

Measuring the Value of a Financial Professional

Findings suggest that these relationships can make a difference for investors.

Provided by Ivana Lotoshynski, CFP®

What is a relationship with a financial professional worth to an investor? A 2019 study by Vanguard, one of the world's largest money managers, attempted to answer that question.

Vanguard's whitepaper, concluded that when an investor works with a professional and receives that level of 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 a this model, Vanguard found that the potential return relative to the average investor experience was higher for individuals who had financial professionals.¹

Vanguard analyzed three key services that a professional 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

Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss.

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

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

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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