How private wealth firms make money

Private Wealth Pathway

1 A story: the kiosk and the tailor

- A kiosk serves many people cheaply
- A tailor spends hours on each customer
- Each can profit if the price fits the work
- A wealth firm must choose its customers

IN THE LESSON

- Picture two shops on one street.
- The kiosk sells small things to hundreds of people a day, so it uses shelves, a till and one tired assistant.
- The tailor makes one suit for one customer over many hours.
- Both can make a profit, but only if the price fits the work.
- A tailor who charged kiosk prices would go bankrupt, and a kiosk with tailor costs would have no customers.
- Wealth firms face exactly this puzzle.
- Every client costs time to look after, so each firm has to decide which customers it wants, and then build a service that pays its way at that size.

2 Client segments by wealth

- Mass affluent: standard models
- High net worth: tailored advice
- Ultra high net worth: bespoke

IN THE LESSON

- Firms sort clients into segments by how much they can invest.
- On the left of this line are smaller accounts.
- The mass affluent have comfortable savings but not a fortune, and they get standard portfolios, mostly delivered by automation.
- In the middle are the high net worth clients, who have enough to justify a named adviser, planning and tailored portfolios.
- On the right, the ultra high net worth families have complex wealth, such as companies, trusts and property in several countries.
- They get bespoke advice, lending, trust services and often a family office.
- The labels are illustrative, because firms draw the lines in different places.
- What matters is that the service deepens as the account grows.

3 Who serves private clients

Five groups of providers

Private bank	**Loans, trusts, own products**
Brokerage network	Paid on trades and products
Independent adviser	Not tied to a product maker
Family office	Shared, or one family's own
Digital platform	Automated, low cost, many

IN THE LESSON

- Five kinds of provider turn up in this field.
- Private banks are banks with a department for rich clients, so they can add loans and trust services.
- Brokerage networks are firms whose representatives earn from the trades and products they arrange.
- Independent advisers run their own businesses and are not tied to a product maker.
- A multi family office looks after several families together, spreading its cost, while a single family office works for one family alone, at a high cost.
- Digital platforms use software to give low cost portfolios to many small clients.
- Here they are, with what each is best known for.

4 How a wealth firm earns its living

Choices

Pick a segment → Shape the offer → Count cost to serve

Earnings

Set the fee basis → Collect revenue → Margin or loss

IN THE LESSON

- Here is the logic of the whole business in two rows.
- In the top row the firm makes its choices.
- It picks a segment, shapes an offer for that segment, and counts what it costs to serve each client.
- In the bottom row, it earns.
- It sets a fee basis, such as a percentage of assets.
- The fee is collected as revenue, and the difference between that revenue and the cost of serving is either a margin or a loss.
- Every firm that survives has made the two rows agree.
- The next slides put numbers on that, using the cost per client and the fee, to find the smallest account that pays for itself.

5 The break-even account size

Break-even size = cost to serve ÷ fee rate

Break-even size	Smallest account that pays its way
Cost to serve	Yearly cost of one client
Fee rate	Percentage of assets charged

IN THE LESSON

- Here is the one formula for this outcome.
- A firm earns a fee, which is a percentage of the assets it manages.
- It also has a cost to serve each client for a year, which covers adviser time, reporting, systems and support.
- The smallest account that pays for itself is the cost to serve divided by the fee rate.
- Below that size, the firm loses money on every client it takes.
- Above it, the firm makes a margin that grows with the account.
- This is why firms set minimum account sizes, and why the cost of serving, more than the size of a client's ambition, decides which service they are offered.

