The value of an advisor: worth more than 1%

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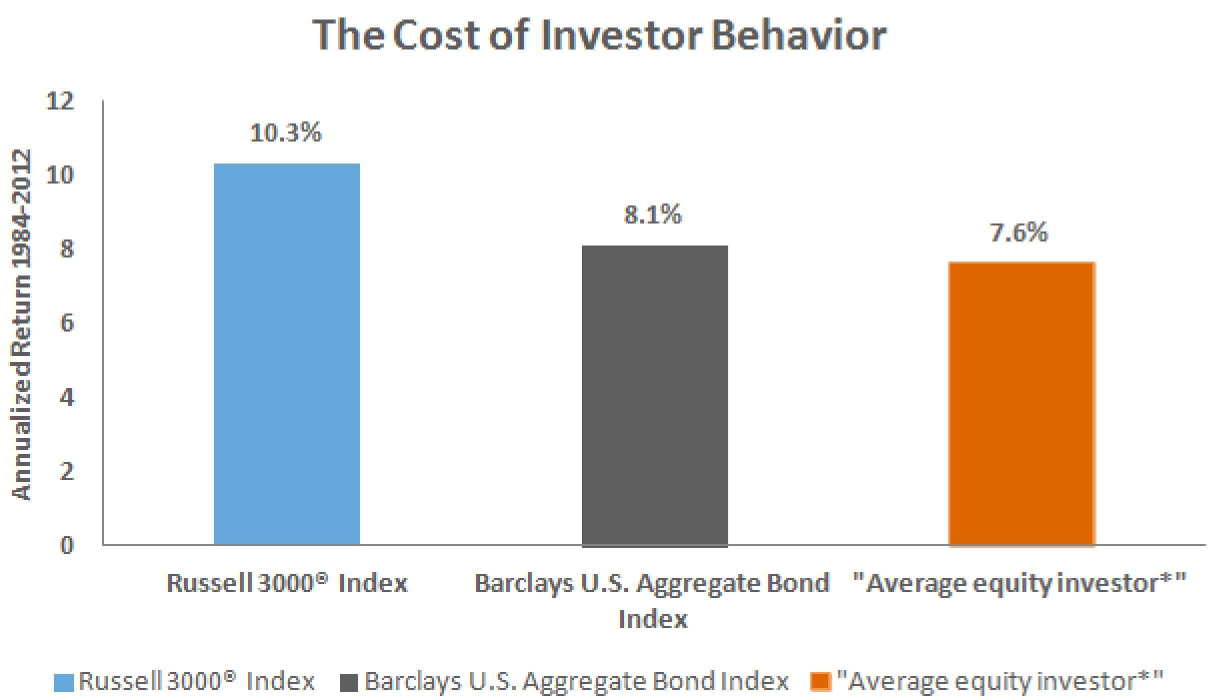
When I'm out meeting with advisors, **I often get asked** "What do you think clients should be receiving for the 1% fee I charge in a fee-based account?"

One way to answer this is to focus the discussion on elevating the service level of your business to deliver more value to your best clients. However, I often look at the question from a different angle: reasons why I believe hiring an advisor is **worth MORE than 1%**.

1. Saving investors from their own behavior/investment mistakes

How has the average individual equity investor's portfolio performed over the past 20 years relative to stocks, bonds, gold, inflation and other investment options? Let's take a look:

