

A Message from Flatland

Why First Ascent charges a low, flat fee for portfolio management.

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A position paper from First Ascent Asset Management, LLC.



First Ascent Asset Management

How it All Began

First Ascent Asset Management, LLC (“First Ascent”) offers outsourced portfolio management services to independent financial advisors and their clients.

The market for outsourced portfolio management services has grown dramatically since its beginnings in the late 1980s. A recent study by Tiburon Strategic Advisors estimates that 25% of all financial advisors now outsource some or all of their asset management responsibilities. These findings were confirmed by the 2016 Fidelity RIA Benchmarking Study that found that 27% outsource at least part of their portfolio management duties.

Until now, all of the asset management firms that provide outsourced portfolio management services have charged for their services on a percentage-of-assets-under-management basis.

First Ascent is now offering outsourced portfolio management services for a low annual flat fee of \$500 per account. The flat fee applies to all accounts, no matter how large, that use First Ascent’s Global Explorer portfolios.

Why We Did It

We looked critically at the traditional AUM fee model and decided it just didn’t make sense for our business model. Using the technology that is available today, managing a \$100,000 account takes the same amount of work as managing a \$1 million account. It makes no sense to charge an ever-escalating basis point fee that punishes larger accounts simply based on their size. We think there should be a correlation between the amount of work required and the fee charged.

We wanted to rationalize the pricing for asset management services. Our fees are calculated on a “cost plus reasonable margin” basis, which is how almost every business outside of financial services charges for its products and services. It is the same approach used by other professions like the legal and accounting professions. This ties our fees directly to the amount of work required to provide our services.

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Flat-fee pricing removes a significant barrier to entry and makes professional investment management accessible to a wider group of investors. This is important in today’s world where there are fewer and fewer pension plans and individuals are more and more responsible for their own financial security.

Why We Moved from Capped Fees to Flat Fees

When we launched our firm in 2016, we used another innovative approach to charging for our services—the capped-fee approach. We charged .50% of AUM and then capped the fee once it reached \$1,500. Once an account reached \$300,000 in size, the fee never increased. A \$1 million account paid the same fee as a \$300,000 account. We

always wanted to migrate to a totally flat-fee concept, but weren't ready to go there when we first opened our doors. This move is just part of the evolution of our firm.

We started down this path last year by introducing flat fees for additional accounts in a household. The discussion about the DOL fiduciary rule and fiduciary issues in general got us even more focused on our pricing structure. We made some improvements to our technology, including the completion of our Account Onboarder that automates proposal generation and account opening. This made us even more efficient.

We tested the concept at the end of last year and had a tremendous response from the advisors we talked to. We continued the test into the New Year and decided that it was both feasible and that the time was right to make the move. So here we are—the first asset management firm to introduce flat-fee pricing.

What We Like About Flat-Fee Pricing

There's a lot to like about flat-fee pricing. It's simple, easy to administer and transparent. Clients understand it right away and see the benefit. It allows advisors to lower their clients' fees without impacting their own fee. Both advisors and their clients win.

As the world moves more and more towards a fiduciary business model, flat fees will make more and more sense. It's rational. It's cost-effective. It's fair to clients. It minimizes conflicts of interest. It fits perfectly into a world where the client's best interests come first.

We're glad our fee schedule provides a benefit to our clients, but we also think that charging a low, transparent fee is good business. We expect to see a large volume of accounts because we are priced favorably compared to our competitors and provide value without lowering service.

How We Are Able to Offer Flat Fees

The key to flat fee pricing is having low operating costs, being highly efficient in all areas of your business and staying focused on just a few things. We run our business differently than most asset management firms. By taking a fresh look at our business and structuring it differently than other firms we can run our business in a way that makes \$500 per account sustainable.

We have outsourced most of our back office so we don't have the cost or personnel that are normally associated with running a back office. This can be about one-quarter to one-third of the cost of the typical firm. Outsourcing the maintenance of our technology infrastructure gives us the same benefits—lower cost and less distraction.

Our Account Onboarder technology, which was developed specifically for our firm, allows us to lower our costs and be more efficient in serving advisors and opening new accounts.

Our use of video technology allows us to communicate with our audiences more efficiently and less expensively.

Our office facilities are not typical either. We work in a co-working facility, shoulder to shoulder with Uber, Core Power Yoga and dozens of tech firms in an up and coming part of Denver, not in fancy downtown office space.