6 Example 1: two services, two break-evens

Bespoke: cost 12,000, fee 1.00%. Digital: cost 100, fee 0.30%

Bespoke break-even	12,000 ÷ 1.00%	**1.2m**
Bespoke, 400k client fee	1.00% × 400,000	**4,000**
Bespoke result after cost	4,000 − 12,000	**−8,000**
Digital break-even	100 ÷ 0.30%	**33,333**
Digital, 80k client result	fee 240, less cost 100	**+140**

IN THE LESSON

- Halden runs two services.
- The bespoke service costs twelve thousand a year per client and charges one per cent of assets.
- The break even size is twelve thousand divided by point oh one, which is one point two million.
- Take a client with four hundred thousand.
- The fee is four thousand, and after the twelve thousand cost the firm loses eight thousand.
- Now the digital service.
- It costs one hundred a year and charges point three per cent.
- The break even is about thirty three thousand three hundred.
- A client with eighty thousand pays two hundred and forty, and after the hundred cost, the firm makes one hundred and forty.
- The same client is a loss in one service and a profit in the other.

7 Bespoke revenue against its cost

Yearly amount (thousands)

Cost to serve	**12**
400k client	**4**
1.2m client	**12**
5m client	**50**

Fee of 1.00% on each account

IN THE LESSON

- Here is the bespoke service in a picture.
- The vertical axis is yearly fee revenue in thousands, and the first grey bar is the cost to serve one client, twelve thousand.
- Now the three bars of revenue at one per cent.
- A four hundred thousand client brings four thousand, far below the cost.
- A one point two million client brings exactly twelve thousand, and that is the break even.
- A five million client brings fifty thousand, more than four times the cost.
- So the same adviser, doing similar work, creates a loss, a break even or a healthy margin, depending only on the size of the account.
- That is the economics behind every minimum account size.

8 Bank model against independent model

Two models compared

Bank, closed architecture	**Breadth, but conflicts**
Bank cross-selling	Credit, own funds
Independent, open	Objective advice
Independent's cost	Less scale, narrower menu

IN THE LESSON

- Next, the shape of the firm itself.
- A bank can offer a very wide menu: loans against the portfolio, its own funds, trusts and cash management.
- That breadth is a real strength, and it can cross sell, which means selling a client several products.
- But the bank also earns from those products, so its advice may lean towards them.
- A closed architecture, where mostly its own products are offered, raises the conflict.
- An independent firm usually uses an open architecture, picking from the whole market, and takes no payments from product makers.
- It gives up the breadth and the scale, and in return can say its advice is objective.
- Neither model is better in itself.

9 Example 2: matching Marcus to a provider

Marcus: 12m after the sale; trust, loan, wants objectivity

Complexity	company sale, trust, loan	**High**
Needs depth, so not	an automated platform	**Rule out**
Wants objectivity	no product to push	**Open**
Fee basis	assets of 12m	**On assets**
Proposal	match depth, openness, fee	**Open family office**

IN THE LESSON

- Now Marcus Ellery.
- He is selling his freight company for twelve million.
- He has a family trust to set up, a property loan to arrange, and he told Priya Nair that his first need is objective advice.
- Her judgement goes in three steps.
- His complexity is high, so he needs a firm with real depth, and a digital platform would be too thin.
- His wish for objectivity points to open architecture.
- And his size suggests a fee on assets, which is the usual basis at this level.
- So she proposes a multi family office with open architecture.
- Notice that she did not choose the firm with the longest menu.
- A broader menu is not better advice if it does not fit the client.

10 A story: the price tag steers the advice

- How the client pays sets what the firm earns
- How the adviser is paid sets what is pushed
- The sums are easy, the incentives are not
- Spot the pull, then say so out loud

IN THE LESSON

- Imagine a taxi driver who is paid by the mile, and a passenger who asks for the quickest way.
- The driver has a reason to take the long road, even if he is honest.
- Advisers are in a similar position.
- How a firm charges the client decides what it earns, and how it pays its advisers decides what they have a reason to recommend.
- The sums are easy.
- The harder skill is spotting where the way of being paid pulls against the client's interest, and then saying so out loud.
- Let us look at the common charging methods first, then the arithmetic, then the incentives each one creates.

