

Behavioral Insights

Advice Over Investment Returns

By Megan WILLIAMS
Director, Client and Advisor Experience



Research — and there's plenty of it — suggests a gap between what investors want from a financial advisor and what a financial advisor should provide. Both sides want the same outcome: a better return over time. But beyond that? Investors tend to prioritize beating certain benchmarks. Did my portfolio outperform the S&P 500 this year? A value-oriented advisor, however, doesn't pit performance against selected market indices, but considers a client's financial condition and goals, then allocates investments and implements asset protection measures — like life and long-term care insurance — that will enable the client to reach those long-term goals.

"Our research suggests that there's a difference between what investors value from their advisors and what advisors believe investors value, and that disconnect creates problems on both sides of the relationship," notes Ryan O. Murphy, Head of Decision Sciences, Morningstar. "For advisors, it's hard to build a mutually beneficial relationship if clients don't understand the value of the advice they're getting. And it can be frustrating for clients if it seems that their advisor isn't meeting their expectations."

A major part of the value an advisor can deliver is "behavioral coaching," which to a great extent involves avoiding emotional investment decisions. It's only natural to panic when markets decline. Sell! Sell! Sell! But research by Morningstar indicates that emotional investing takes you off your long-term track and costs you dearly at retirement age.

MORNINGSTAR AND VANGUARD RESEARCH STUDIES

"Making sound financial planning decisions in five areas—asset allocation, withdrawal strategy, guaranteed income products, tax-efficient allocation, and portfolio optimization— can generate 29 percent more income on average for a retiree," according to The Value of Advice, a Morningstar Gamma research report. It's simply not possible to time markets, proof of which is ubiquitous and unambiguous.

According to Quantifying Vanguard Advisor's Alpha, a Vanguard research report focusing on net returns, a priority to both investor and advisor, advisors can "potentially

add about three percent” in average annual net returns through such practices as suitable asset allocation, cost-effective implementation, rebalancing and tax-efficient investing.

“This three percent increase... is likely to be intermittent, as some of the most significant opportunities to add value occur during periods of market duress or euphoria when clients are tempted to abandon their well-thought-out investment plan,” noted the report.

WHAT YOU WANT FROM AN ADVISOR

You want to achieve your financial goals and you need a partner in your financial life. You want someone you trust, someone who wants to understand more about you and your needs so he or she can focus on more than just returns. You want a certified financial professional who adheres to a fiduciary standard.

The fiduciary standard means your advisor always acts in your best interests. It should be the priority. When the founders of HBKS® left their commission-driven big brokerage houses in 1995, where the priority was to sell the brokerage’s investment products, they started their firm based on always acting in their clients’ interests. HBKS® advisors ask “why” even when it’s uncomfortable, so we can uncover the need and the “what” behind the need. It’s much like dieting or exercise. How much more do you accomplish when you have a coach helping you stay on your diet or keep to your exercise routine? By taking the emotional reactions out of investing, your financial advisor helps you stick to your financial plan.

“While an advisor’s worth used to be simply based on the advisor’s ability to beat a benchmark,” the Morningstar Gamma report concludes, “it’s now understood that an advisor’s value is far better measured by the impact that their services can have on investors’ financial outcomes.” Indeed, the real value of an advisor is in understanding your particular financial condition and goals and helping you take advantage of the related targeted advice and appropriate services, that is, to help you understand why you should think beyond beating benchmarks.



Megan Williams

Director, Client and Advisor Experience, HBKS® Wealth Advisors

As director of client and advisor experience, Megan is focused on strategic initiatives that ensure HBKS® advisors have the resources they need to deliver on the firm’s commitment to helping clients achieve their financial goals. She assists in many areas, including hiring, training, human resources and marketing. Prior to joining HBKS®, Megan spent 12 years at Vanguard in a variety of leadership positions in both operations and client-facing roles, primarily working with institutions and high net worth investors.

Megan earned her B.A. in English from Cornell University and an Executive M.B.A. from Villanova University.

The information included in this document is for general, informational purposes only. It does not contain any investment advice and does not address any individual facts and circumstances. As such, it cannot be relied on as providing any investment advice. If you would like investment advice regarding your specific facts and circumstances, please contact a qualified financial advisor. This document does not contain any accounting or legal advice. If you would like accounting, tax or legal advice, please contact a qualified accountant or attorney.

Investment advisory services are offered through HBK Sorce Advisory LLC, doing business as HBKS Wealth Advisors. NOT FDIC INSURED - NOT BANK GUARANTEED - MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL - NOT INSURED BY ANY STATE OR FEDERAL AGENCY