SageBroadview

APPRECIATE THE WEALTH OF YOUR LIFE

The Worth of Sage Advice: Qualities to Seek When Assessing a Financial Advisor

Part I: A Few "Obvious" Ideas About an Advisor's Worth

Let's begin by dispensing with the obvious. As financial advisors, we've got some serious skin in the game when we propose that there is great value to be had by turning to a financial advisor to help you manage the wealth of your life.

Still, even if a statement is obvious, it can be worth saying anyway. If you don't believe us, take it from Non Sequitur's "Obvious Man," as he defends our nation's (and our own!) proclivity for questioning authority.

So yes, of course, with all our heart and soul, we believe: ***Most investors are better off working with a financial advisor in lieu of going it alone.***

And yet, we'd be disappointed in you as an American if you didn't question why we believe this, and how we support the claim. We also would be remiss if we didn't point out another "no duh" point: ***Not all advisors are equal to the challenge of justifying their worth.***

In other words, it's important to not throw a dart at just *any* advisor, but rather to identify one who is adding so much real value to your life and your wealth that it's, well, obvious.

So why should you find such an advisor, where do you look for her and how do you assess his worth? In the next few sections, we're going to help you think through these critical questions. To set the stage, let's begin with some favorite quotes we've gathered that reflect our own ideas about the responsibilities and requirements we would suggest for those who would advise others about their life's wealth.

> "Good advice is priceless. Not what you want to hear, but what you need to hear. Not imaginary, but practical. Not based on fear, but on possibility. Not designed to make you feel better, designed to make you better. Seek it out and embrace the true friends that care enough to risk sharing it. I'm not sure what takes more guts—giving it or getting it." – Seth Godin @thisissethsblog

> "You don't hire a real financial advisor because you aren't smart enough. You hire one because you aren't an objective 3rd party." – Carl Richards, @Behavior Gap

"A trustee is held to something stricter than the morals of the marketplace. Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior … the level of conduct for fiduciaries [has] been kept at a level higher than that trodden by the crowd." – Benjamin Cardozo, New York Court of Appeals Judge (1928)

"It seems that we're almost more likely to go on Angie's List to check out our plumber than we are to go on the SEC's website to investigate the background of the individual with whom we are about to entrust our life savings … There's something wrong with this picture." – Mary Jo White, SEC Chair, @SEC_Investor_Ed

"The underlying tenet is that individual investors should not have to have a Ph.D. in regulatory science to understand their advisor's responsibility to them." – Sallie Krawcheck, @SallieKrawcheck

"We don't expect people to fly their own airplanes or take out their kids' appendixes, and yet we expect them to manage their retirement portfolios. In my careers I've done all three, and investing is by far the hardest." – William Bernstein, MD, PhD

PART II: WHY MOST INVESTORS COULD USE GOOD ADVICE

As stated above, we believe a financial advisor can bring considerable value to helping you manage the wealth of your life. Next, let's cover why we feel most investors should find such an advisor versus going it alone.

Money as a Means to Your End

You probably don't need us to tell you that money isn't synonymous with happiness. You have already figured out that part on your own. Then again, as Woody Allen has observed, "Money is better than poverty, if only for financial reasons." So you do want to figure out how to make best use of your money in three important ways:

1. **Financial Value** – It's great when you have more than less money to spend on the people and passions that lead to your highest happiness.
2. **Life Value** – Most people want to minimize the time they spend managing their money, so they can get on with the real components in their best-lived life.
3. **Planning Value** – Life is full of surprises that call for being financially well-positioned to roll with the changes when – not if – they interrupt your regularly scheduled programming.

Compared to going it alone, a good advisor should be able to add substantial value to this trio of financial life planning needs. The value should go well beyond the advisor's fees, or else you shouldn't be working with him or her. Achieving balance among building your life's wealth, responding to change, and minimizing the time and stress involved calls for a series of “good, better and best” qualities that justify partnering with the right financial advisor.