11 Five ways to charge a client

The common charging methods

Asset-based fee	**Percent of assets, often tiered**
Fixed retainer	Set amount a year
Hourly charge	Time billed
Commission	Paid per trade or product
Performance fee	Share of gains, occasional

IN THE LESSON

- Here are the five common ways.
- An asset based fee is a percentage of the assets managed, often tiered, so the rate falls as the account grows.
- A fixed retainer is a set amount each year for an agreed service.
- Hourly charges bill the adviser's time, like a lawyer.
- Commissions are paid on transactions or products, so each trade or sale produces revenue.
- Occasionally there is a performance fee, which shares in the gains.
- Each is natural for some work.
- Planning advice suits a retainer or hourly charge, ongoing management suits an asset based fee, and a commission suits a client who rarely trades.

12 A tiered fee, band by band

Fee = Σ (assets in band × band rate)
Effective rate = fee ÷ assets

Assets in a band	Only the part inside the band
Band rate	The rate for that band
Total fee	Sum across all bands
Effective rate	Fee as a share of the account

IN THE LESSON

- Most tiered schedules work like tax bands.
- Each rate applies only to the assets inside its own band.
- So you work through the bands in order.
- In each band, multiply the assets that fall inside it by that band's rate.
- Add the results, and that is the total fee.
- Then divide the total fee by the whole account, and you have the effective rate, which is the average the client really pays.
- The effective rate always lies between the top rate and the bottom rate, and it falls as the account grows.
- The classic mistake is to apply the rate of the top band to the entire account, which badly understates the fee.

13 Example 3: Marcus's tiered fee

Bands: 1.00% to 5m, 0.75% to 10m, 0.50% above. Account 12m

First 5m	5m × 1.00%	**50,000**
Next 5m	5m × 0.75%	**37,500**
Last 2m	2m × 0.50%	**10,000**
Total fee	50,000 + 37,500 + 10,000	**97,500**
Effective rate	97,500 ÷ 12m	**0.81%**

IN THE LESSON

- Halden's schedule is one per cent on the first five million, three quarters of one per cent on the next five million, and half a per cent above ten million.
- Marcus will invest twelve million.
- The first five million at one per cent costs fifty thousand.
- The next five million at point seven five per cent costs thirty seven thousand five hundred.
- The last two million at point five per cent costs ten thousand.
- Add them up and the fee is ninety seven thousand five hundred.
- Divided by twelve million, the effective rate is point eight one per cent.
- That is below the top rate of one per cent, and above the half per cent of the last band.

14 The effective rate falls as assets rise

Chart: Effective fee rate vs Account size, up to 20m

- Flat at 1.00%
- 5m
- 12m: 0.81%
- 15m: 0.75%

IN THE LESSON

- Here is the schedule as a picture.
- The horizontal axis is the size of the account, up to twenty million, and the vertical axis is the effective fee rate.
- Follow the line from the left.
- Up to the grey line, which marks five million, every unit pays one per cent, so the line is flat at the top.
- Past it, the next slice pays only point seven five per cent, which drags the average down, so the line bends.
- At twelve million, which is Marcus, the average is point eight one.
- At fifteen million it reaches point seven five per cent.
- The line keeps sinking, but slowly, because the first slices still pay more.

15 Example 4: five ways to charge Marcus

Marcus, 12m; commission 1.5% of value traded

Tiered asset fee	from Example 3	**97,500**
Fixed retainer	agreed set amount	**75,000**
Hourly	120 hours × 450	**54,000**
Commission, 25% turnover	3.0m × 1.5%	**45,000**
Commission, 60% turnover	7.2m × 1.5%	**108,000**

IN THE LESSON

- Now compare the structures for Marcus, with twelve million to invest.
- The tiered asset fee comes to ninety seven thousand five hundred.
- A fixed retainer might be seventy five thousand.
- An hourly charge of one hundred and twenty hours at four hundred and fifty an hour is fifty four thousand.
- Now look at commissions at one and a half per cent of the value traded.
- If the portfolio turns over a quarter of its value in a year, that is three million traded and forty five thousand in commission.
- But if it turns over sixty per cent, that is seven point two million traded, and one hundred and eight thousand.
- Same client, same assets, and the commission has more than doubled.
- Which structure is cheapest depends on how the client behaves.

