



# Your advisor... worth more than 1%?

Like many investors considering working with a financial advisor, you have probably asked: "What will I get for the fee I'm paying?" The simple answer: a professional dedicated to helping you stay focused on your financial plan to help achieve your financial goals.

There are many questions you may have when thinking about your money. Will I have saved enough for retirement? Will there be enough to send my children to college? Can I buy my dream home?

Other questions may be: What is a growth stock? Should I be invested in Canadian or international equity? Are bonds right for me? When's the right time to get into the market?

Working with a professional dedicated to helping you achieve your financial goals can provide the help you need to answer these questions and receive benefits you might not even be expecting.

## WHY WORK WITH AN ADVISOR?

Often investors may think they understand the markets enough to invest for themselves, or that getting a financial professional to manage their assets is expensive. However, understanding the markets doesn't necessarily help you invest in them logically. The services an advisor provides go far beyond simply selecting investment products for you. Investment advisors can assist you in a full spectrum of wealth planning to help you pursue your goals.



### Reason #1:

#### Advisors can help you avoid common mistakes caused by human behavior.

Let's face it. Most people act like humans, not investors. People tend to let emotion and other human tendencies get in the way of their financial goals. Ultimately, investing like a human may actually cost you money. What is it about being human that can get in the way of achieving your goals?

#### > Your tendency to buy high and sell low (*Emotional investing*)

Typically when the market is going up, we want to buy. When the market is going down, we want to sell. This happens because a positive perception of an investment or market can lead investors to feel that they have a higher return and lower risk than they actually do, while a negative feeling can lead to predictions of lower returns and higher risk. Put another way, when scared we run away, and when not scared we may become too confident.

## 1936

Founded in Tacoma, WA

## 560+

Investment professionals

## 3,000+

Research meetings held each year with money managers around the world

## C\$319.9 B

Global assets under management

## 350+

Russell Investments funds and multi-asset investment solutions globally

## 20+

Offices worldwide

Principal Offices: Seattle, Toronto, New York, London, Tokyo, Paris, Singapore, Sydney, Auckland

Data and AUM are as of March 31, 2016.



› **Taking your investment cues based on others’ fears and goals** (*Social investing*)

Family, friends, co-workers, social media and the news can influence an investor to make decisions based on the emotions and situations of others, not their own goals.

› **Allowing behavior patterns make you lose sight of your goals** (*Ego investing*)

Many investors don’t take their own advice. BlackRock’s 2015 Investor Pulse survey shows that Canadians have 62% of their savings and investments in cash (cash deposits and savings accounts, money markets and fixed deposits) even though they believe they should only hold 30% in cash instruments.<sup>1</sup> For many investors, knowing what they need to do and actually doing it can be very different.

Notably, a balanced portfolio will typically hold only between 5% and 20% in cash depending on an investor’s individual risk profile. An investment professional can help you discover how much cash you need on hand to protect your lifestyle and the lifestyles of dependents against potential market downturns over the next few years. At the same time, an advisor can help you take advantage of investment opportunities with the rest of your wealth. Having professional advice allows you to maximize the potential return of your wealth.

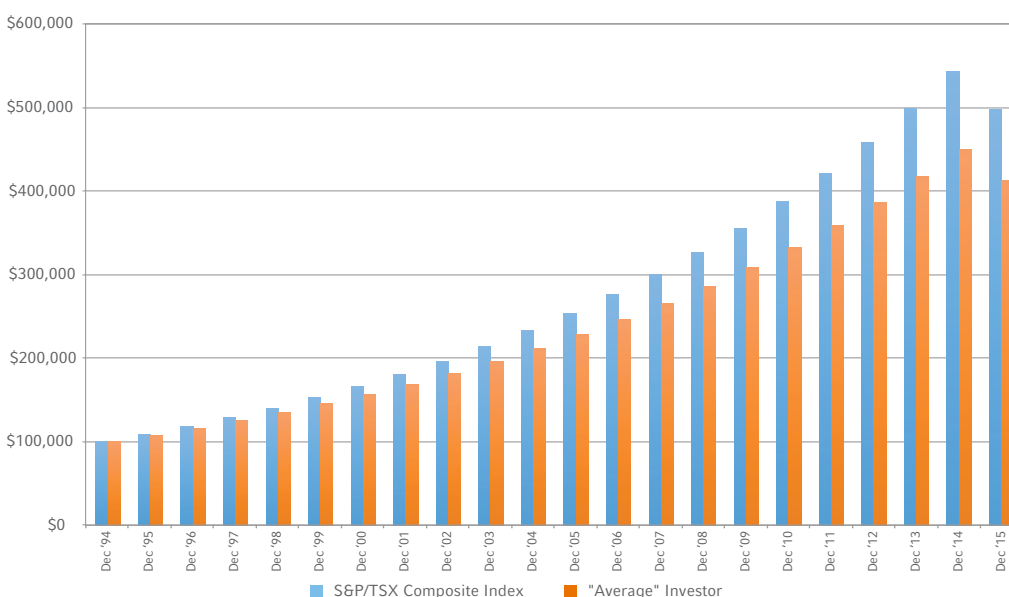
**The bottom line...**

We believe advisors who build diversified asset allocation plans and have the skills to help investors avoid common behavioral tendencies can help their clients achieve better portfolio returns than those investors making decisions without professional guidance.

**DO THE MATH: Common behaviors can cost you!**

Based on an analysis of how the average equity investor’s portfolio performed over the past 30 years relative to the broader market, the data showed that the “average equity investor” (based on cash-flow trends) underperformed the S&P/TSX Composite Index.

