.

Fees: Ongoing advisory fees tend to run about 1% in the offshore markets, with the fees on underlying funds typically running 1.5%–2%, regardless of the distribution platform. There is usually also an initial 5%–7% sales charge upon purchase of a fund to pay for the cost of distribution.

For many of the insurance-linked schemes that are aggressively marketed in the offshore markets, there tends to be a 1% advisory fee, an admin fee of 1% or more, and average fund fees of 1.5–2% on the underlying funds, all applied annually. In addition, many of these schemes are subject to surrender fees of 7% or more, along with a number of punitive fees for early surrender and changing or stopping the contribution schedule. There is also an initial 5%–7% sales charge upon purchase of any underlying fund in the scheme.

Caution for Americans: The offshore insurance-linked investments commonly pushed to expatriates can end up being U.S. tax nightmares. These schemes may not be recognized as insurance policies by the IRS, and additional PFIC (passive foreign investment company) rules may apply to how they're taxed in the United States. If you're a U.S. citizen or resident, you'll want to be sure you consult a U.S. tax advisor on how a scheme is taxed before you sign the contract and subject yourself to the high surrender and ongoing fees. Keep in mind that the IFA selling the product is probably not your best source of U.S. tax information.

Unfortunately, at the end of the day, there's no such thing as free investment advice, and this may be especially true for expatriates. In all cases, you pay for advice (and poor advice can be the most expensive kind), management, and execution. This is the case whether or not the costs are transparent. Whichever option you choose, you'll be ahead financially if you ensure you understand what's being provided, how you're paying for it, and whether you're getting what you're paying for.

Additional Resources

[Expat Investment Advice: Seven Things Expats Need to Know About Investing](#)

[5 Questions Expats Should Ask Before Choosing an Offshore Custodian](#)

[For American Expats: What to Do If Your Private Banker Tells You to Go Away](#)

[American Expats: Don't Get Caught by U.S. Tax Rules on Foreign Investments](#)

About Creveling & Creveling Private Wealth Advisory

Creveling & Creveling is a private wealth advisory firm specializing in helping expatriates living in Thailand and throughout Southeast Asia build and preserve their wealth. The firm is a Registered Investment Adviser with the U.S. SEC and is licensed and regulated by the Thai SEC. Through a unique, integrated consulting approach, Creveling & Creveling is dedicated to helping clients cut through the financial intricacies of expat life, make better decisions with their money, and take the steps necessary to provide a more secure future. [For more information, visit \[www.crevelingandcreveling.com\]\(http://www.crevelingandcreveling.com\).](http://www.crevelingandcreveling.com)