

ERENDA CAPITAL MANAGEMENT

The True Cost of Your Financial Advisor

What You're Actually Paying
and What You're Getting For It

A Guide to the Fees, Conflicts, and Hidden Layers
Most Investors Never See

INTRODUCTION

The Fee You See Is Not the Fee You Pay

If you have \$1 million invested with a financial advisor, you may think you're paying \$10,000 or \$12,500 a year in fees. But what if you're paying far more?

Most investors know their advisory fee. It's the number their advisor quoted when they signed on, typically 1.0% to 1.5% of assets under management. It feels straightforward. It feels transparent.

What most investors don't know is that this visible fee may only be the first layer. Beneath it may lie a structure of embedded costs, revenue-sharing arrangements, and structural conflicts that could potentially double the true cost, and all of it is intentionally opaque and difficult to see.

This guide pulls back the curtain. We'll walk through every layer of cost in the typical advisory relationship, show you how to calculate your true all-in number, and explain the conflicts of interest that may be influencing the advice you receive.

None of this is illegal. All of it is disclosed, somewhere, in fine print, in documents most clients never read. But the difference between disclosure and genuine transparency, over a lifetime of investing, can cost you hundreds of thousands of dollars.

Disclosure is not the same as transparency.

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The Advisory Fee

The Visible Cost

This is the fee your advisor quotes you, the number you agreed to when you signed your advisory contract. At most RIAs, it ranges from 1.0% to 1.5% of assets under management, charged annually. At wirehouses and broker-dealers, it can be higher. For a \$1 million portfolio at 1.25%, you're paying \$12,500 per year.

This fee is supposed to cover investment management, financial planning, and ongoing advice. In many cases, it does. But the critical question is not whether the fee exists. It's whether this fee is the total cost of your advisory relationship.

For the vast majority of investors, it is not. The advisory fee is the starting point. What follows are the costs that most clients never see.



The Fee Iceberg: the advisory fee is only the visible tip.

RUNNING TOTAL on a \$1M portfolio: Advisory fee = \$12,500/year. We're on layer one.

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Fund Expense Ratios

The Embedded Cost

If your advisor uses mutual funds or ETFs, and most do, those funds charge their own fees called expense ratios. These range from 0.03% for a basic index fund to 0.75% or more for actively managed funds. Using funds is not inherently a problem. It can be a perfectly sound approach, so long as your advisor has done the work to find you the best, lowest-cost option for each allocation and has been transparent with you about the embedded costs.

These fees are deducted directly from the fund's returns before you ever see them. They never appear as a line item on your statement. If your fund earned 8% gross but has a 0.60% expense ratio, you received 7.4%. The 0.60% simply vanished, silently, automatically, every year.

Here is where it gets more concerning: your advisor may use higher-cost funds when lower-cost alternatives exist that track the same index or follow the same strategy. Why? Sometimes genuine conviction in the active manager. Sometimes habit. And sometimes because the higher-cost fund pays the advisor's firm a revenue share, which brings us to the next layer.

ASK YOUR ADVISOR

What is the weighted average expense ratio of the funds in my portfolio? Are there lower-cost alternatives that would achieve the same investment objective?

RUNNING TOTAL on a \$1M portfolio: Advisory fee (\$12,500) + fund expenses (~\$4,500) = \$17,000/year. We're on layer two.

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Revenue Sharing and Shelf-Space Payments

The Hidden Incentive

This is where it starts to get uncomfortable.

Some fund companies pay advisory firms for “shelf space,” essentially paying to be included on the firm’s recommended list or preferred platform. The advisory firm receives a payment, and in exchange, their advisors are more likely to recommend that fund company’s products to clients.

The conflict is straightforward: your advisor may have a financial incentive to recommend Fund A over Fund B, not because Fund A is better for you, but because Fund A’s provider pays the advisor’s firm for placement. This doesn’t mean your advisor is acting in bad faith. Many advisors are unaware of the revenue-sharing arrangements at the firm level. But the structural incentive exists regardless of the individual advisor’s intent.

ASK YOUR ADVISOR

Does your firm receive any compensation from fund companies, custodians, or product providers based on which investments are placed in client portfolios?

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12b-1 Fees and Distribution Charges

Paying Your Advisor Twice

12b-1 fees are marketing and distribution fees embedded inside certain mutual funds. They typically range from 0.25% to 1.00% annually and are used to compensate the advisor or firm that sold you the fund.

Read that again: **you are paying your advisor's marketing and distribution costs through your fund returns, on top of the advisory fee you're already paying them directly.**

Not all funds carry 12b-1 fees. Index funds and institutional share classes typically do not. If your advisor uses funds with 12b-1 fees when institutional share classes of the same fund are available, that is worth questioning.

ASK YOUR ADVISOR

Do any of the funds in my portfolio carry 12b-1 fees? If so, are institutional share classes without these fees available?

RUNNING TOTAL on a \$1M portfolio: Advisory fee (\$12,500) + fund expenses (\$4,500) + 12b-1 fees (\$2,500) = \$19,500/year. We're on layer four.