16 How advisers are paid, and what it rewards

Pay method and the pull it creates

Salary only	No pull, little reward
Salary plus retention bonus	Rewards happy clients
Share of revenue	Rewards growth, big accounts
Bonus on product sales	Pushes in-house products
Commission	Rewards turnover

IN THE LESSON

- Now the other side: how the adviser is paid.
- A plain salary has no pull towards any product, but gives little reward for winning clients.
- A salary with a bonus tied to retention and client satisfaction rewards keeping clients happy.
- A share of the revenue the adviser brings in rewards growth, but also favours the big accounts.
- A bonus on product sales pushes the in house products.
- And commission pays for every transaction, which rewards turnover.
- Notice that each method has a built in reward, and a firm can pick the one that points the adviser the right way.
- A good test is to ask what the adviser gains from a recommendation.

17 Example 5: the fee that dislikes good advice

Loan 2m at 6%; repay from the 12m portfolio

Interest saved by repaying	6.0% × 2m	**120,000**
Fee on 12m	50,000 + 37,500 + 10,000	**97,500**
Fee on 10m after repaying	50,000 + 37,500	**87,500**
Fee the firm gives up	97,500 − 87,500	**10,000**
Her test	debt cost against return	**Compare**

IN THE LESSON

- Here is a conflict inside the fee itself.
- Marcus has a loan of two million at six per cent against his property.
- Repaying it from the portfolio saves interest of one hundred and twenty thousand a year, and that saving is certain.
- But the portfolio shrinks to ten million, and the tiered fee falls from ninety seven thousand five hundred to eighty seven thousand five hundred.
- So Halden gives up ten thousand if it gives that advice.
- Priya Nair's proposal is to compare the after tax cost of the debt with the return she expects on the assets, to recommend whichever helps Marcus, and to tell him plainly that the fee falls if he repays.
- A fee on assets can quietly discourage advice that lowers assets.

18 Mistakes to avoid so far

- A broader menu is better advice
- Top-band rate applied to all assets
- Judging cost by the headline fee alone
- Ignoring what the pay method rewards
- Giving legal or tax advice unqualified

IN THE LESSON

- Let us collect the common mistakes.
- One: believing that a broader menu of products means better advice, when the fit to the client matters more.
- Two: charging the top rate on every unit of assets, instead of working through the bands.
- Three: judging the cost of a provider by its headline fee alone, and ignoring product margins and commissions on top.
- Four: ignoring what the way of being paid rewards, whether that is turnover, product sales or simply holding on to assets.
- And five, which comes next: dropping into legal or tax advice that the wealth manager is not qualified to give.

19 A story: the business sale

- A 12m sale raises tax, trust and insurance questions
- No single adviser answers all of them
- Know your own skill and its limit
- Bring in experts, then join up their advice

IN THE LESSON

- Marcus sits in Priya Nair's office with a cheque for twelve million, and a list of questions.
- Who will work out the tax on the sale?
- Who writes the trust deed?
- Does his family need insurance in case he dies before the money is settled?
- Where will the shares be held safely?
- No single person can answer all of that well.
- A good wealth manager does not try.
- She knows what she is qualified to do, which is investment planning, and she knows when to bring in other experts.
- Then she makes sure they all work from the same picture, so the advice fits together.

