EUREKA report

Keep the commissions

By Michael Feller
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PORTFOLIO POINT: Investors can use a new service to retain the bulk of commissions that would otherwise be paid to financial advisers.

There's no such thing as a free lunch but a service called YourShare, which rebates fees and commissions for almost any investment, comes pretty close.

Like similar services 2020 Direct Invest and InvestSmart's Trail Cap, YourShare is a licensed financial adviser that rebates, rather than receives commissions. Like 2020 and TrailCap, the catch is that YourShare receives 30–50% of the trailing commission for its services.

What sets YourShare apart, according to managing director Paul Brady, is that it allows access to a much greater range of managed investments, superannuation funds, insurance policies and margin loans. “We give the most back on the most number of products,” Brady says.

The service, which is free to use, works with any financial product where trailing fees and commissions are paid. Rather than go through a retail financial planner or broker who will receive fees and commissions on products, an independent investor can nominate YourShare on their financial product's broker nomination form.

Typically, a YourShare client will have worked with financial planners in the past. But even those who don’t use a financial planner – purchasing units direct from a managed fund, for example –can still get extra rebated dollars through YourShare from commissions that otherwise would not have been paid to an external party. It’s taking advantage of a system that otherwise doesn’t benefit the independent investor.

Even products such as superannuation that may have been arranged years previously can be nominated to YourShare for trailing commission rebates. Indeed, that is where the idea for YourShare came from, Brady says.

“My wife and I were working in the UK, where we started our family. There my wife, Juliet, received a letter regarding a superannuation fund from one of her ex-employers in Australia, saying her fund had gone from $20,000 to $22,000 that year. But Juliet looked into that and found that all these fees and commissions were going to someone she didn't know.”

The Bradys, both chartered accountants, discovered that the only way to not pay these fees was to have a financial services licence.

Broker fees and commissions, ubiquitous in the financial services industry, can be the bane of the independent investor’s existence, even if asset selection is completely do-it-yourself and broking is just a formality. For some products, such as insurance, commissions can be exorbitant: 10–30% on average and as high as 130% of the first year’s premium, Brady explains.

Commissions on superannuation and managed funds are not as high, but with the large amounts under management, typical of an investor nearing retirement, the fees do add up.

“A trailing commission of 0.5% (typical of superannuation) doesn't sound like much, but God it adds up over time,” says Brady. “If you've got a superannuation balance of $1 million, that's $5000 and not just once, but every year. We had a client recently with a margin loan for $3 million and we were able to give him back $7000. It's big dollars for people with large investments, but it's also significant for the mums and dads out there as well.”

YourShare offers one case study of a 38-year-old client with $265,000 invested in a managed fund, to which she adds $100 a month. With a trailing commission of 0.44% paid annually to her financial planner, the client nominated YourShare as fund broker in September 2007 and automatically started saving money on this and the 4% initial commission, meaning an extra $4 a month. This may seem like a small amount, but if the client stays in the fund until she is 60, and assuming the fund grows at 7.5% per annum, the estimated savings over that period will be $37,915, of which $2675.40 will be reinvested entry fees.

One thing YourShare does not do is advise clients on what funds to invest in and what products to buy. The ethos is completely DIY, says Brady. “I’m not a financial planner and I don’t ever want to be a financial planner.” He says a good adviser might earn their commissions with sensible advice, but suggests the best planners are fee-for-service.

“What we do is help you get more out of your existing financial products. You tell us what you want, fill out our application form and we help you get the rebates but we just won't give you financial advice.”

Brady likens the process to booking a plane ticket to somewhere you know. “When I first went overseas 15 years ago I booked my ticket through a travel agent. But that was the last time I did it that way; I book online these days.”

And if you know what financial products you want to buy, you may as well minimise the commissions that would otherwise go to someone else. It makes sense.