The true value of advice

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The notion of financial advice is an intriguing one.

Its purpose is to assist investors and guide them to make rational, informed decisions for them to achieve their investment objectives. However, the difficulty lies in converting advice into value, in other words, placing tangible value on the opinions and recommendations of another. This is even more pertinent today, where the amount of advice available to investors – whether from friends or news and media outlets – is constantly available, reminiscent of the saying ***"Opinions are like belly buttons; everybody has one."***

For investors, it is often the case that performance is king. Their pursuit of returns and the desire to match or exceed market benchmarks can create pressure along the investment journey. It is for this reason that research consistently shows that investors who collaborate with qualified financial advisers significantly improve their chances of reaching their financial goals.

But, what yardstick can we use to evaluate the performance of a financial adviser?

A recent study by Russell Investments in the United States titled "Value of an Adviser", quantifies multiple ways financial advisers add value to a client's investment portfolio due to a holistic focus. Figure 1 breaks it all down.

Figure 1: Value of an Adviser formula

A **Active** rebalancing of investment portfolios	0.27%	*Based on differences in risk-adjusted returns of a typical actively rebalanced multi-asset portfolio held from 2003-2022, and one that was not rebalanced.
+		
B **Behavioural** coaching	2.54%	*Based on differences in the average US equity investor returns from 2008–2022, and that of the S&P500.
+		
C **Customised** experience & family planning	1.14%	*Based on differential calculated over and above the basic asset management capability of a robo-adviser.
+		
T **Tax**-smart planning & investing	1.17%	*Based on average differences in return between tax-managed and non-tax managed US equity funds.
=		
Total	**5.12%**	**Value of a financial adviser in 2023**

Source: Russell Investments (2023)

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Advice in this climate

With global events unfolding, including elevated interest rates, soaring inflation and geopolitical tensions, markets in general are proving tough to predict. There is no greater time to have a financial adviser by your side.

We believe that in addition to the financial and wealth management expertise provided by a financial adviser, it is the provision of discipline and reason to clients who are often susceptible to behavioural biases such as emotions, that ultimately rewards. The results from the study confirm that behavioural coaching contributes the largest portion (2.54%) of the overall value provided by a financial adviser.

Let's briefly explore all four areas below.

Active rebalancing of investment portfolios

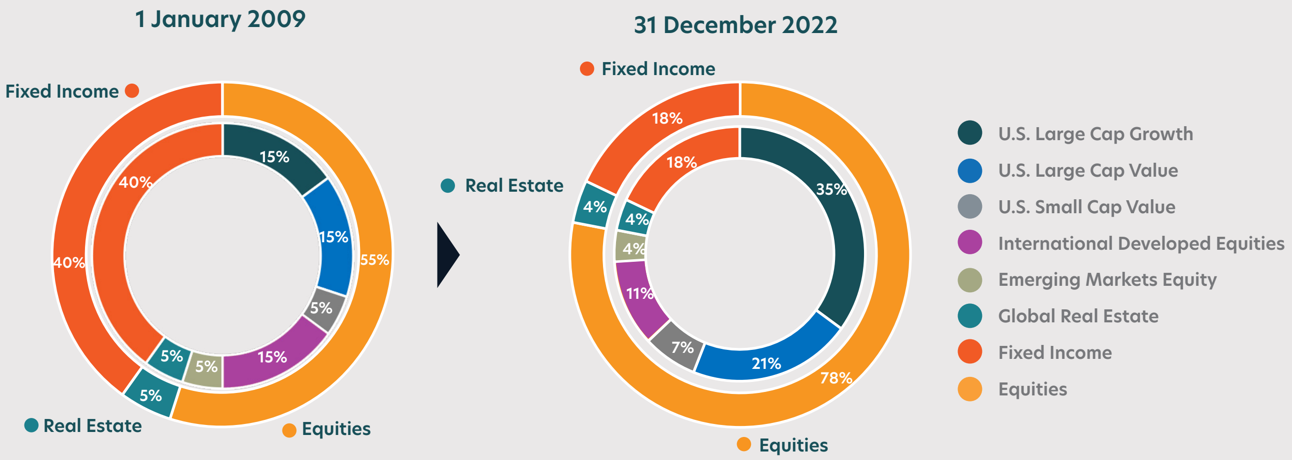
The study found that without any rebalancing, a hypothetical balanced portfolio, illustrated in Figure 2, allocated to 60% equities (including real estate) and 40% fixed income at the start of January 2009, would have adjusted to 82% equities (including real estate) and 18% fixed income by the end of 2022, significantly altering its allocation and risk profile. The same drift in exposure would also apply to sector allocation and investment styles.

