THE VALUE OF AN ADVISOR

ADVICE MATTERS

Every financial decision is a personal decision
Make yours count, with precision investment guidance

IAMS | Wealth Management

(888) 255-7670

www.iamswm.com

When we make big decisions in life, most of us look for a source of expertise and guidance to help us make thoughtful choices. That's what professional financial advice is all about. Several pillars of advisor created value can be quantified. The following are 4 areas where a professional financial advisor can add value and help improve investment returns.

BEHAVIORAL COACHING

Most people act like humans, not investors. But when it comes to investing, acting like a human may actually cost you money.

Today's modern advisor is now also a behavioral scientist and coach. Someone who helps their clients avoid bad decision making, weather market volatility, and stay on track with their financial plan. A strong behavioral coach understands an investors goals and fears and is able to help steer their financial behavior.

It's common for investors to become overly optimistic when markets are rising, or overly pessimistic when markets are declining. Left to their own devices, many investors buy high and sell low. An advisor can help an investor remain objective and disciplined through the cycle of market emotions. Avoiding behavioral mistakes is a significant contributor to the overall value of a financial advisor.

THE VALUE

According to Vanguard's Advisor's Alpha®, behavioral coaching alone can add 1.5% to net returns.[1]

THE BASICS OF BEHAVIORAL FINANCE

OVERCONFIDENCE

We tend to overestimate the accuracy of our predictions. For an investor this could mean believing their knowledge of an investment is greater than it actually is.

FAMILIARITY BIAS

We prefer outcomes and patterns we have observed previously. Investors in the midst of a long bull market run may not feel a need to rebalance, as they have become familiar with the direction of the market and forget about corrections and consequences.

HERDING

The concept of herding refers to individual investors finding comfort in following the crowd, or "herd". This behavioral phenomenon can easily cause an investor to abandon their personal financial goals for fear of missing out on opportunity or making mistakes.

INFORMATION OVERLOAD

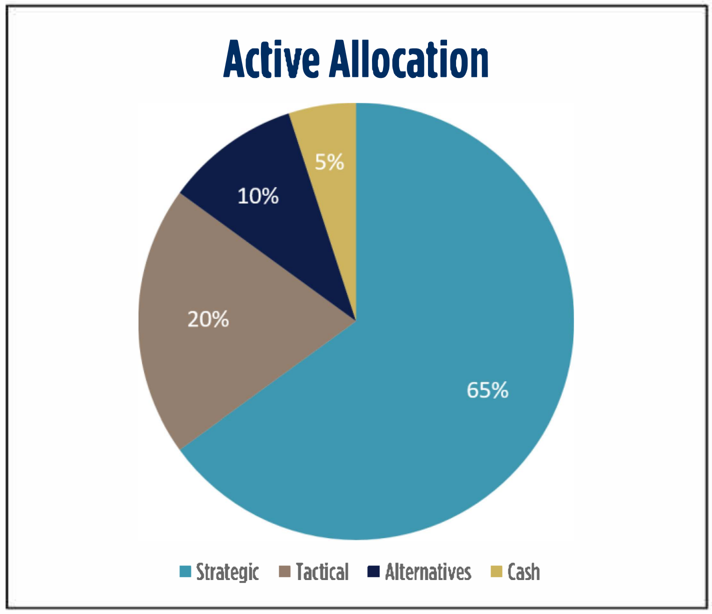
Well-rounded financial plans require an advisor's process and decision making, not cognitive "short cuts". Too many choices or too much information can actually cause an investor to withdraw, delay decision making, or take no necessary action at all towards achieving their goals.

1According to Vanguard's study based on their Alpha framework. Putting a value on your value: Quantifying Vanguard Advisor's Alpha, Vanguard Research, 2016.

ASSET ALLOCATION

Advisors are trained and licensed to do what is in their client's best interest. A big part of this obligation is to really "know the investor". Knowing an investor includes revealing the investor's willingness and ability to tolerate risk. Advisors have a fiduciary responsibility to make sure their clients understand investment risks. This understanding allows advisors to use specific mandates and strategies to allocate client portfolios properly. Allocation models are managed professionally with close attention to many possible market variables. For example, asset allocations are no longer just a simple 60/40 split of fixed income and equities.

The modern advisor may now include asset allocation models with strategic and tactical styles holding underlying active and passive securities with several non-correlating asset classes for a truly diversified allocation.



For illustrative purposes only. Allocation will vary in each of our models.

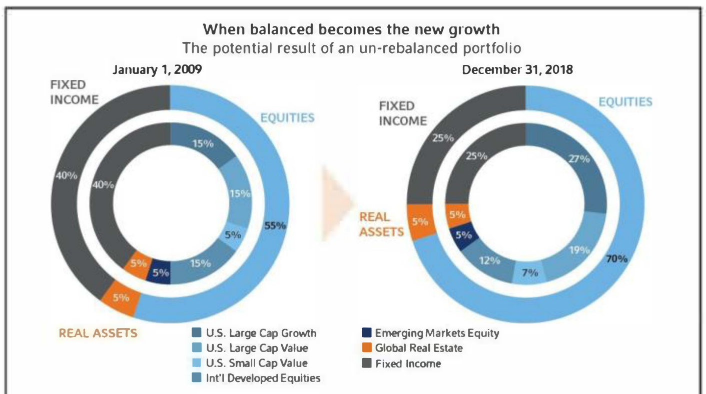
THE VALUE

A thoughtfully developed asset allocation that is both diversified and consistent with the client's risk profile and investment objectives can add 52 basis points of value annually.[3]

ACTIVE REBALANCING

Often when advisors recommend changes to client portfolios, the number one reason is rebalancing. Rebalancing a portfolio regularly can help an investor stay within a risk tolerance zone and prevent an overreaction to market movements, benefits that outweigh rebalancing costs.

