

Measuring the Value of a Financial Advisor

One study asserts that these relationships can make a difference for investors.

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RETIREMENT AND FINANCIAL PLANNING



What is a relationship with a financial advisor worth to an investor?

A 2019 study by Vanguard, one of the world's largest money managers, attempts to answer that question.

Vanguard's whitepaper concludes that when an investor works with an advisor and receives professional investment advice, they may see a net portfolio return about 3% higher over time.¹

How did this study arrive at that conclusion?

By comparing self-directed investor accounts to an advisor model, Vanguard found that the potential return relative to the average investor experience was higher for individuals who had financial advisors.¹

Vanguard analyzed three key services that an advisor may provide: portfolio construction, wealth management, and behavioral coaching. It estimated that portfolio construction advice (e.g., asset allocation, asset location) could add up to 1.2% in additional return, while wealth management (e.g., rebalancing, drawdown strategies) may contribute over 1% in additional return.¹

The biggest opportunity to add value was in behavioral coaching, which was estimated to be worth about 1.5% in additional return. Financial advisors can use their insight to guide clients away from poor decisions, such as panic selling or accepting excessive risk in a portfolio. Indeed, the greatest value of a financial advisor may be in helping individuals adhere to an agreed-upon financial and investment strategy.¹

Of course, financial advisors can account for additional value not studied by Vanguard, such as helping clients implement wealth protection strategies, which protect against the financial consequences of loss of income, and coordinating with other financial professionals on tax management and estate planning.

You could argue that a financial advisor's independence adds qualitative value.

It should be noted that not all financial advisors are independent. Some are basically employees of brokerages, and they may be encouraged to promote and recommend certain investments of those brokerages to their clients.²

Both types of financial advisors may receive their compensation in two ways: through transaction fees and through ongoing fees. Financial advisory firms are required to disclose how their professionals are compensated with the Securities and Exchange Commission (SEC).²

After years of working with a financial advisor, the value of a relationship may be measured in both tangible and intangible ways. Many such investors are grateful they are not "going it alone."

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CITATIONS

1 - advisors.vanguard.com/iwe/pdf/ISGQVAA.pdf [2/19]

2 - cnbc.com/2019/10/23/guide-to-choosing-the-right-financial-professional-for-you.html [10/23/19]

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