It is quite evident that the active role a financial adviser plays to avoid a set-and-forget approach, manages to control any undue risk to a client's portfolio.

The value of an adviser in this regard would be the discipline of systematic rebalancing and monitoring, aligned with understanding investors' goals.

Figure 2: Set-and forget approach.

The potential result of an un-rebalanced portfolio



The drift was most pronounced:				
	Total U.S Equity Allocation	Large Cap Growth Allocation	Large Cap Value Allocation	Fixed Income Allocation
	42%	133%	40%	-55%

Hypothetical analysis provided in the chart and table above is for illustrative purposes only. Not intended to represent any actual investment.

Source: Russell Investments

Behavioural coaching

It is well documented that trying to time the market by selling at the bottom or not getting back into the market until it's near the top (otherwise known as chasers), can significantly hurt investor performance.

As disclosed in the study, the difference in returns of the average 'chaser' in the U.S. equity market over the 15-year period under review and the S&P500 market index was quite substantial.

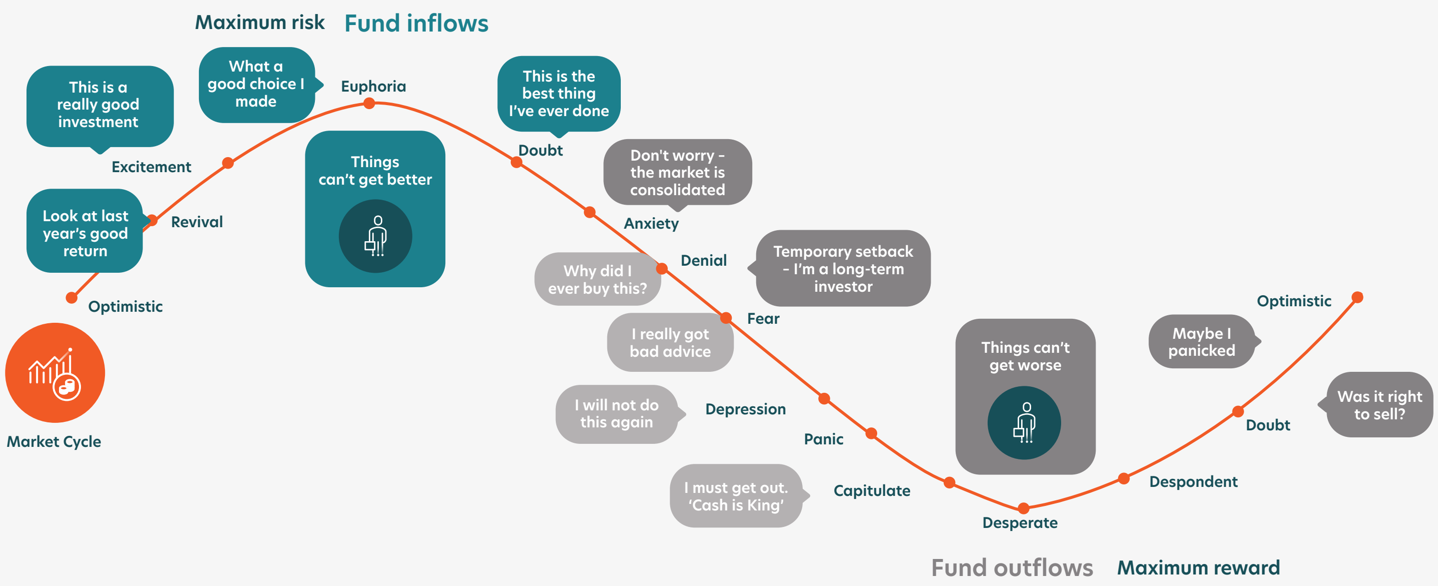
Figure 3 illustrates that during times of big and long market cycles, investors experience fear and greed. These are two of the main drivers of the biggest behavioural mistakes investors make when investing.

The beauty of behavioural coaching is that when panic sets in or an investor feels the urge to disinvest or invest more in the same thing, the calmness, perception and acumen of an adviser kicks in.

Undoubtedly, this is the largest potential value-add of a financial adviser – helping clients maintain a long-term perspective through different market cycles and discouraging 'chasing' – which can save investors from potential wealth erosion.

Emotions can drive **bad investment behaviour**

Figure 3: Emotions can drive bad investment behaviour



Source: Alexander Forbes Investments

Customised experience and family planning

The demands placed on financial advisers have increased exponentially over the years, as can be seen in Figure 4.