Good: Overseeing the Logistic Details

While it’s essential to keep an eye on the “big picture,” a financial advisor can also help you manage the demanding details along the way. For example, an advisor can help you:

Get organized – assemble, prioritize and optimize your far-flung investments, estate plans, insurance policies, mortgages, executive compensation packages, retirement accounts and the rest of the mishmash of financial complexities in your busy life; ensuring no important money is being left behind or overlooked.

Remain calm – A body of evidence substantiates that most investors face enormous challenges in deciding when to buy, sell or hold tight. As *Wall Street Journal* columnist Jason Zweig reported in “So You Think You’re a Risk Taker?” your own brain is hard-wired betray you into making financial choices that aren’t always in your best interest. An objective advisor can spot when this is happening, and help you avoid costly, unnecessary and nerve-wracking trades.

Invest tax-wisely – Particularly if your advisor is or has access to CPA services, he or she can help you engage in vigilant, year-round tax-sensitive investing, as well as by ensuring that taxes are carefully integrated into the spectrum of your financial planning.

Build your dedicated team – Most families’ complex lives call for a team approach to fully manage their wealth. If you’re investing on your own, it can be hard to create the right financial team, let alone ensure they are playing together on your behalf. A good advisor should have relationships already in place to ensure coordinated coverage for both the routine and unusual financial challenges you may face throughout your life.

Better: Subtle Rewards

Beyond the hard-dollar values described above, there are other ways a good advisor should contribute to your bottom-line results.

Financial clarity – Your advisor should be enthused about helping you understand the essentials of financial theory, so you can achieve those critical “ah ha!” moments that let you participate in your own success.

Timely support – Your advisor should take over many of the paperwork-pushing details, saving you hours otherwise sacrificed to filling out forms. He or she should continually monitor and manage your wealth and share the critical results that matter in a digestible format. You should receive prompt, helpful responses to your questions or requests.

Best: An Immense Immeasurable

Let's say you were prepared to perform all of the above functions on your own. There is still the larger consideration. ***Is this how you want to spend your time?*** Also, is this how you would want your spouse or other family members to have to spend their time if you are no longer in the picture? It can be an immeasurable comfort to have an advisor who is deeply familiar with your personal wealth, ready and able to assist with shifting your family's financial roles when needed, smoothly, deliberately and in everyone's best interests.

At SageBroadview, we've embodied these "good, better and best" concepts into our simple tagline: **Appreciate the Wealth of Your Life®**. Vanguard describes it as well in one of its investor education pieces: "A good financial advisor will also build a relationship with you that goes beyond traditional financial planning and results in a more valuable financial life-planning approach."

Part III: Is Your Advisor a Fiduciary (and More)?

As we continue to explore the worth of sage advice, let's discuss how to identify, not just *any* advisor, but one who is best positioned to justify his or her worth.

As much as great advice can be of great value, so too can bad advice cause irreparable harm. Still, just as you wouldn't walk everywhere you go because cars can be very dangerous (a lesson I learned first-hand), you shouldn't avoid *all* professional financial advice just because there are some lemons in the lot. Instead, we recommend that you proceed with caution, armed with information.

Lead with the "F" Word (Fiduciary)

In our opinion, among the most important qualifications for financial intermediaries who wish to dispense investment or financial advice should be this: They should be providing ***fiduciary-levels of advice,*** and they should be willing to agree to do so ***in writing***.

Bottom line, a fiduciary advisor is obligated to place your highest financial interests above all else, and never dispense any advice that doesn't advance that goal.

You would think that investors should be able to assume they are receiving this level of advice when they consult with a financial professional. It should be as "no duh," as some of the other points we covered in Part I.

Unfortunately it is not. It's critical to be aware that brokers who dispense "suitable" (versus fiduciary) advice are not bound to these highest standards. As described in this recent *New York Times* piece, "Before the Advice, Check Out the Adviser":

> This creates a muddle for investors. Say you sit down with a broker — one who isn't legally required to act as a fiduciary — and the broker has access to

> a dozen mutual funds, all of which are deemed “suitable” for a particular customer. The broker can recommend the most expensive fund, even if it makes him more money at the consumer’s expense and isn’t preferable in any other way.”