We don't have an army of expensive wholesalers. We will visit advisors in the field, but most of our interactions are through the phone, the Internet or our website. We make extensive use of videos that familiarize advisors with who we are and what we do.

We don't spend a lot of money on broker-dealer conferences, which can be expensive and not very productive. We'd rather use our money to facilitate communications with advisors who are already interested in our firm.

These are just a few ways we keep our costs low without sacrificing the level of service we provide. When you take all of these factors together, we can provide our services for a lower price while actually improving the service level over what traditional firms can offer.

We've done the math. The fee works.

The Relationship Between Price & Value

We're changing the pricing paradigm without changing the value paradigm. We provide a high level of service, but at a price that makes more sense for clients. Other firms may not be able to meet our pricing and maintain service levels, but we can.

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We achieved our pricing advantage very intentionally by keeping our costs low, challenging some of the conventional wisdom in our industry and generating efficiencies through the use of technology. Our efficiency has only made us better able to provide excellent service. For example, we offer an automated “Account Onboarder” so an advisor can generate a proposal or open an account online 24/7.

But we don't hide behind our technology. Advisors always have access to people who can help them with their questions. They aren't shuttled off to an 800-number desk or an automated voice system. You talk to experienced people who can fix your problems.

Some people say that as prices decline in the asset management business, the business is becoming commoditized, but that is a popular misconception. The fact that prices are becoming lower does not mean that the business is commoditized.

You can still see significant performance differences among asset managers. There are clearly better and worse managers. We focus a huge amount of our resources on investment management. There are seven people on our investment committee, including five CFAs, a CFP, a Ph.D. and a JD. Even though we rely on technology to give us an efficiency edge, we are first and foremost an investment firm.

The service that asset managers provide is not commoditized either. Some provide excellent service and some provide terrible service. Service levels vary quite a bit among firms. You can see big differences in responsiveness, efficiency and quality of service.

We provide all the traditional administrative services like billing, performance reporting and processing of periodic contributions and distributions. We can tax manage an account. We can work with you on a tax-transition plan. We can hold unmanaged assets for a client. We can work with retirement plans. We are available whenever our clients need us.

We strive to be great communicators. We provide frequent communications about what we are doing in the management of our portfolios and why. We produce video summaries of all Investment Committee meetings. We provide clear, concise videos to help your clients behave as better, smarter investors. We offer a client portal so clients can always access information about their accounts.

There is nothing cut-rate or robotic about our service. One of the differentiating features of First Ascent is our responsiveness and the high level of service we provide. This is where we differ significantly from robos. They are very high tech, but very low on service. They are starting to modify their business model because they are encountering the limitations of this approach to serving investors. Most investors need and want guidance and a high level of personalized service. That is what our business model is designed to deliver.



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The Future of Flat Fees

Flat fees are not for everyone. Our flat-fee schedule is very specific to our business model. Through a combination of outsourcing and technology deployment we have built a highly efficient portfolio management process. Our entire business is focused on portfolio management. We have large economies of scale.

Other businesses may have different characteristics. Financial advisors, for example, often experience a more direct correlation between the size of an account and the amount of work involved. Larger accounts can be more complex, requiring additional advice, planning and customization.

Advisors meet with clients every day so they are capacity-constrained. They don't have the same ability to scale that we have. We work with many advisors who charge for their services based on a percentage of AUM and it makes perfect sense for them.

Our fee schedule works for us and our clients. We make no judgment about how other firms price their services. We all should do what is best for our firms and our clients.

Flat fees and the AUM fee model can co-exist nicely side-by-side. Many advisors we work with use an AUM fee model for their services while using our flat fee services for asset management services. Their clients are happy that the advisor has found a way to bring them high quality, low cost asset management services and they understand that the advisor's fee schedule is different than ours because their business is different than ours.

First Ascent's highly scalable business model is completely different from the advisor's labor intensive, face-to-face business model, where size of account is more correlated with complexity and effort.

An added benefit that advisors find in working with us is that they can deal with the pressures of general fee compression by using us to lower the client's overall fee, without effecting their own fee. In effect, we lower our fee so advisors don't have to.

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FOR MORE INFORMATION

Feel free to contact First Ascent if you'd like more information about our firm and its unique flat-fee asset management services. We would welcome your inquiry. You can contact us at 720-465-7888 or visit our website at www.firstascentam.com. The personal contact information for all First Ascent team members can be found on our website.

First Ascent Asset Management, LLC is a registered investment advisor.