The study discovered that the guidance provided by a financial adviser, helping clients through life's defining moments, aligning investments with goals, offering expertise on various financial matters like insurance, taxes and retirement planning, holds additional value beyond the basic asset management offered by a robo-adviser.

As expectations for customisation and personalisation rise, fuelled by examples like Netflix recommending tailored shows, and as client lives and family dynamics become more complex, it's impossible for any single financial adviser to possess the broad expertise, experience or knowledge needed to address all client needs and priorities today. The ability of a financial adviser to manage these processes and collaborate with experts who share their clients' interests when necessary, can prove decisive. It is only a financial adviser with a deep understanding of a client's circumstances, and a genuine care for their family and aspirations, who can truly spearhead their clients' financial success.

Figure 4:
What does managing wealth really look like today?

Legislation
Manager selection
Work
Family management
Tax
Retirement
Estate planning
Career
Trusts
Income
Community
Insurance
Purchases
Succession
Lifestyle and leisure
Wealth education
Health
Financial planning
Asset allocation
Kids
Cash management
Risk appetite

Tax-smart planning and investing

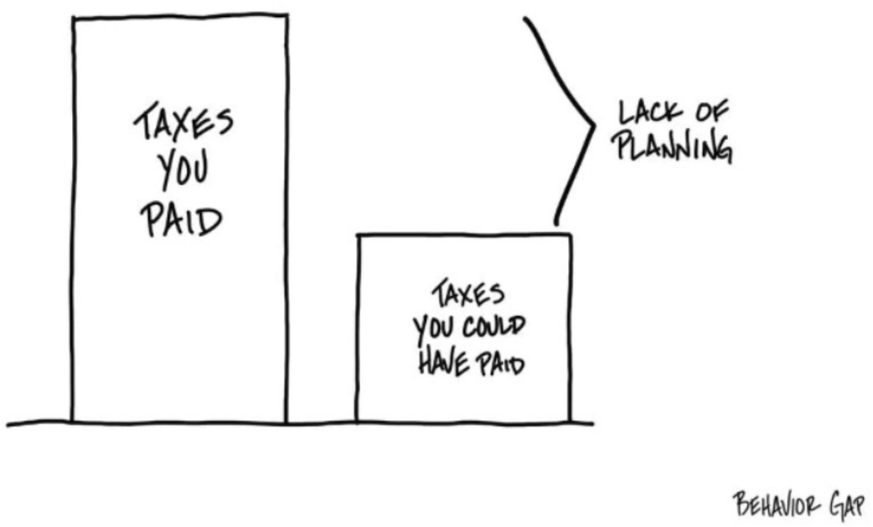
It's fairly obvious that no one likes taxes, but investors need to fully understand the tax implications of some of their investment choices.

The study analysed how investors lost an average of 2.07% of their return from non-tax-managed US equity products in each of the five years ending 31 December 2022. However, an investor who invested in favourable tax-managed US equity funds would have given up only 0.90%. The difference is significant, and even more so when compounded.

Without proper tax management, many investors end up paying more than they need to every year. The myriad of taxes that can be triggered by investments can include tax on dividends, capital gains tax, securities transfer tax, and so on. Figure 5 attempts to illustrate the saying: ***"Failing to plan is planning to fail".***

A financial adviser has the ability to proactively manage and implement a tax-conscious approach, to the benefit of their client.

Figure 5: Closing the tax gap



Source: Behavior gap – Carl Richards

It is clear from the insights above, that significant 'alpha' can be generated within an investment portfolio, thanks to the value-enhancing strategies of a financial adviser.

Who advises the financial adviser?

As mentioned in this article, there are many facets to the transformation of the modern-day financial adviser. The value-adding responsibilities of acting as a behavioural coach, providing holistic advice and customer experience, ensuring tax-efficient planning, and crucially, continuing to advise on the technical aspects of investment advice are increasingly in the spotlight.

Juggling all of the above while also being keenly aware that clients are demanding more from their financial advisers as they keep an eye on the fees they are being charged, only adds to increased complexity.

For the financial adviser, partnering with a reputable discretionary fund manager (DFM), who possesses the necessary scale and expertise to take care of their investment research, analysis, reporting, compliance and day-to-day management of investment portfolios, is a smart move.

It frees up significant time and resources for financial advisers to spend impactful time with their clients – giving them the personalised experience they demand and deserve.

Therefore, our advice to the financial adviser is:

"Just as we advocate for investors to seek advice at all costs, we equally maintain a strong conviction that financial advisers themselves should tap into the expert DFM capabilities of Investment Solutions by Alexforbes to support them as an extension of their practice."