In short, just because somebody has a job title containing the word “advisor” or “adviser,” does NOT mean the advice is necessarily worth heeding.

Muddle, Muddle, Toil and Trouble

One way you can tell if the advice you’re receiving is fiduciary is whether the individual is an independent Registered Investment Advisor firm representative (where advice must be fiduciary), or a broker, banker or insurance agent (whose advice need only be suitable). You may also want to see if your would-be advisor will sign a fiduciary oath. As described in the aforementioned NYT piece by Andrew Stoltmann, a Chicago securities lawyer: “If the adviser refused to sign [a fiduciary oath], then the investor should run for the hills.”

Doing Your Advisor Due-Diligence

Beyond seeking a fiduciary advisor, there are a number of questions with which you can pepper the conversation when assessing an advisor’s worth.

- **Account Management –** Will your assets be held by a separate custodian who reports to you directly, so you can independently monitor the advisor’s activities? (To avoid Bernie-Madoff-like scams.)
- **Professional Experience –** Does your advisor possess stellar professional credentials and industry experience?
- **Disclosures –** Does the advisor’s firm have a Form ADV? True investment advisors are required to file this report, which discloses important details such as fee structures, any conflicts of interest and any disciplinary actions taken.
- **Costs –** Speaking of fee structures, what are the advisor’s source(s) of compensation? Is the firm fee-only, which means all compensation comes from you, the client? Or do they accept commissions or other sources of compensation from outside sources?
- **Investment Strategy –** Will your advisor help you manage your investment portfolio as an integrated whole driven by your personal long-term goals? Or is he/she more transaction-oriented, driven by uncontrollable market events?
- **Financial Life Planning –** Is the advisor prepared to help you manage additional components in your family wealth as a coordinated whole, such as estate planning, risk management, executive compensation packages, philanthropic activities and more?

PART IV: CRUNCHING THE NUMBERS ON ADVISOR “ALPHA”

So far, we’ve discussed some of the qualitative ingredients that go into a satisfying advisor relationship. Essentials such as fiduciary duty, seasoned experience and transparent fees are critical. But qualitative assessments should also be combined with quantitative insights to yield the best recipe for success. If you doubt us, try baking a cake sometime without measuring out your baking soda or checking to see what temperature to set the oven.

But herein lies a dilemma. Many investors tend to adopt a "horse race" approach to grading their advisor's worth, based largely on recent portfolio performance. Given how continuously volatile the markets are in the near-term, such an approach leaves them forever uncertain as to how their advisor is really measuring up over time.

In contrast, we believe the best benchmark against which to measure your advisor's worth, or "alpha," is this:

> **Advisor Alpha:** In the face of life's many uncertainties, is your advisor ensuring that your investment activities remain as optimized as they can be for helping you realize your personal, long-term financial goals?

In other words, if you were trying to manage your financial affairs and investments in the absence of your advisor, how much better or worse off would you be over time?

Understandably, it's challenging to quantify "success," when the definition is that broad. Fortunately, Vanguard has been researching and advancing the concept of advisor alpha for more than a decade, and has shared an overview of its findings in a report, "The added value of financial advisors."

Vanguard's analysis looked at a trio of areas in which an advisor's value can shine through: portfolio construction, behavioral coaching and wealth management. According to its report, ***an advisor "may add about 3 percentage points of value in net portfolio returns over time,"*** largely by adhering to the types of best practices we've described in Part III.

Of course results can vary. But given that a typical advisor fee these days is in the vicinity of 1 percent or less per year, it doesn't take an advanced degree in mathematics to recognize that a worthy advisor relationship can be well worth exploring.

Are You Ready for More Sage Advice?

If you'd like to explore an advisor relationship with SageBroadview — or if you simply have questions or comments you'd like to discuss — we welcome your call.

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