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# A Close Look at the Value of A Financial Advisor

**THE INDEPENDENT FINANCIAL GROUP**

A Registered Investment Advisor

**indfin.com**

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**T**oday, the stakes Americans have in securing their own comfortable financial futures have never been higher. Individuals are responsible for their own finances to a degree earlier generations never imagined. Pensions have been replaced by 401(k)s and other defined contribution plans that are self-funded and managed. Employer-sponsored healthcare is fading quickly and confidence in the Social Security system is at an all-time low. This extra financial responsibility average Americans are being asked to shoulder does not come with an instruction manual, and most Americans admit they are not personal finance experts—nor do they want to be. Holistic, professional financial advice can help navigate this complexity. We believe investors who work with professional financial advisors increase the probability of achieving their goals much greater than do-it-yourself investors for three key reasons.

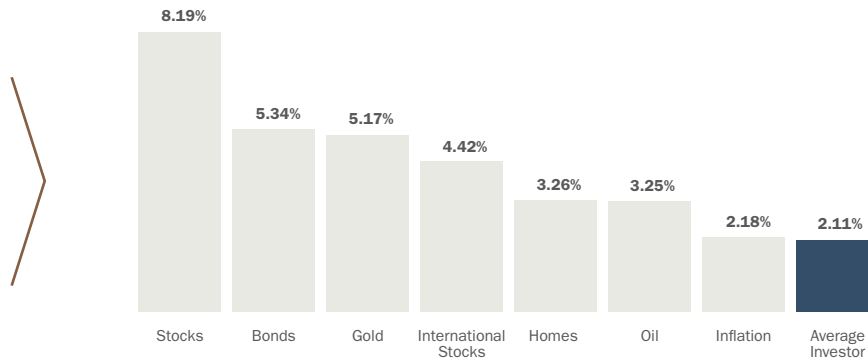
# 3 Ways Your Financial Advisor Can Add Value:

## 1 Can Help You Stick to Your Financial Plan

Human instincts, including a natural aversion to loss and herding (or following-the-crowd) characteristics, cause many individuals to make poor choices when it comes to investing. When left to their own devices, many investors end up buying high and selling low. As shown in the chart below, this behavior can come at substantial cost! Professional financial advisors help their clients stick to their long-term financial plans, and circumvent irrational emotional decisions during periods of market swings.

### Investors Can Be Their Own Worst Enemies

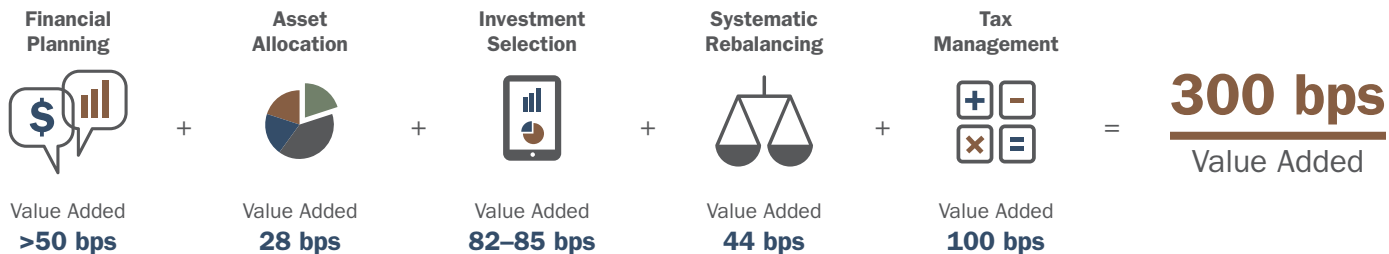
Annualized Returns of Asset Classes vs. Average Investor—1995–2015



Sources: Bloomberg; Informa Investment Solutions; Dalbar. Past performance is no guarantee of future results. It is not possible to directly invest in an index. Oil is represented by the change in price of the NYMEX Light Sweet Crude Future contract. Contract size is 1,000 barrels with a contract price quoted in US Dollars and Cents per barrel. Delivery dates take place every month of the year. Gold is represented by the change in the spot price of gold in USD per ounce. Homes are represented by the National Association of Realtors' (NAR) Existing One Family Home Sales Median Price Index. Stocks are represented by the S&P 500 Index, an unmanaged index that consists of the common stocks of 500 large-capitalization companies, within various industrial sectors, most of which are listed on the New York Stock Exchange. Bonds are represented by the Barclays US Aggregate Bond Index, an unmanaged market-weighted index that consists of investment-grade corporate bonds (rated BBB or better), mortgages and US Treasury and government agency issues with at least 1 year to maturity. International Stocks are represented by the MSCI EAFE Index, a broad-based measure of international stock performance. Inflation is represented by the Consumer Price Index. Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/15 to match Dalbar's most recent analysis.

## 2 Can Add Up to a 3% Annualized Return on Advice

Over the past three years, Envestnet has spent significant time and resources researching, defining and quantifying the areas where they believe financial advisors provides value to their clients. As shown below, there are five core areas where an advisor generates value for a client. To be clear, this is not what the advisor is charging; it is the potential value advisors can create for their clients. Envestnet's research showed that when successfully implemented, advisors can deliver excess value of up to 3 percent per year for their clients. We call this the Return on Advice™. This was validated by an independent study reflected in a research paper by Vanguard, long known for their consumer advocacy. See [indfin.com/vanguardstudy](http://indfin.com/vanguardstudy).



Source: Envestnet, "Capital Sigma: The Return on Advice"  
 This report was based on research conducted by Envestnet in an effort to define and quantify the areas where advisors add value. The research was based on an analysis of 42,000 advisors on the Envestnet platform from 9/30/96 through 6/30/14.

