

The added value of financial advisors

Client note

Recent Vanguard research¹ shows that your advisor not only adds peace of mind, but also may add about 3 percentage points of value in net portfolio returns over time.

- What does this mean? Your advisor has the ability and the time to evaluate your portfolio investments, meet with you to discuss objectives and help get you through tough markets. All of these factored together potentially add value to your net returns (returns after taxes and fees) over time.

- With portfolio construction, your advisor can work with you to create a diversified portfolio, while ensuring you don't pay too much for investments or in taxes on investment returns.
- Wealth management entails making regular changes to your portfolio to help reduce risk, and when you're ready to withdraw, you can do it in such a way to help limit the taxes you'll pay.

1 Source: Ryan Rich, Colleen M. Jaconetti, Francis M. Kinniry Jr., Donald G. Bennyhoff, and Yan Zilbering, 2015. *Putting a value on your value: Quantifying Vanguard Advisor's Alpha in Canada*. Valley Forge, Pa: The Vanguard Group, Inc.



Your financial advisor can provide:






Guidance
Diversification
Potentially higher net returns



Potentially less cost
Potentially less risk

Quantifying your advisor's value

Potential value relative to
"average" client experience
(in percentage of net return)

 Portfolio construction	
Suitable asset allocation using broadly diversified mutual funds/ETFs	>0%
Use of low-cost index-based products	1.31%
Asset location between taxable and tax-advantaged accounts	0–0.42%
Total-return versus income investing	>0%
 Wealth management	
Regular rebalancing	0.47%
Spending strategy for drawdowns	0–0.41%
 Behavioural coaching	
Advisor guidance to help adhere to financial plan	1.5%
Potential value added	"About 3%"

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Note: For "Potential value added," we did not sum the values because there can be interactions between the strategies.

Meeting your needs

This research is not an exact science. "About 3%" means advisors can potentially add about 3 percentage points to your portfolio returns over time. This is in comparison with those advisors who are not practicing the above-mentioned principles. For some, advisors may offer much more than that in added value; for others, less. The potential 3 percentage points of return come after taxes and fees. This return is not added over a specific time frame but can vary each year and according to your circumstances. It can be added quickly and dramatically, especially during market declines or euphoria, when

you may be tempted to abandon your well-thought-out investment plan. It may be added slowly. It will not appear on the quarterly statement but is real nonetheless.

Further, although every advisor has the ability to add this value, the extent of the value will vary based on your unique situation and the way the assets are actually managed, versus how they could have been managed. Advisor's alpha principles call for advisors to meet your individual needs.

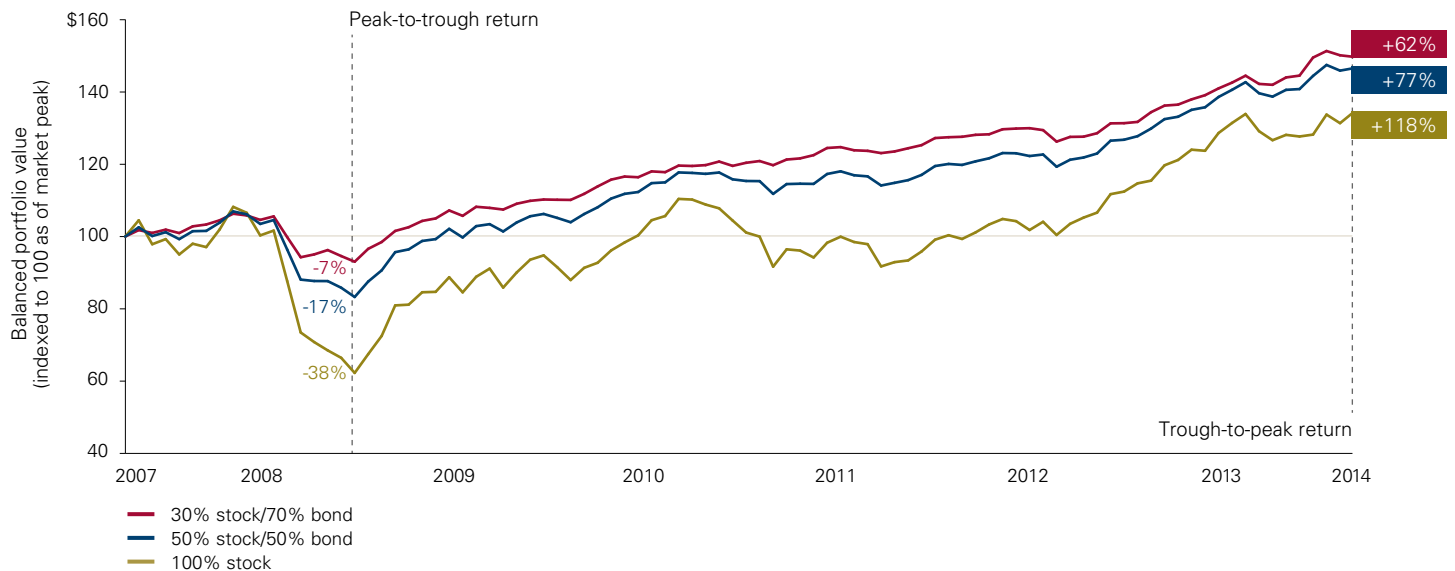
Guidance when needed most

- The biggest value your advisor can provide is behavioural coaching.
- This is most important during market turbulence, when you may feel the need to abandon your asset allocation and move to cash, for example.
- Despite market volatility, a balanced portfolio has done fairly well in Canada over the past several years, as

shown in the graph below. An advisor can help you select an appropriate asset allocation and help you stay committed to it through market ups and downs.

- To sum up, your financial advisor is there to counsel you, listen to your concerns and, essentially, guide you on the right path. Your advisor works with you to add value throughout the course of your relationship.

A balanced, diversified investor has fared well



Notes: Stocks are represented by MSCI Canada Total Return Index, and bonds are represented by Barclays Canadian Issues 300MM Index.
Sources: Data provided by Barclays Live and Thomson Reuters Datastream, as of April 1, 2015.

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