20 Who the specialists are

The circle of outside experts

Tax specialist, accountant	Tax cost of each move
Estate or family lawyer	Wills, trusts, agreements
Trustee, fiduciary	Holds assets for the family
Insurance specialist	Cover for death, illness
Custodian, appraiser, others	Safekeeping and values

IN THE LESSON

- Wealthy families lean on a wide circle of experts.
- A tax specialist or accountant works out the tax cost of every move.
- An estate or family lawyer drafts wills and trusts and settles family agreements.
- A trustee or fiduciary holds assets for a family, under a legal duty to them.
- An insurance specialist arranges cover for death, illness and liabilities.
- A custodian keeps the assets safe and records them.
- Beyond these there are appraisers who value unusual assets, philanthropy advisers who help with giving, and family governance experts who help a family make decisions together.
- The wealth manager does not replace any of them.

21 The wealth manager as coordinator

Brief

Clarify goals and facts → Write one shared brief → Send it to each expert

Check

Experts advise → Manager checks the fit → Update and sign off

IN THE LESSON

- Here is how the coordination works, in two rows.
- In the top row, the manager first gets the client's goals and facts clear, then writes one shared brief, and then sends that same brief to each specialist, so everyone works from the same facts.
- In the bottom row, the specialists give their advice, and the manager then checks that all the pieces fit together.
- The investments, the legal structures, the tax position and the insurance must not contradict one another.
- Finally the plan is updated and the client signs it off.
- The mistake this prevents is the silo, where each expert is right in their own field and wrong for the family as a whole.

22 Example 6: who does what for Marcus

Marcus's tasks after the sale

Holding-company tax structure	tax law	**Refer: tax**
Redraft the will	legal work	**Refer: lawyer**
Family trust	legal and fiduciary	**Lawyer, trustee**
Cover for the estate	insurance	**Refer: insurer**
Invest the proceeds	her own skill	**Wealth manager**

IN THE LESSON

- Let us divide up Marcus's tasks.
- Restructuring the holding company to reduce tax is a tax question that depends on the law, so Priya Nair refers it to an accountant or tax adviser.
- Redrafting his will is legal work, so it goes to an estate lawyer.
- Setting up the family trust needs a lawyer and a trustee.
- Cover for his estate is for an insurance specialist.
- What stays with Priya Nair is the investment plan for the proceeds, and the job of coordinating the rest.
- Giving a view on the tax structure or the will herself would go beyond her competence, however confident she feels, and could harm the family.

23 Example 7: the referral fee

Law firm pays Halden 10% of its first-year fee

Law firm's first-year fee	charged to Marcus	**30,000**
Payment to Halden	10% × 30,000	**3,000**
Tell employer, clients, prospects	Standard VI(C)	**Disclose**
Choose the lawyer on	merit, not on the payment	**Merit**

IN THE LESSON

- Now an awkward question.
- An estate law firm offers to pay Halden ten per cent of its first year fee for every client it introduces.
- If it charges Marcus thirty thousand, Halden would receive three thousand.
- The money is small, but the issue is large.
- A payment for referring a client can tempt the adviser to choose the lawyer who pays, not the one who is best.
- Under Standard six C on referral fees, any such payment or benefit, whether received or paid, must be disclosed, as appropriate, to the employer, to clients and to prospective clients.
- Priya Nair's proposal is to choose the lawyer on merit, and to disclose the arrangement before the referral, so Marcus can judge it himself.

24 Example 8: the cost of working in silos

Sale proceeds 12m; tax estimate is illustrative

Sale proceeds	paid to Marcus	**12.0m**
Tax due in nine months	accountant's estimate	**2.4m**
Gift to the family trust	lawyer's plan	**3.0m**
Left for long-term investing	12.0 − 2.4 − 3.0	**6.6m**
Kept in cash and short bonds	2.4m + 3.0m, 45%	**5.4m**

IN THE LESSON

- To see why joining up matters, follow the money.
- Marcus receives twelve million.
- His accountant estimates the tax at two point four million, due in nine months.
- His lawyer plans to place three million into the family trust.
- That leaves six point six million for long term investing.
- Now suppose Priya Nair had not been told, and invested all twelve million in assets that cannot be sold quickly.
- In nine months Marcus would owe tax with no cash to pay it.
- Because she was told, five point four million, forty five per cent of the money, stays in cash and short bonds.
- The tax bill was an input to the investment plan, and one shared brief caught it.

