



The Value of a Financial Advisor

It is important to be aware of the Fees you pay for guidance with your financial plan. There are two types of financial advisors; Risk advisors who either charge a fee or commissions or a Safe money advisor who is paid commission only.

According to an evaluation done by Russell Investments, Advisors are worth more than four times the 1% fee they typically charge on assets under management. In order to deliver cutting edge advice to their client, they must study the markets every day, which includes staying on top of world events and their impact on investments, new laws impacting wealth management, and new products and their changes. Advisors must be prepared to undertake the complex job of coordinating the accumulation, distribution and transfer of their wealth.

Being the voice of reason is invaluable – particularly in an environment that is likely to deliver lower returns and higher volatility, because many investors will ‘buy high’ and ‘sell low’. Russell calculates an advisor’s ability to keep their client to stick to their long-term financial plan and avoid irrational, emotional decisions, is worth 2%. This is based on the average stock fund’s evaluation of investor’s inclination to chase past performance. From 1984 to 2016, Russell reports it cost them about 2% annually.

Estimating the value of an advisor, you must review the different ways financial advisors deliver value – including annual rebalancing of investment portfolios, preventing behavioral mistakes, cost of basic investment-only management, planning costs and ancillary services, and tax-aware planning and investing, then calculate what percentage fee each of those services is worth.

Tax-aware investing is one area where advisors add tremendous value, as much as 0.80%, according to the report. Tax-aware advisors can add value for their clients by helping them build and implement a personalized, comprehensive tax-sensitive investment approach. This planning and tax preparation, which can add an additional 0.75% in value.

Another area where advisors add value is by building and regularly updating a custom financial plan for each client and conducting regular portfolio reviews. Regular rebalancing has the potential to add value, a much as 0.2% in additional return and 1.6% in risk reduction, according to the Russell report.

Many advisors also offer ancillary services, such as investment education, assistance with annual tax return preparation, Social Security and retirement income planning, as well as customized requests from clients. These services could cost thousands of dollars if purchased à la carte.

Russell Investments' analysis concludes that standard investment selection has arguably become one of the least valuable parts of an advisor's value. The greatest value advisors bring is being a "behavior coach" to their clients.

What should an advisor who delivers investment-only management and no financial plan, no ongoing service, no guidance, nothing except for an annual statement, online access and a phone number to call in case of questions charge their clients? According to Robo-Advisors the cost is set at approximately 0.33%.

If advisors are delivering all the services and value beyond the cost of investment-only advice, then the total value of their services is 4.04%. For many advisors, this means that the value they deliver is worth more than the fee they charge their clients.

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