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THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

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FINANCIAL PLANNING

THE VALUE OF AN ADVISOR

By Stan Clark, Senior Wealth Advisor

Canadian investment regulators have steadily increased disclosure requirements for the costs investors incur when working with advisors. We've always been in favour of full transparency, so we applaud these changes.

But it does raise the question: Once you know your costs, how do you determine the value an advisor provides in return for those costs? Only by assessing this value can you decide whether the costs are worth it.

Two large and reputable investment firms, Vanguard Group and Russell Investments, have each published research to quantify the value that advisors can add through sound investment and financial planning advice.

Vanguard estimates this value at 3.00%[1] per year, while Russell puts it at 3.85%[2]. The firms' research includes the value of practices such as: setting an appropriate asset allocation; avoiding common "behavioural" errors; and taking advantage of goals-based planning, systematic rebalancing, tax-efficient investing and related practices. As both firms advocate low-cost index investing, their estimates do not include any value added by the potential outperformance of market indexes. This is an additional area where the Stan Clark Financial Team has added value in the past – and we hope to continue doing so.

Below, we'll touch on a few of the broad areas covered by this research.

Asset Allocation – setting an appropriate Equities Target

Vanguard lists Asset Allocation as their #1 point. They are referring mostly to setting an optimal allocation between equities and fixed income, which our team calls an Equities Target. Vanguard says this value is "significant but too unique to quantify, based on each investor's time horizon, risk tolerance, and financial goals."

By doing careful financial planning and providing good coaching, an advisor can help you safely invest a higher percentage of your portfolio in equities than you might otherwise have. The added value here can be significant. For example, if you maintained an average equities mix of 80% to 90% over the past 10 years, compared with the 60% to 70% mix in typical balanced funds, your returns would have averaged 2% to 3% higher per year, even if they achieved only average index returns.

Avoiding market and investment timing errors

Both Vanguard and Russell rank Behavioural Coaching as the largest area of advisor-added value, with Vanguard assigning it a value of 1% to 2+% and Russell assigning it 1.95%. In describing Behavioural Coaching, both are mostly referring to avoiding timing mistakes when buying and selling different types of investments.

Their and others' research shows that natural human behaviour causes most investors to underperform because they too often enter and exit their investments at the wrong times. They buy after prices have risen and sell after they have fallen. This is very hard to avoid, even for the smartest people. However, working with an advisor who will help you avoid these errors can add substantial value over time.

Financial and Estate Planning

We'll use the above heading to refer to a host of other areas where Vanguard and Russell say advisors can add value. Through these Financial and Estate Planning areas, advisors can help save you money directly in a variety of ways. For example, they can assist you in setting an optimal equities target, thereby avoiding market timing (see above). And, advisors can provide a host of intangible benefits, such as a sense of clarity and control over your financial future.

Extra value through our stock strategies

We believe our team does a pretty good job at delivering the 3% to 4% value that Vanguard and Russell describe in their research. In addition, our team has developed and refined numerous "strategies" for selecting and monitoring our stock portfolios.

Since we started offering these strategies in managed portfolios 17 years ago, they have outperformed their benchmarks by +2.57% per year, before fees[3]. The average mutual fund, by contrast, has underperformed by approximately -1.07% per year, before fees. The difference between our strategies and the average mutual fund has therefore been +3.64% before fees.

Plus, our fees tend to be lower than for most mutual funds. We can't guarantee this outperformance will continue, but the spread has been improving rather than worsening over time.

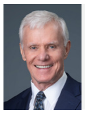
Summary

While there are costs involved in working with an advisor, hopefully the value added will be much higher than those costs. If you pay 1% in costs and receive 4% or more in added value, that represents a very good return on investment.

[1] *The Vanguard Group, "Putting a value on your value: Quantifying Vanguard Advisor's Alpha®", July 2022*

[2] *Russell Investments, "2022 Value of an Advisor Study", May 2022*

[3] *Stan Clark Financial Team Disciplined World Equity composite performance*



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