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The Benefits of a Financial Advisor

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Three Overlooked Benefits Of Working With A Financial Advisor

This question is expected from many of my potential clients: "When I pay you a fee as my advisor, what do I get in return?"

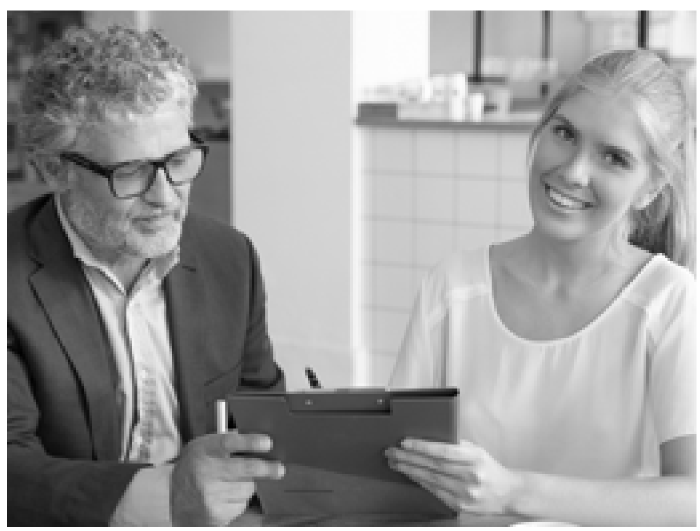
The importance of return on investment (ROI) in the context of investing cannot be overstated. The question is not offensive because it is expected for astute investors to question the ROI on everything. The point being made to make is that a fee for an advisor should be viewed as an investment, not an expense.

Working with an advisor provides tangible financial benefits such as diversification, proactive retirement planning, and rebalancing. However, there are personal benefits that can make the investing and retirement planning processes less stressful. This article will go over a few of them in detail, to demonstrate why you should view your advisor's fee as an investment rather than an expense — there's a lot of ROI involved.

Emotional Guardrails

A good advisor will help protect you from yourself, and if you are self-aware enough to recognize that you make rash or emotional decisions on occasion, having those "guardrails" is invaluable.

No, your advisor can't stop you from feeling whatever emotions you're feeling, just as the guardrail can't stop every car from driving into the ditch. When you want to push the eject button because you're scared, the advisor's job is to remind you of the plan you created and what you're working toward: a fulfilling and successful retirement.



A Comprehensive Strategy

As mentioned earlier, there is a second advantage of working with an advisor: having a plan that takes into account factors you might not be thinking about. You may be considering which investments to add to your portfolio, which is undoubtedly an important piece of the puzzle.

But have you thought about tax planning? What about creating a retirement spending plan or combating inflation? Then there's health-care provision: What is your strategy for dealing with Medicare or medical expenses?

You can put all of these puzzle pieces together yourself, but keep in mind that the landscape is constantly changing. Every year, new laws and regulations are enacted that may have an impact on your plan. Go ahead and do it if you want to keep track of it. The other option is to outsource it to an advisor whose job it is to keep your plan up to date and keep you on track toward your goals.

A Champion For Your Success

It is difficult to invest and plan for retirement. Wouldn't it be nice to go into that endeavor with someone who is as invested in your success as you are?

This is referring to someone who is intimately familiar with you, your spouse, your children, your job, your dreams, hopes, and goals for the future. They not only know who you are, but they are actively working to bring these things to fruition.

The simple fact that someone cares about you in this way has a psychological impact. It's one of the primary reasons people hire personal trainers or business coaches.

A good advisor will not only set you up for success, but will also be rooting for you every step of the way. If you don't have that connection with your advisor, it is recommended that you keep looking until you do.

An Investment In Your Future

The goal of this article is to draw attention to some of the benefits of working with an advisor that I believe are underappreciated when the fee is brought up. Is your advisor's fee deductible? It does, indeed, cost money. But there's more to it than that.

