

How Do Financial Advisors Add Value?

Introduction

What is the role of a financial advisor? The landscape of financial services and advice has changed dramatically over the last few decades, as barriers to entry to investing have evaporated and individual investors can research, trade, and build portfolios all from their cell phones. How do advisors then add value when investors can do it themselves? The role of an advisor has thus changed from offering stock tips and placing trades to providing comprehensive services and advice. The focus used to be, and for some still is, on beating the market as the ultimate barometer for success. But there is more to an investor's financial goals than just outperforming year to year. For some, value is defined by achieving peace of mind to not worry about the daily ups and downs of the market, leaving a legacy, or providing for loved ones. A recent Vanguard study^[1] attempts to quantify the value that advisors bring. They estimate an annual 3% net return is added by working with a professional. While that number could be debated and varies based on the circumstance, when advisors take a comprehensive approach and act in clients' best interest, they can help investors achieve their personal definition of success.

Asset Allocation

Understanding your willingness and ability to take risk is critical to finding the optimal asset allocation, and it all starts with the financial plan. It is not enough to just look at your age and determine you should have a 60% stock/40% income portfolio. Each client is unique, and an advisor can recommend the best portfolio for you by understanding your cash flow needs, your retirement goals, and risk tolerance. Working together to build a portfolio that fits your needs, and that you feel comfortable with is one of the largest predictors of long-term success.

Cost-Effective Implementation

Investors have more options than ever when it comes to allocating their funds. Costs have come down significantly for mutual funds, and the emergence of ETFs has offered exposure to the market as low as 0.02%^[2]. However, there are still many high-cost mutual funds that charge in excess of 2% annually, front or backload expenses and 12b-1 fees. Working with an advisor can help you understand the cost-benefit analysis of investment options, as well as the best way to implement and keep transaction costs low. By investing primarily in individual securities and low-cost ETFs we analyze these options to make sure we are putting our clients in investments that will earn their fee.

Rebalancing

As life shifts and markets change, it is important to revisit your portfolio allocation ongoing. Is this allocation still meeting your long-term goals? Are you exposed to too much risk? In today's environment, many investors are overweight stocks as markets have risen dramatically, and may not realize how much risk they are taking on. At Evergreen we believe that it is best to rebalance a portfolio using a methodical approach based on the current market environment, not an automated process done each quarter. We can help you understand where you may be exposed and make a plan to adjust your portfolio in a tax and cost-efficient way.

Behavioral Coaching

Investing is an emotional process, and it is hard in today's world to shut out the noise from the ups and downs of the constant news cycle. Advisors can help maintain a long-term outlook and focus on the overall financial plan. Advisors help you to focus on what they can control, such as

efficient tax planning, cash flow management, and asset allocation. Above all, an advisor should be an advocate to help navigate through financial complexities.

Asset Location

Where you put your money can be as important as what you put your money in. Holding different types of securities in different types of accounts can impact your return in the long run, and the more types of accounts you have, the more complexity there can be. The classic example of asset location is municipal bonds that generate tax-free income. Advisors can help evaluate the tax-equivalent yield, and place these investments in taxable accounts while placing other income-generating securities in tax-deferred accounts.

Withdrawal Strategies

The order you withdraw money from your accounts can make a big difference from a tax perspective. We work with clients to create a customized approach based on each individual situation, and not a one-size-fits-all strategy. Having an integrated tax and investment team can help you understand how much should be withdrawn from each account, as well as which securities. The more types of accounts in various tax buckets, there is more complexity and potential value to add.

Estate & Tax Planning

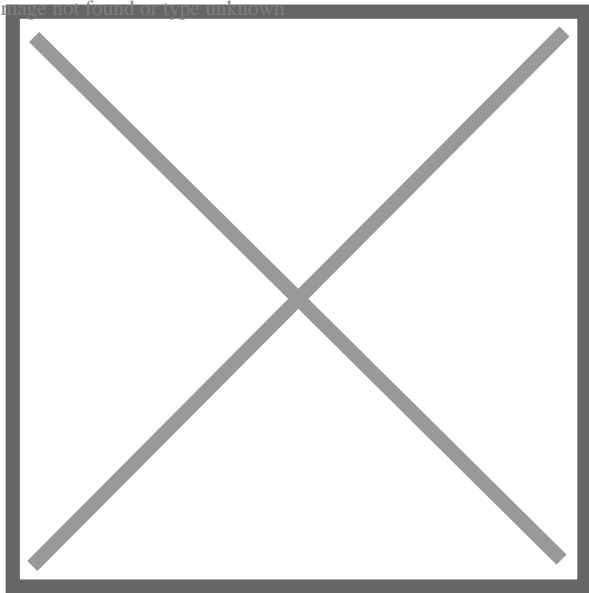
Proper estate and tax planning can be much more impactful in the long term than beating the market. Mistakes made can lead to assets being left to the incorrect beneficiaries, family conflict, increased taxes, and complicated probate. While financial planners don't write legal documents, they can help identify your goals, review documents, and show you the impact of decisions.

Having taxes and investments integrated together can create greater efficiencies, which is why we acquired Sterling Kuder back in 2020. In the last few years there has been multiple changes (or proposed changes) to the tax code, so tax and estate planning strategies set up five years ago could be already outdated. We believe offering tax filing as well as tax advice can help generate tax savings for our clients for years to come.

Conclusion

Ultimately, I think it may be impossible to truly quantify the value advisors add for clients, but I think Vanguard highlights the correct points. By creating a financial plan and updating it along the way as life changes, advisors can help keep clients on track, avoid costly mistakes, and ultimately achieve peace of mind that they can reach their goals. If you are interested in learning more about how Evergreen helps clients, reach out to info@evergreengavekal.com.

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[1] “Putting a value on your value: Quantifying Advisor’s Alpha”

https://advisors.vanguard.com/insights/article/IWE_ResPuttingAValueOnValue

[2] Morningstar U.S. Fund Fee Study <https://www.morningstar.com/lp/annual-us-fund-fee-study>