25 A story: the rules of the road

- Every trade has rules, and they cost money
- Details depend on the jurisdiction
- The same themes repeat in every country
- Each theme changes how a firm earns

IN THE LESSON

- Think of a taxi company.
- It needs a licence, its drivers must be checked, and its prices must be shown.
- Each rule costs money and limits what it can do, but it also keeps passengers safe and makes the trade trusted.
- A wealth firm lives under the same kind of rules.
- The details change from one jurisdiction to another, so we stay general, and nothing here is tax or legal advice.
- But the themes repeat everywhere, and each one changes how a firm can earn money.
- For an adviser who holds the CFA charter there is also a floor that sits under every national rulebook.

26 Five recurring themes

What the rules cover

Licensing, registration	Authorised to advise
Standard of care	Best interest or suitability
KYC and AML	Know the client and the money
Disclosure	Fees and conflicts
Cross-border, data	Where and how you may serve

IN THE LESSON

- Five themes recur.
- First, licensing and registration: a firm and its advisers must be authorised to give advice or hold client money.
- Second, the standard of care owed to clients.
- Some places require a fiduciary or best interest duty, which is demanding, and others only a suitability test, which is lighter.
- Third, know your client, or K Y C, and anti money laundering, or A M L, checks on who the client is and where the money came from.
- Fourth, disclosure of fees and conflicts.
- And fifth, marketing and cross border rules, together with data protection.
- To assess a rule, ask what it does to the firm's business model.

27 How demanding is the standard of care

- Suitability
- Best interest
- Fiduciary duty

IN THE LESSON

- The standard of care is worth a picture.
- On the left is the lighter test, suitability.
- The adviser must recommend something suitable for the client, but need not choose the best of the available options, and may even earn more from one product than another.
- In the middle is a best interest duty, which says the client's interest comes first when advice is given.
- On the right is the full fiduciary duty, the most demanding, which asks for loyalty, care and putting the client ahead of the adviser's own interest.
- The further right, the harder it is to run a business on product margins and commissions.
- Many firms respond by moving to transparent fees.

28 Example 9: compliance cost favours scale

Fixed compliance cost; both firms charge 0.80%

Fixed compliance cost	licences, checks, reporting	**600,000**
Small firm, 500m of assets	600,000 ÷ 500m	**0.12%**
Large firm, 5,000m of assets	600,000 ÷ 5,000m	**0.012%**
Left of 0.80%, small / large	after compliance	**0.68% / 0.79%**

IN THE LESSON

- Now a numeric view of how rules shape the business.
- Suppose licensing, K Y C checks, reporting and monitoring cost Halden six hundred thousand a year, almost whatever the number of clients.
- A small firm with five hundred million of assets carries that cost at point one two per cent of assets.
- A large firm with five thousand million carries it at point oh one two per cent.
- Both charge point eight per cent.
- The small firm keeps point six eight per cent before its other costs, and the large firm keeps about point seven nine.
- The same rulebook is a heavy load for one and a light load for the other, and that favours scale.

29 From rule to business model

Cost

Fixed compliance cost → Cost per client falls → Scale favoured

Duty

Best-interest duty → Product revenue harder → Move to clear fees

IN THE LESSON

- Here is the chain from rule to business, in two rows.
- In the top row, the fixed cost of compliance means that the cost per client falls as a firm grows, and so scale is favoured and small firms are squeezed.
- In the bottom row, a duty of best interest means that every product must beat the alternatives for the client.
- Revenue that depends on selling products becomes harder to defend, so the firm leans towards transparent fees.
- Cross border rules work in a similar way.
- A firm may need a licence in the country where the client lives, and where it lacks one it cannot serve that client.
- So the rules decide who can be served, and how.