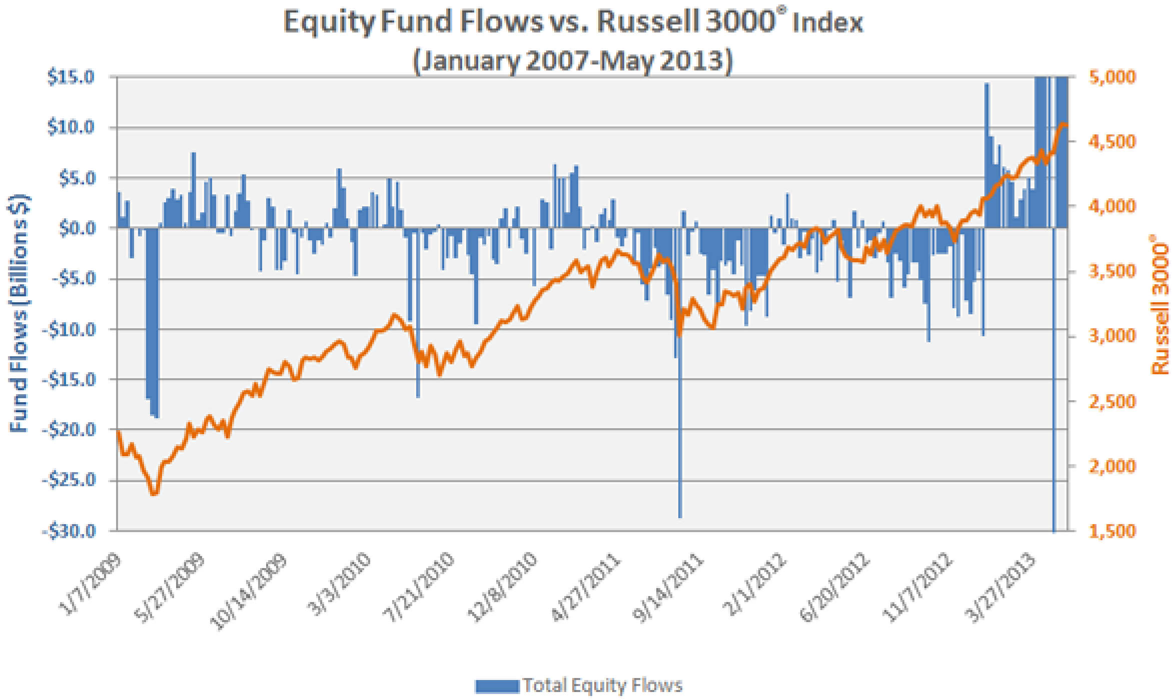


**Russell Investment Group & Investment Company Institute (ICI). Return was calculated by deriving the internal rate of return (IRR) based on ICI monthly fund flow data which was compared to the rate of return if invested in the Russell 3000® Index and held without alteration from January 1, 1984 to December 31, 2012. This seeks to illustrate how regularly increasing or decreasing equity exposure based on the current market trends can sacrifice even market like returns.*

The chart reveals four important facts. Over the past 28-year period ending December 31, 2012:

- US Equities (Russell 3000 Index) returned 10.3% annually
- Bonds (Barclays Aggregate Bond Index) returned 8.1% annually
- The 'average' equity investor returned 7.6% annually
- Individual investors underperformed the Russell 3000 Index by 2.7% and bonds by 0.5% annually for the past 28 years

Why such a performance gap between individual equity investors and the indexes? **Two words**…Investor behavior. Investors irrationally chase trends and sell during market lows and buy during market highs. Don't believe me? Take a look at the following chart highlighting equity/fixed income fund flows from January 2009 through May 22, 2013.



Sources: Weekly historical U.S. mutual fund cash-flow data from Investment Company Institute (ICI) May 22, 2013. Total equity flows = equity mutual fund flows (assets, sales, and redemptions as reported by fund companies to ICI). Russell 3000® Index: Russell Investments.

By developing a financial plan for investors and building an asset allocation based on client-specific risk tolerance and time horizon, I believe advisors can help clients achieve better returns than those experienced by the average investors over the past 25+ years.

Value of an Advisor: more than 1% annually.

2. Annual Rebalancing of investment portfolios

Most individual investors do not set a rebalancing policy in their investment accounts. Those investors who do consider rebalancing are **often swayed by unreliable emotions** regarding if, when and how the rebalancing will actually take place. This typically results in buying the recent winners and selling the losers (i.e. buy high and sell low).

In late 2011, Russell completed a rebalancing policy study which concluded that any type of rebalancing (annual, quarterly or monthly) increases portfolio returns while reducing the standard deviation or volatility of the portfolio. Results for various rebalancing frequencies for a hypothetical index portfolio made up of 32% Russell 1000® Index, 4% Russell 2000® Index, 15% Russell Developed ex-U.S. Large Cap Index, 4% Russell Emerging Markets Index, 5% FTSE EPRA/NAREIT Real Estate Index, and 40% Barclays Capital Aggregate Bond Index are displayed below. A rebalancing policy with clearly defined rules can **help investors to buy low and sell high**, something that **can be psychologically difficult to do**. Take a look:

Rebalancing Comparison, July 1996 through September 2011

	Buy and Hold	Annual Rebalancing	Quarterly Rebalancing	Monthly Rebalancing
Annualized Return	5.92%	6.85%	6.50%	6.43%
Annualized Standard Deviation	10.35%	10.06%	10.10%	10.23%

Advisors who can assist the average investor in establishing a consistent rebalancing policy have the potential to **add incremental return to portfolios** while reducing the volatility in the return pattern.

Value of an Advisor: approximately 51- 93 basis points (0.51%-0.93%) simply by establishing a regular rebalancing policy.

3. Hours/time saved for clients

Advisors **consistently underestimate the time, value and peace of mind they provide** to their clients in the form of building financial plan/portfolios, rebalancing, reviewing/adjusting the plan, coordinating annual tax return preparation, retirement/insurance/trust/college/legacy planning and monitoring the investments within their portfolio. Then, add in the coordination of other professionals the client interacts with… and you may quickly arrive at a time-savings on the client's behalf of 20, 50, 100 hours of time each year.

Value of an Advisor: more than 1% annually.

Bottom Line:

Investor Issue(s)	Advisor Value Added
Behavioral Investing Mistakes	More than 1%
Limited or No Rebalancing	Up to 1%
Hours/Time Managing Investments	More than 1%

I believe many advisors have firm ground to stand on when discussing their fee. **Cost is only an issue in the absence of value.** So, let your clients know about the great work you're doing for them, as you steer them away from making behavioral mistakes, establish an objective rebalancing strategy and free up hours upon hours of their time so they can focus on other areas that are more important to them.

If clients or prospects don't buy into these three reasons, then your business and prospecting just got that much easier!

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The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

Russell 2000® Index measures the performance of 2000 issues representative of the U.S. small capitalization securities market.

Russell 3000® Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

Russell Developed ex-US Large Cap Index offers investors access to the large-cap segment of the developed equity universe, excluding securities classified in the US, representing approximately 40% of the global equity market. This index includes the largest securities in the Russell Developed ex-US Index.

Russell Emerging Markets Index measures the performance of the largest investable securities in emerging countries globally, based on market capitalization. The index covers 21% of the investable global market.

FTSE EPRA/NAREIT Developed Index is a global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

Barclays U.S. Aggregate Bond Index with income reinvested, generally representative of intermediate-term government bonds, investment-grade corporate debt securities and mortgage-backed securities.

Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

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Disclosures

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