**Figure 1: High Cost of Investor Behavior (1994-2015)**



Source: BNY Mellon Analytical Services, IFIC, Russell Investments. Based on annualized returns from January 1, 1995 to December 31, 2015. Return was calculated by deriving the internal rate of return (IRR) based on IFIC monthly fund flow data which was compared to the rate of return if invested in the S&P/TSX Composite Index and held without alteration from January 1, 1995 to December 31, 2015. This seeks to illustrate how regularly increasing or decreasing equity exposure based on the current market trends can sacrifice even market-like returns. Indexes and/or benchmarks 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.

<sup>1</sup> <https://www.blackrock.com/ca/individual/en/learning-centre/investor-pulse/cash-is-still-king>



### Reason #2:

#### An advisor's portfolio review and rebalancing may boost your returns and help manage risk.

If you're like most individual investors who are not working with a financial advisor, you likely do not set or follow a rebalancing policy. Even those who do are often influenced by the unreliable emotional decision-making impulses that can make sticking to a rebalancing policy a challenge.

What is rebalancing? Technically, it is the periodic buying and selling of assets in your portfolio to maintain your originally desired asset allocation. For example, let's assume you have selected a balanced portfolio of 60% stocks and 40% bonds. Assuming a year of positive stock performance, your portfolio would now have 70% of your money in stocks and 30% in bonds. Rebalancing is a strategy most financial advisors employ to keep an investor's portfolio near its target allocation. In this case, rebalancing would involve selling some stocks and buying some bonds so you get back to the original target allocation of 60/40.

Russell Investments conducted a rebalancing comparison looking back at December 1979 to December 2015. This comparison showed that advisors who work with investors to establish a consistent rebalancing policy have the potential to add incremental returns to portfolios while reducing volatility (a measure of risk) of the return pattern<sup>2</sup>.

#### DO THE MATH: Establishing a rebalancing policy can potentially add incremental return while managing risk.

The rebalancing comparison below highlights the impact the corresponding rebalancing plan had on the portfolio. In each of these instances, you are looking for the annualized return to be higher than the "buy and hold" strategy. For annualized standard deviation (measure of risk in the portfolio) you are looking for the percentage to be lower than the "buy and hold." When looking at the example below, you can see that rebalancing can be a valuable practice.

The difference may seem small, but the simple act of rebalancing can help capture gains, reduce volatility, and help your asset allocation remain in the range you initially determined was right for your desired outcome.

**Figure 2: A Comparison of Rebalancing Strategies (Dec 1979 - Dec 2015)**

REBALANCING TYPE	BUY AND HOLD	SYSTEMATIC REBALANCING
Annualized Return	10.0%	10.3%
Annualized Risk	10.6%	9.9%

Source: Russell Investments Canada Limited. Original Portfolio Asset Mix: 40% Fixed Income (FTSE TMX Universe Bond Index), 30% Canadian Equity (S&P/TSX Composite Index), 15% US Equity (S&P 500 Index), 15% Foreign Equity (MSCI EAFE Index). Quarterly rebalancing based on initial investment. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

<sup>2</sup> Past performance is no guarantee of future results.



### Reason #3:

#### Your time is valuable. Don't underestimate how much time disciplined investing may take.

A financial plan is a key element in helping investors reach their goals. A robust financial plan may incorporate coordination of your multiple financial goals, considerations for investing at different stages in your life, and implementation with a variety of financial professionals dedicated to your financial health.

### The bottom line...

An advisor can help you create a more robust plan that includes provisions and expectations on how and when to rebalance your investment portfolio.

By implementing a consistent rebalancing policy into your plan, the advisor can work with you to clearly define rules to help you buy and sell with the potential to help you take advantage of additional return potential that may be lost when trying to chase performance.

## What does developing a financial plan require in terms of time, resources and expertise?

**Time.** According to the Denver-based Financial Planning Association, a financial planner spends about 1–3 hours during the initial discovery meeting with a new client and 3–14 hours building the financial plan.<sup>3</sup>

**Cost.** According to *MoneySense* magazine, the average cost of developing a financial plan with a Certified Financial Planner is estimated to be around \$3,500 initially and about \$1,500 annually thereafter.<sup>4</sup> (We assume creating and maintaining financial plans are part of the annual fee in this example).

You may also need to consider that an advisor might offer the following as part of the relationship which are not included in the estimates above:

- › Annual updates
- › Ongoing goal and risk-tolerance monitoring
- › Tax-planning strategies such as corporate class investing and/or pension splitting
- › Managing potential investing issues such as overfunding Registered Retirement Savings Plans (RRSPs) or establishing a spousal loan
- › Retirement planning including creating an Individual Pension Plan
- › Insurance strategies that enhance estate planning

Note: always get a detailed list of what services are available and what may or may not be included in the fee you pay.

## CONCLUSION:

### The value of working with a financial advisor is worth more than 1%.

Financial advisors can be important in helping investors manage their money and bring value to their clients in three key ways:

1. Steering them away from making behavioral mistakes like chasing performance
2. Establishing objective rebalancing strategies for clients' portfolios
3. Building complete financial plans that save clients' time

Finding an advisor that can help you build and maintain a strategy for long-term investing has the potential to provide more than just financial returns and may pay off in more ways than you thought of.

<sup>3</sup> Financial Planning Association 2011 Fee study.

<sup>4</sup> "Find the perfect financial planner" Preet Banerjee. *MoneySense*, November 2013

## The bottom line...

A financial advisor may provide value in creating a financial plan in less time (and with more expertise) than most investors could do on their own. Beyond the creation of a plan, think about the time you may save by working with an experienced professional to help you monitor and make recommended adjustments to your investments.

## Important Information

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