30 Example 10: assess the board's proposal

Halden 750m at 0.80%; in-house funds 150m at 0.40% margin

Fee revenue	0.80% × 750m	**6.0m**
In-house fund margin	0.40% × 150m	**600,000**
Share of revenue	600,000 ÷ 6.0m	**10%**
If best interest applies	each product must beat others	**At risk**
Proposal	skip it, or price it openly	**Defend**

IN THE LESSON

- Here is an assessment.
- Halden has seven hundred and fifty million of assets and charges point eight per cent, so its fee revenue is six million.
- The board proposes launching in house funds with a margin of point four per cent and placing one hundred and fifty million in them, which would earn six hundred thousand, ten per cent of fee revenue.
- A director says the local rules only require suitability, so it is fine.
- Priya Nair's answer has three parts.
- If a best interest duty arrives, that ten per cent is the revenue most at risk.
- Halden is an open architecture firm, and its clients chose it for that.
- And the advisers who hold the charter must follow the stricter standard anyway.
- She proposes skipping the product, or pricing it openly, with disclosure.

31 Legal does not mean ethical

Follow the stricter of the law and the Code

The law	What the regulator requires
The Code and Standards	Standard I(A) and the rest
What a member follows	Whichever is stricter

IN THE LESSON

- There is one more rule to remember, and it is the trap in this outcome.
- The fact that the law allows something does not make it ethical.
- A practice may be perfectly legal and still hurt the client.
- For members of the CFA Institute the rule is simple.
- Standard one A, knowledge of the law, says that when the law and the Code and Standards differ, you follow the stricter one.
- If the law is stricter, follow the law.
- If the Code and Standards are stricter, follow them.
- So the advisers at Halden cannot say that a product bonus is fine because a regulator allows it.
- The right answer is to disclose the conflict plainly, and manage it.

32 Recap: the lesson in five lines

- Break-even size = cost to serve ÷ fee rate
- Every pay method rewards something: disclose it
- Coordinate specialists, stay in competence
- Rules shape cost, reach and product revenue
- Follow the stricter of law and the Code

IN THE LESSON

- Let us pull the lesson together.
- First, firms choose a segment and shape the offer to the cost of serving it, and the smallest account that pays is the cost to serve over the fee rate.
- Second, fees can be on assets, fixed, hourly, commission or performance, and every pay method rewards something, so the conflicts must be disclosed.
- Third, the wealth manager coordinates outside specialists, stays within competence, refers when law or tax judgement is needed, and discloses referral payments.
- Fourth, regulation shapes the business through cost, borders and duty.
- Fifth, legal is not the same as ethical, so follow the stricter standard.

33 Try three quick questions

1. Fee 1% on first 2m, 0.5% above. Fee on 6m?
   Answer: 20,000 + 20,000 = 40,000; effective 0.67%.
2. Cost 9,000 a year, fee 0.75%. Break-even account?
   Answer: 9,000 ÷ 0.0075 = 1.2 million.
3. A law firm pays you for introductions. What must you do?
   Answer: Disclose it, and choose on merit.

IN THE LESSON

- Now try three quick questions yourself.
- Pause after each one.
- Question one.
- A schedule charges one per cent on the first two million and half a per cent above.
- What is the fee on six million?
- The first two million costs twenty thousand, the next four million costs twenty thousand, so the fee is forty thousand, an effective rate of point six seven per cent.
- Question two.
- A service costs nine thousand a year per client and charges point seven five per cent.
- What is the break even account size?
- Nine thousand over point oh oh seven five is one point two million.
- Question three.
- A law firm offers to pay your firm for introducing clients.
- What must you do?
- Disclose it, as appropriate, to your employer, clients and prospective clients, and choose the lawyer on merit.
- Remember to put the client first.