In conclusion

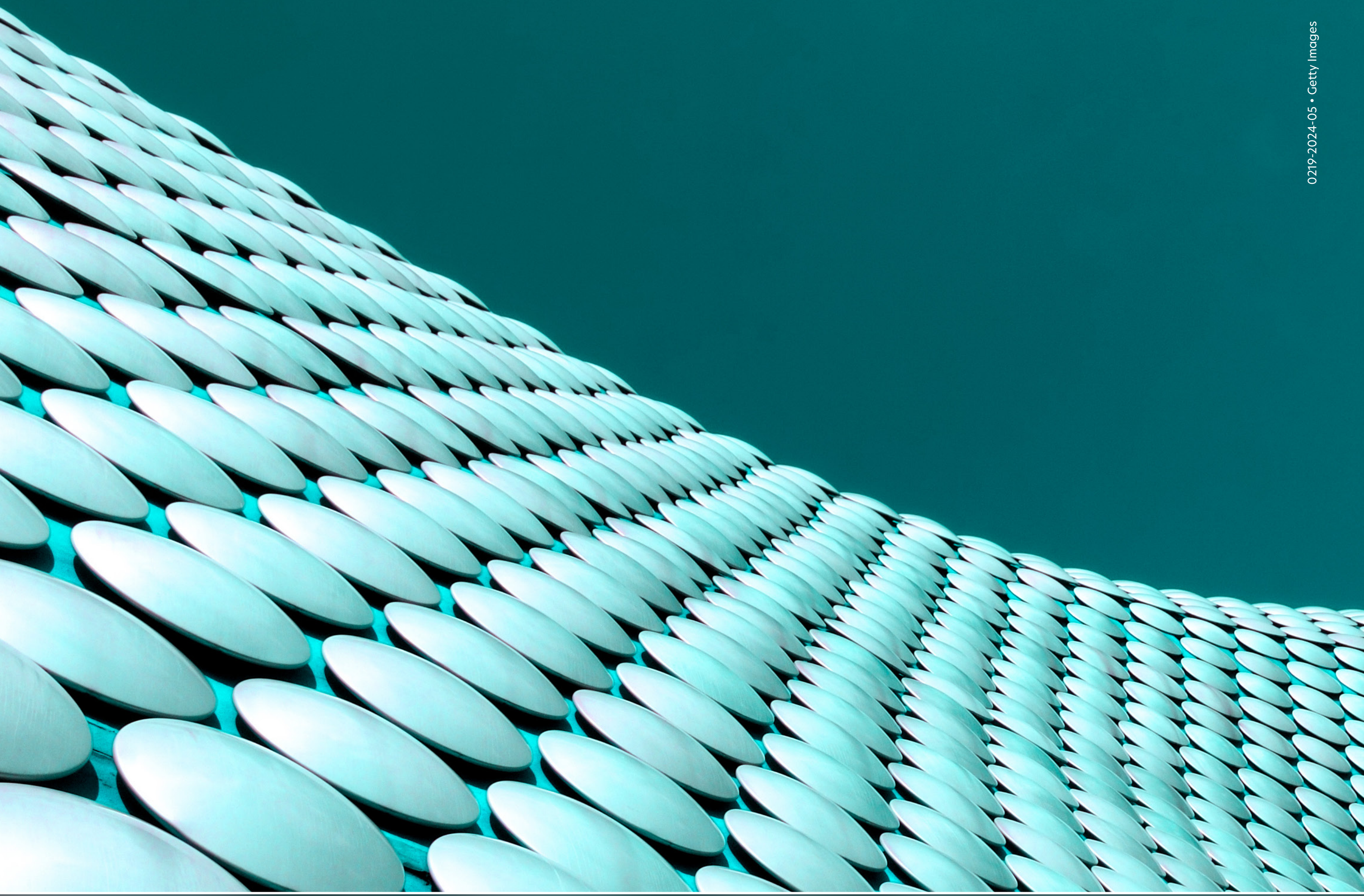
While hypothetical scenarios attempt to quantify the value of advice, the reality is that the true worth of financial advisers lies in the tangible actions and unique perspectives they offer clients. It is the appreciation that a client's time is valuable and that it should be spent partnering with a trusted financial adviser.

Who ever the financial adviser partners with is just as equally important.

We encourage advisers to clearly communicate their advice proposition, to scale the value back to their clients.

We encourage investors to continue to maintain strong relationships with their financial advisers.

For both, we believe, they will be making their greatest impact yet.



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