## Delivering a Return on Advice Through Five Pillars of Value

	Definition	What It Means to You
<b>Financial Planning</b>	Developing a roadmap for achieving an investor's goals, ranging from short-term income needs to long-term estate planning and philanthropy.	Just as you wouldn't contemplate starting a trip without a destination in mind, it's nearly impossible to chart your financial course without a plan. A professional financial advisor can help you identify your destination, and plan your route with care – financial planning. While there may be detours along the way, your advisor will help ensure you stick to your general route to reach your end destination.
<b>Asset Allocation</b>	Implementing a risk-adjusted portfolio strategy to meet an investor's personal financial objectives.	When you go grocery shopping, you grab a shopping basket. Think of the basket as your total investment portfolio, where you place all the items you are going to purchase (or all of the assets you buy). The goal of asset allocation is to broadly diversify your investment portfolio, just like you probably diversify your diet so you don't miss out on the nutrients in different foods. Similar to your cart containing a variety of food groups, your investment portfolio should generally hold a variety of asset classes, including stocks, bonds and cash. Just as it's not healthy to eat only hamburgers, in investing, it's not healthy to be overly invested in one asset class. Your financial advisor will help ensure proper asset allocation, creating an ideal mix of investments that gets you the greatest long-term gains for a tolerable amount of risk.
<b>Investment Selection</b>	Creating a diversified portfolio of specific investment vehicles customized to the individual investor.	Just as an effective sports team must have players with various skill sets, a successful investment portfolio should consist of various investment strategies. If you were a coach, how would you go about selecting the most appropriate players for your team? What performance statistics are the most meaningful? Most people realize they don't have the ability to evaluate an athlete's strengths and weaknesses to determine if they should be on a sports team. The same would apply to selecting investments. When team owners need someone to evaluate players and put the best team on the field, they hire a coach. Similarly, your financial advisor can serve as your coach and evaluate various investment managers representing different approaches to the market. They can help you assemble a team of independent professional managers whose strategies have the potential to work together over time to help you reach your goals, while moderating your risk.
<b>Systematic Rebalancing</b>	Monitoring and adjusting portfolios over time to help reduce risk and enhance returns.	Rebalancing your investment portfolio simply means returning your investment assets back to their original percentages. John is a 50-year-old investor with a preferred asset allocation of 60% stocks and 40% bonds. After a year of booming stock market returns, John's asset allocation drifted to 70% stocks and 30% bonds. Without rebalancing, John's portfolio likely became riskier. Having a financial advisor who employs a systematic rebalancing strategy helps ensure your portfolio remains aligned to your financial goals with less volatility.
<b>Tax Management</b>	Incorporating strategies such as tax-loss harvesting to help investors keep more of what they earn.	Many investors are unaware of just how significant a problem taxes can pose to their long-term returns. According to a Dreyfus survey of 1,000 investors, 85% of respondents claimed taxes played an important role in investment decisions, but only 33% felt knowledgeable about the tax implications of investing. However, taxes are the biggest expense investors face! Think of tax management as a "power tool" your financial advisor can employ to potentially enhance your bottom line. Strategies like tax-loss harvesting are the equivalent of turning your financial lemons into lemonade by converting marketing downturns into tangible tax savings. A skilled financial advisor can employ the right tools to lower your tax bill, without substantially altering your long-term investment outcomes.

### 3

## Can Be a Trusted Resource and Partner

The best financial advisors become their clients' most trusted resource and partner, offering guidance and perspective throughout all of life's events, including marriage and divorce, buying a new home, or preparing for retirement. A financial advisor should be among the first calls when a crisis hits, such as loss of a job or the death of a loved one. The best financial advisors will respond with empathy, educating their clients and helping them develop a plan to get back on track. Over the years, Emvestmet talked with thousands of investors and financial advisors, and found common behaviors among the most successful financial advisors. Based on our experience, they developed a list of 10 behaviors you should look for in a financial advisor.

# 10 Things You Should Look for in an Essential Advisor...



1

Identifies your needs and ensure he or she has the expertise to serve you as a client

2

Puts your goals first and foremost

3

Helps you understand your financial plan by cutting through the noise of the market

4

Works to understand your personal circumstances, values, investing style, tax situation and goals

5

Develops and carefully monitors a personal plan for you, and make timely portfolio adjustments to meet your changing needs

6

Responds with true care and concern when you are faced with life transitions

7

Helps you understand fees and expenses—and the value added from these fees

8

Tailors communication, education and the overall client experience to meet your unique needs and concerns

9

Communicates clearly, truthfully and consistently

10

Effectively utilizes technology to maximize time with you and other clients



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**Jim Lorenzen is a CERTIFIED FINANCIAL PLANNER® professional and an Accredited Investment Fiduciary® serving private clients' wealth management needs since 1991. Jim is Founding Principal of The Independent Financial Group, a Registered Investment Advisor providing wealth management, retirement planning and investment advisory services. He is also licensed for insurance as an independent agent under California license 0C00742. Jim's background includes founding, building, and selling five successful businesses and international consulting. He has been the headline speaker at more than 500 national and international association and corporate conventions for clients such as Foster Grant, Hobie Cat, CapCities/ABC, H.R. Textron, Hearst Corporation, The National Management Association, the National Newspaper Association, and Cox Communications, as well as scores of state, regional, and national conventions. Jim has also been featured on American Airlines' Sky Radio heard on more than 19,000 flights, as well as in The Wall Street Journal's SmartMoney magazine, The Profit Sharing Council of America's Insights, and has been published in the Journal of Compensation and Benefits, NASDAQ, and in scores of national and international association trade publications.**

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