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Proprietary Product Conflicts

When Your Advisor's Firm Sells Its Own Products

Some advisory firms are owned by or affiliated with companies that create investment products: funds, structured notes, alternative investments, or lending products. When this is the case, there is a structural incentive to place client assets into those proprietary products, regardless of whether they are the best option available in the open market.

The question is not whether your advisor is honest. The question is whether the structure they operate within allows them to be fully objective. When your advisor's firm profits from the products they recommend, objectivity is compromised at the structural level, regardless of the individual's integrity.

ASK YOUR ADVISOR

Does your firm or any affiliate create, manage, or receive compensation from any of the products in my portfolio? How do you ensure that recommendations are in my interest rather than the firm's?

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Soft-Dollar Arrangements and Trading Costs

The Invisible Friction

Soft-dollar arrangements occur when an advisory firm receives research, technology, data services, or other benefits from a brokerage in exchange for directing client trades through that brokerage. The cost to you is embedded in slightly worse trade execution: you pay a fraction of a penny more per share, or receive a slightly less favorable price, which you never notice because you don't see the alternative execution price.

Individually, these costs seem trivial. Collectively, they represent the final hidden layer of advisory cost, typically 0.10% to 0.25% annually, compounding silently alongside every other layer.

ASK YOUR ADVISOR

How does your firm select the brokerages it uses for trade execution? Does the firm receive any benefits from those brokerages in exchange for directing client trades?

FINAL TOTAL on a \$1M portfolio: Advisory fee (\$12,500) + fund expenses (\$4,500) + 12b-1 (\$2,500) + trading/soft-dollar (\$1,500) = \$21,000/year. Over 2% all-in.

YOUR TRUE COST

Calculate What You're Actually Paying

Now let's put it all together. Here is how to estimate the true all-in cost of your advisory relationship:

COST LAYER	TYPICAL	DESCRIPTION
Advisory fee	1.25%	The fee your advisor quoted you
Fund expense ratios	0.45%	Weighted average of funds in your portfolio
12b-1 fees (if applicable)	0.25%	Distribution fees embedded in fund costs
Soft-dollar / trading costs	0.15%	Execution quality drag and transaction friction
ESTIMATED TRUE ALL-IN COST	2.10%	

Now see what that cost means in real dollars. Assume a \$1 million portfolio with 8% gross annual returns:



Hypothetical illustration. \$1M initial investment, 8% gross annual return, fees deducted annually. Not a guarantee of future performance.

What Transparent Advice Looks Like

THE COST OF OPACITY

The difference between Erenda’s 0.8% all-in cost and a typical RIA’s true 2.10% all-in cost is over \$2.3 million on a \$1M portfolio over 30 years. Not lost to bad investments. Lost to fees most investors never knew they were paying.

We designed Erenda Capital’s fee structure so that every dollar of cost is visible, every service is explicit, and every incentive is aligned with your outcome, not ours.

	Erenda Capital	Typical RIA
Advisory fee Single, clearly stated cost	✓ 0.8% flat	✗ 1.0–1.5%
Fund expense layers Costs embedded inside funds	✓ <0.05%	✗ 0.30–0.60%
Revenue sharing Payments from fund companies	✓ None	✗ Common
12b-1 fees Embedded distribution charges	✓ None	✗ 0.25–1.0%
Proprietary products Firm sells its own funds	✓ None	✗ Frequent
Soft-dollar arrangements Execution quality traded for perks	✓ None	✗ Common

0.8% flat advisory fee. One fee. Clearly stated. No tiers, no breakpoints designed to obscure the effective rate, no surprise increases. For a \$1 million portfolio, that’s \$8,000 per year, 40% below the industry average for comparable service.

Minimal fund expense layers. The vast majority of your portfolio is held in individually managed accounts, with securities owned directly by you. In select cases where it best serves the client, we may use a low-cost ETF for a specific allocation, but we source the cheapest available option. Total embedded fund costs across an Erenda portfolio are typically less than 0.05%.

No revenue sharing. We do not receive compensation from any fund company, custodian, or product provider based on which investments we place in your portfolio. Our only revenue is the advisory fee you pay us directly.

No 12b-1 fees. Because we don't use funds with embedded distribution charges, there are no 12b-1 fees flowing back to our firm through your portfolio.

No proprietary products. We are independently owned. We do not create, manage, or distribute investment products. We have no affiliated entities whose products we are incentivized to sell. Every recommendation is made solely on the basis of whether it serves your financial interests.

No soft-dollar arrangements. We select brokerages and execution venues based on best execution for our clients, not based on what research or services those brokerages provide to our firm.

You shouldn't need a 12-page guide to find out what you're paying your advisor. That's the problem.

What Are You Actually Paying?

If you'd like to know exactly what you're paying, and exactly what you're getting, we're happy to walk through a complimentary fee analysis of your current advisory relationship.

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For additional information about Erenda Capital Management, including fees and services, please see our Form ADV Part 2A at adviserinfo.sec.gov.