



# The added value of financial advisors

## Investor note

Recent Vanguard research<sup>1</sup> shows that your advisor not only adds peace of mind, but also may add about 3 percentage points of value in net portfolio returns over time.

- What does this mean? Your advisor has the ability and the time to evaluate your portfolio investments, meet with you to discuss objectives, and help get you through tough markets. All of these factored together potentially add value to your net returns (returns after taxes and fees) over time.

- With portfolio construction, your advisor can work with you to create a diversified portfolio, while ensuring you don't pay too much for investments or in taxes on investment returns.
- Wealth management entails making regular changes to your portfolio to help reduce risk, and when you're ready to withdraw, you can do it in such a way to help limit the taxes you'll pay.

1 Source: Francis M. Kinniry Jr., Colleen M. Jaconetti, Michael A. DiJoseph, and Yan Zilbering, 2014. *Putting a value on your value: Quantifying Vanguard Advisor's Alpha*. Valley Forge, Pa.: The Vanguard Group.

To gain a copy of the paper, contact your financial advisor or visit [advisors.vanguard.com/advisorsalpha](http://advisors.vanguard.com/advisorsalpha).



## Your financial advisor can provide:



Guidance  
Diversification  
Potentially higher net returns



Potentially less cost  
Potentially less risk

## Quantifying your advisor's value

Potential value relative to  
"average" client experience  
(in percentage of net return)

| Portfolio construction  |                   |
|---|-------------------|
| Suitable asset allocation using broadly diversified mutual funds/ETFs | >0%               |
| Use of low-cost index-based products                                  | 0.45%             |
| Asset location between taxable and tax-advantaged accounts            | 0–0.75%           |
| Total-return versus income investing                                  | >0%               |
| Wealth management   |                   |
| Regular rebalancing   | 0.35%             |
| Spending strategy for drawdowns                                       | 0–0.70%           |
| Behavioral coaching   |                   |
| Advisor guidance to help adhere to financial plan                     | 1.5%              |
| <b>Potential value added</b>  | <b>"About 3%"</b> |

Source: Francis M. Kinniry Jr., Colleen M. Jaconetti, Michael A. DiJoseph, and Yan Zilbering, 2014. *Putting a value on your value: Quantifying Vanguard Advisor's Alpha*. Valley Forge, Pa.: The Vanguard Group.

Note: For "Potential value added," we did not sum the values because there can be interactions between the strategies.

### Meeting your needs

This research is not an exact science. "About 3%" means advisors can potentially add about 3 percentage points to your portfolio returns over time. This is in comparison with those advisors who are not practicing the above-mentioned principles. For some, advisors may offer much more than that in added value; for others, less. The potential 3 percentage points of return come after taxes and fees. This return is not added over a specific time frame but can vary each year and according to your circumstances. It can be added quickly and dramatically, especially during market declines or euphoria, when

you may be tempted to abandon your well-thought-out investment plan. It may be added slowly. It will not appear on the quarterly statement but is real nonetheless.

Further, although every advisor has the ability to add this value, the extent of the value will vary based on your unique situation and the way the assets are actually managed, versus how they could have been managed. Advisor's alpha principles call for advisors to meet your individual needs.

## Guidance when needed most

- The biggest value your advisor can provide is behavioral coaching.
- This is most important during market turbulence, when you may feel the need to abandon your asset allocation and move to cash, for example.
- Consider three hypothetical investors during the period between October 9, 2007, and March 31, 2014, each starting the period with a balanced \$100,000 portfolio. The investor who moved this balance to

cash at the 2009 stock market bottom lost \$29,000. The investor who moved to an all-bond position at the stock market bottom lost \$10,000. But the investor who stayed committed to the predetermined asset allocation, in the end, gained \$41,000.

- To sum up, your financial advisor is there to counsel you, listen to your concerns, and, essentially, guide you on the right path. Your advisor works with you to add value throughout the course of your relationship.

## A balanced, diversified investor has fared relatively well



Source: FactSet.

Notes: The 50% stock/50% bond portfolio is represented by the Standard & Poor's 500 Index and the Barclays U.S. Aggregate Bond Index (rebalanced monthly). The 100% bond portfolio is represented by the Barclays U.S. Aggregate Bond Index. The 100% cash portfolio is represented by 3-month Treasury bills.

*Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.*

This is a hypothetical illustration.

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All investing is subject to risk, including possible loss of principal.

Diversification does not ensure a profit or protect against a loss.

There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.



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