Regular systematic rebalancing has the potential to generate higher returns when taking market momentum into account. Vanguard research estimates that annual systematic rebalancing can increase the expected portfolio return by up to 0.35% annually[1], while Russell[2] and Envestnet[3] estimate this annual return improvement to be 0.30% and 0.44%, respectively.



Hypothetical analysis provided above for illustrative purposes. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Source: U.S. Large Cap Growth: Russell 1000 Growth; U.S. Large Cap Value: Russell 1000 Value; U.S. Small Cap: Russell 2000; International Developed: MSCI World ex USA; Emerging Markets Equity: MSCI EM; Global Real Estate: FTSE EPRA NAREIT Developed: Fixed Income: Bloomberg Barclays U.S. Aggregate Bond.

[2]According to Russell Investments annual study. Why Advisors Have Never Been So Valuable, 2017 Value of an Advisor Study.

THE VALUE

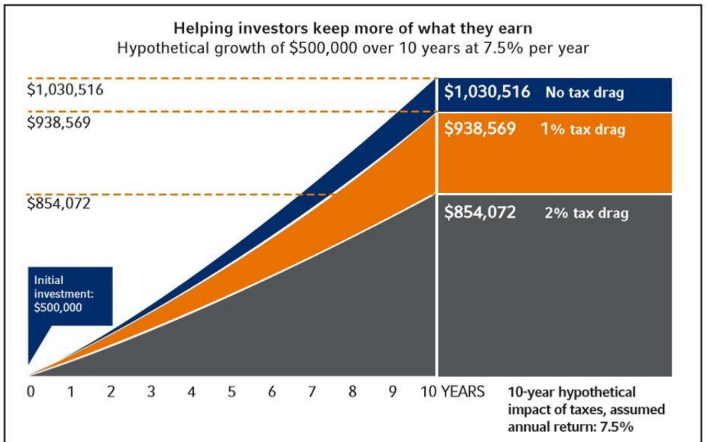
Envestnet reports the process of systematically rebalancing a diversified portfolio annually can add 30 basis points of value each year, compared with a naïve strategy of rebalancing once every three years.[3]

[1]According to Vanguard's study based on their Alpha framework. Putting a value on your value: Quantifying Vanguard Advisor's Alpha, Vanguard Research, 2016.
[2]According to Russell Investments annual study. Why Advisors Have Never Been So Valuable, 2017 Value of an Advisor Study.
[3]According to the Envestnet/PMC research brief, Capital Sigma: the Sources of Advisor-Created Value, 2019.

TAX MANAGEMENT

When it comes to investing, it's not what you make that counts. It's what you get to keep. Advisors, working with accountants and attorneys, implement strategies for tax shelters, and smart withdrawal strategies.

Advisors know it's not just asset allocation that is important, but asset location is just as important. A good advisor will holistically manage all of your assets, placing less tax efficient investments into sheltered, or qualified accounts, and more tax efficient securities into taxable, or nonqualified accounts.



This is a hypothetical illustration and not meant to represent an actual investment strategy. Taxes may be due at some point in the future and tax rates may be different when they are. Investing involves risk and you may incur a profit or loss regardless of strategy selected.

Tax-drag is the difference between pre-tax and after-tax return. The smaller the tax drag number, the less you'll likely pay in taxes. The difference of a few percentage points may not seem important, but over time, reducing tax drag can make a real difference in your portfolio's ending wealth projection.

[2]According to Russell Investments annual study. Why Advisors Have Never Been So Valuable, 2017 Value of an Advisor Study.

THE VALUE

Envestnet concludes that managing an all equity portfolio for tax optimization can add approximately 100 basis points of annual value when compared with an investment strategy that is not actively tax managed.[3]

TOTAL VALUE QUANTIFIED

What is a relationship with a financial advisor worth to an investor? A 2019 Vanguard study estimates that an advisor adds about 3% of "advisor alpha" annually. A 2019 popular study estimates that an advisor can add about 3% in net returns over time if utilizing wealth management best practices. [1]The biggest opportunity to add value was found to be in behavioral coaching, which was estimated to be worth about 1.5% in additional return.

SOURCE	Annual Value-add
FINANCIAL PLANNING	> 50 bps
Asset Selection and Allocation	52 bps
INVESTMENT SELECTION	
Active Management	67 bps
Passive Management	61 bps
SYSTEMATIC REBALANCING	30 bps
TAX MANAGEMENT	100 bps
TOTAL	Around 3%

AROUND **3%**[1]

[1]According to Vanguard's study based on their Alpha framework. Putting a value on your value: Quantifying Vanguard Advisor's Alpha, Vanguard Research, 2016.
[2]According to Russell Investments annual study. Why Advisors Have Never Been So Valuable, 2017 Value of an Advisor Study.
[3]According to the Envestnet/PMC research brief, Capital Sigma: the Sources of Advisor-Created Value, 2019.