The Value of a Financial Adviser

Value should be considered when purchasing any goods or service. This is no different when consuming financial advice and services. Investors should consider the cost and the value derived in working with a Financial Advisor. Value can be difficult to measure, especially when value is subjective and deals with intangibles such as advice. However, a couple of recent studies actually help quantify the value of working with a Financial Advisor.

There are various ways in which Financial Advisors charge for their services. Online ranking and review publisher advisoryhq.com recently published average fees charged by Financial Advisors for their services. Of the clients that pay their Financial Advisor a fee based on the amount of assets managed, they found the average fee to manage and direct a $50,000 account was 1.18% per year while a $500,000 account averaged a fee of 1.05% per year1. Generally, the larger the account size, the lower the annual percentage fee charged. Depending on the advisor, that fee can cover investment selection and execution, record keeping services, ongoing account monitoring and rebalancing and may also include financial planning.

A September 2016 published study by Vanguard2 concluded the potential value added by a Financial Advisor was about 3% per year in net returns. Vanguard is regarded as a low-cost investment company with more than $3.5 trillion in assets managed3, no doubt a company that has investor fees in its cross-hairs. The study concluded Financial Advisor’s value was resulting from various factors including rebalancing, creating an effective spending strategy, and “behavioral coaching”. Separately, assets manager Russell Investments, concluded that added value to the client in working with a Financial Advisor was more than 3.75% per year in 20164.

These studies concluded the largest contributor to the value brought by the Financial Advisor was in controlling investor behavior. The Vanguard study notes that, “… the discipline and guidance that an advisor might provide through behavioral coaching could be the largest potential value-add of the tools available to advisors.” The Vanguard study notes “behavioral coaching” adds 1.5% in net value to the client per year. The Russell study similarly concluded a net benefit to the client of 2.1% per year due to the Financial Advisor’s ability to navigate and differentiate between what feels right and what is right when investing. The discipline a Financial Advisor can bring to the relationship in various market cycles is the single largest contributor of advisor value.

Added value is not derived from “hot” stock tips, secret recipes for success, or revolutionary investment products. Instead, working with an Advisor and focusing efforts on those things that are controllable and on what matters, may ultimately produce the best results.

Monitoring and making sure fees are reasonable is an important investor consideration and responsibility. In this complex and ever-changing world, consider your competencies, ability and desire to invest without professional guidance. Hiring a professional, seasoned, and competent Financial Advisor just might bring you more value.

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1 - http://www.advisoryhq.com/articles/financial-advisor-fees-wealth-managers-planners-and-fee-only-advisors/

2 - https://www.vanguard.com/pdf/ISGQVAA.pdf

3 - https://about.vanguard.com/who-we-are/fast-facts/

4 - https://blog.helpingadvisors.com/2016/03/15/2016-value-financial-advisor-update/