It is also an investment because, unlike an expense, which is defined as "the cost of something," an investment is "worth purchasing because it may be profitable or useful in the future." The cost of doing business with an advisor is their fee. But, if you look at the ROI, you'll see that it's worthwhile to buy because of what you could get out of it now and in the future.

All of this is to say that these three advantages do not take the place of competence, performance, or results. Your advisor may be skilled at developing a strategy or talking you down from a ledge, but if your portfolio is underperforming due to decisions they made, they may not be the best fit for you.

If you're looking for a new advisor or are already working with one, make sure they're the best fit to help you achieve your long-term objectives. It is not enough to like your advisor, though having a rapport with them is essential. You need to go deeper than that, and asking a few key questions can help you do so:

• What kind of education do you provide clients?

• What kind of continuing education do you do yourself?

• What kinds of questions do you ask clients?

• What is the total cost to a client?

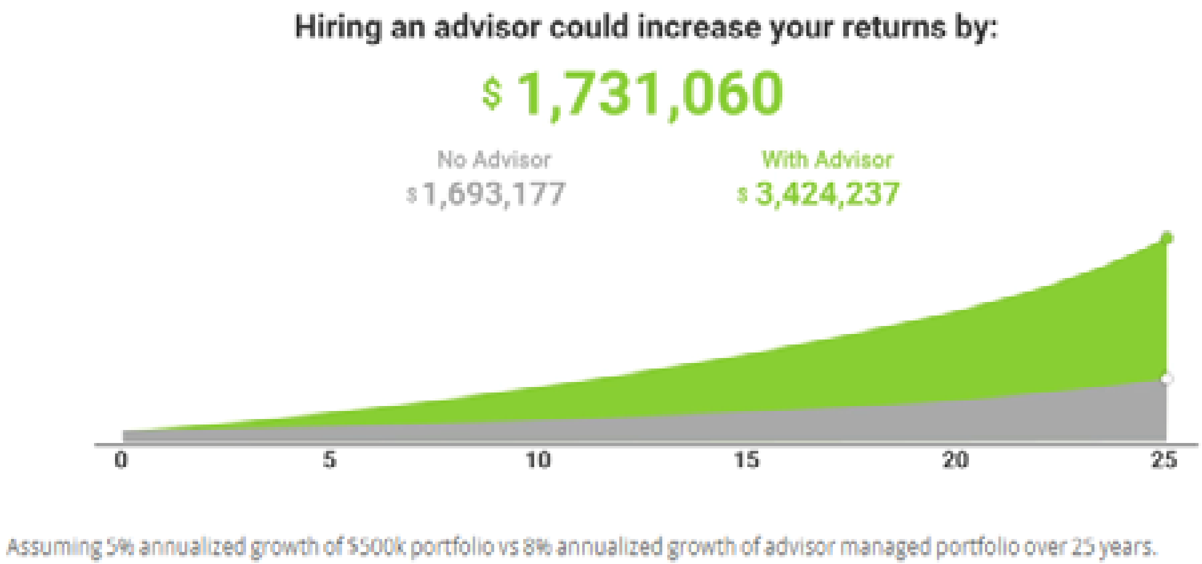
• Do you use a checklist-driven process to advise families?

Aside from that, ensure that there is no conflict of interest with the custodian who manages your assets. If their advisory firm is owned by the same company that manages their investments and accounts, this is a major red flag.

It is recommended that you seek the advice of a fiduciary and be wary of anyone who operates under the "suitability standard." Finally, only work with a financial advisor you trust and who is concerned about your well-being. That should never be questioned. You deserve better if you've ever been treated like a number. Find an advisor who values the relationship and will be there for you through all of life's changes — you'll need them.

This information is not intended to be investment, tax, or financial advice. For advice on your specific situation, you should seek the advice of a licensed professional.

Financial advisors are worth every penny, according to the numbers



Source: [Vanguard Research]

The question has become more common with each passing year: are financial advisors really worth it in the age of app-based individual investing?

This was a difficult question to answer until recently. Financial advisors' exact returns have historically been hazy due to government regulation prohibiting them from making specific ROI promises.

