

How to Talk Fees in a Down Market

Be prepared when a client asks, “Why am I paying you to lose money?”

By Barbara Kay, Author and Business Coach

A financial professional I consult with, Elizabeth, recently had a client who challenged her fees. “Why am I paying you to lose my money?” the client snapped. Taken aback, Elizabeth became defensive and tried to justify her fee structure by conveying a laundry list of services she provided. Dissatisfied, the client continued grumbling about paying for a portfolio that was losing money.

Knowing these conversations could become more frequent during difficult markets, Elizabeth asked me, “How can I better prepare myself to respond when a client challenges my fees? This conversation rattled me, and my client didn’t seem to understand.”

What We’ll Cover:

- The psychology of fees
- Embrace the fee conversation
- Help clients see the value of your guidance



When a client’s portfolio is down, it’s natural for them to question fees

The Psychology of Fees

Typically, if we buy a faulty product, we expect a refund or a replacement. For example, if an expensive smartphone underperformed, we'd want a refund or a new phone. Similarly, when a client's portfolio is down, it's natural for them to question fees if they're not satisfied with the results.

Clients may wonder if having a financial professional is worth the cost, or if they could do a better job themselves. They might even seek opinions that confirm their doubts, e.g., from friends, family members, or social media users who claim that paying a financial professional is a waste of money.

And since money is a means of survival, threats to a client's financial well-being can trigger an intense alarm. Their autonomic nervous system sends a warning message that can increase their heart rate, raise blood pressure, and boost adrenaline. Their body is telling them to take action to eliminate the danger. No wonder the client is anticipating a battle. Let's look at how you can address the situation.

Embrace the Fee Conversation

If a client challenges our fees, financial professionals should be mindful of their emotional level and not let it rise to the level of a client's. Elizabeth made this mistake when she defensively reacted to her client's fee challenge. There's a better way to respond.

1 Welcome and Empathize

If a client challenges fees, they're likely expecting a defensive response. Surprise them by remaining calm. Immediately and kindly welcome the fee conversation, and empathize with their concerns about the market. In Elizabeth's case, I recommended that she say: "I'm glad you asked. I want you to understand what you're paying for, especially during volatile times."

The Impact

This friendly welcoming of the fee challenge is the opposite of what the client may have expected. It relaxes their defensive stance and lowers their anticipatory anxiety about initiating a dispute with someone they want to trust.

2 Help Clients See the Value of Your Guidance

Hopefully, when you first meet with clients, you paint a clear picture of the value you provide and the fee you'll charge as a result. In essence, you tell them what you get paid to do and how it will benefit them. Early conversations that cover inevitable down markets can help clients remain calm and avoid making reactive decisions later.

When a client questions your value, you may need to revisit that early conversation.

Most clients have a problem that they don't know how to solve themselves, which is managing their investments and decisions to get them to their desired future state. That future state will vary for each client but could involve things such as enjoying a financially stress-free retirement, the ability to care for a loved one, support their favorite charity, etc.

Your guidance, knowledge, and expertise can help clients get to that desired future state. Choosing not to receive your help could put that future at risk. It may be possible for clients to get there on their own, but it's not probable.

Considering the possibility of not reaching that future state can help clients reframe your fees as an investment in their future, rather than a questionable expense.

The Impact

A client may realize that without your guidance, they're putting their desired future at risk. And while they may still view your fee as "expensive," they'll likely also view it as extremely worthwhile.



“I Do Better When You Do Better”

It's common to describe an assets-under-management fee as putting the financial professional and the client “on the same side of the table.” For example, saying, “I do better when you (the client) do better” implies that the financial professional only makes more money when a client's investments increase in value. I don't recommend using that approach. It shifts the client back to focusing on fees tied to performance and could remind the client of their current displeasure with performance.

Will Embracing the Fee Conversation Backfire?

Perhaps. Some financial professionals won't embrace a fee conversation because they dread having it. Like Elizabeth, they may try to appease a client's fee challenge by promptly rattling off a laundry list of services they provide behind

the scenes. Then, they may try to pivot away from the fee discussion. That approach may effectively sidestep the fee conversation, but it could also leave the client still doubting the value of the financial professional's guidance.

Three Things to Remember About Responding to a Fee Challenge

First, people generally expect a refund when a product they buy doesn't perform as expected. So it's natural for them to question your fee when their investment products don't perform to their expectations. Second, be prepared to embrace a fee conversation. Don't try to avoid it. Third, review your client's long-term financial planning goals. Your guidance could be the key to helping them reach those goals.

Now, Elizabeth Is Ready to Take On Fee Challenges

Now that she's prepared, Elizabeth can handle fee conversations with confidence. Ultimately, she knows her clients will decide whether her guidance is important to them. Rather than dodging their questions or trying to impress clients with a list of services, Elizabeth gets to the heart of the matter by helping clients see how she can help them reach their long-term goals.

Next Step

1. Prepare your response to a fee challenge
2. Practice by role-playing your response with a peer
3. The next time a client brings up fees, embrace the fee conversation



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