However, scientists have recently discovered some hard numbers. What did they discover? Americans retire with approximately 15% more money and report feeling more at ease about their financial lives – all as a result of working with a financial advisor. Furthermore, 79 percent of those who consult with a financial advisor report feeling confident in their ability to meet their retirement objectives. 1

Another study discovered that a $500K investment under the care of an advisor could grow to an average of $3.4 million after 25 years, compared to the $1.69 million expected value of a self-managed portfolio – a 50% increase. In other words, an advisor-managed portfolio would grow at an annualized rate of 8% over a 25-year period, whereas a self-managed portfolio would grow at a rate of 5%. 2

These figures must be the final word, causing Americans to flock to financial advisors in droves, right?

That might be true if they knew where to look, but most Americans have no idea where to start looking for qualified financial assistance.

How Financial Advice Can Boost Your Returns

The financial advisory community is well aware of the value it can provide to clients, such as proper investment planning, retirement planning, and general financial counseling that can keep customers from going off the rails with their financial plans. However, the general public frequently has a very different perception of the value that advisors can provide, particularly in an age of low-cost brokerage services, robo-advisors, and a full range of financial services that consumers can access with a smartphone.

However, hard data from industry research appears to strongly support the advisors in this matter.

The Vanguard Study

Vanguard published research in February 2019 that attempted to quantify the value that advisors can add by providing sound wealth management through financial planning, discipline, and guidance. According to Vanguard's report, "Putting a value on your value: Quantifying Vanguard Advisor's Alpha," this framework can increase net returns for clients by about 3%.

This increase, of course, does not occur in a linear, orderly manner. The majority of this increase will occur during periods of increased greed and fear in the markets, when advisors can step in and assist their clients in maintaining an even keel and keeping their long-term objectives in sight.

Vanguard claims that by implementing the Vanguard Advisor's Alpha framework, advisors can distinguish their skills and practice while also adding about 3% for their clients through relationship-oriented services such as wealth management and behavioral coaching.

Additional Research Findings

A Morningstar research paper titled "Alpha, Beta, and Now...Gamma" by David Blanchett and Paul Kaplan attempted to quantify how much better off clients are after engaging in financial planning strategies. Blanchett and Kaplan examined how five financial planning strategies, including more effective asset allocation, dynamic withdrawal rate spending approaches, and proper asset location decisions, improve retirees' financial outcomes.

Blanchett and Kaplan quantified the difference between the baseline and financial-planning-optimal strategies as "Gamma," and their research shows that good financial planning decisions increase retirement income by 29 percent, which equates to 1.82 percent higher returns per year.

Both studies conclude that financial advisors earn their fees by acting as behavioral coaches rather than money managers. This belief is supported by research from Aon Hewitt and managed accounts provider Financial Engines, which discovered that 401(k) participants who use professional assistance outperform those who do not.

According to the Financial Engines and Aon Hewitt study “Help in Defined Contribution Plans: 2006 through 2012,” 401(k) participants who received professional investment assistance—in the form of managed accounts, target-date funds, or online advice—earned higher median annual returns than those who did not. The researchers discovered that when they examined the 401(k) investing behavior of 723,000 workers at 14 large U.S. employers, employees who used professional help had median annual returns that were 3.32 percent higher (net of fees) than participants who managed their own portfolios. 4

During periods of high market volatility, when investors are more likely to react emotionally rather than logically, financial advisors can be of the most assistance.

According to additional research, advisors can have a positive impact on their clients’ financial plans in other ways as well. The Investment Funds Institute of Canada published “The Value of Advice Report” in 2012, which revealed that clients who pay for financial advice have a 1.5 times higher probability of sticking to their long-term financial plan than those who do not pay for financial advice. 5

While good financial advice can be beneficial in the short term, it can be exponentially more profitable for investors over time.

The Bottom Line

Numerous studies show that financial advisors typically earn their keep by serving as behavioral coaches for their clients rather than by actively managing assets. Advisors must keep this in mind as they prospect for new business and pitch to provide their clients with peace of mind and a consistent presence to rely on during volatile markets.

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