WHY ADVISORS DESERVE THEIR FEE

"You have to spend money to make money. So I bought myself a cabin cruiser, luxury sports car, and a giant screen plasma TV."

Clients need your help! When left to their own devices and an overabundance of information, (only some of which is useful) many investors can engage in questionable decision making. The comic above makes light of this concept, but reality isn't too far removed. Much of the value an advisor brings to the relationship extends far beyond investment returns and portfolio allocations. While it is not easy to quantify or show on a quarterly performance statement, advisors play a critical role in aiding clients throughout their financial lives. This includes navigating them through the emotional highs and lows of various market dynamics, facilitating the decisions required through various life stages, helping to determine what is most important in their lives and creating a roadmap for how to achieve their financial goals. In 2014 Vanguard further validated this concept in their report titled "Putting a value on your value: Quantifying Advisor's Alpha". The piece does an effective job illustrating how advisors can add significant value to clients' financial well-being by focusing on relationship oriented services and not simply returns.

We all know, when it comes to financial matters, clients can be their own worst enemy. Some of the more common mistakes clients make include:

- **Letting Emotions Drive Decision Making:** It is human nature to want to sell when markets are down and buy during periods of euphoria. When clients abandon their long-term strategy based on short term market fluctuations they are setting themselves up for serious disappointment.

- **<u>Trading Based on "The Latest" News:</u>** We live in a 24/7 news cycle where everyone is connected through their smart phones, computers, televisions, etc. Access to information has never been easier. Not all of this information is helpful though, and trying to react to the latest announcement is often futile. Most clients don't remember that if you are reading about it, it's already been priced into the markets.
- **<u>Not Understanding the Strategy or the Associated Fees:</u>** When a particular investment or area of the market does well, clients tend to follow the herd and want the next "sure thing". More often than not, however, there is very little understanding of the strategy or the underlying fees. Going into an investment based only on a short term track record is a recipe for disaster.
- **<u>Doing Nothing:</u>** With the myriad of investment decisions that clients can make, it is no surprise that many investors get overwhelmed and choose to do nothing. Unfortunately, inaction can be just as harmful as doing too much. Staying over or under invested, not being well diversified or simply not rebalancing can dramatically affect a client's financial health.
- **<u>Managing Money Without a Plan:</u>** Making money for the sake of making money is not a plan. Money, in and of itself, has no value. It does, however, give clients the ability to purchase goods and services that improve their own lives and the lives of their family. Having a deep understanding of how clients want to use their money during their lifetime and identifying what is important to them creates context around their financial well-being. It also gives them a roadmap for how to achieve their goals and ensures the important things remain a top priority.

With the proliferation of Robo investment offerings and various other inexpensive online advice tools, advisors are getting more and more questions about their fees and being asked to justify their charges. Additionally, given anemic global growth and fairly valued equities and bonds, it is very likely we are in store for a prolonged period of mid-single digit portfolio returns. Charging fees when returns are greater than 10% is far easier than when returns are flat or negative. While I agree it can create a challenge, it can also serve as an opportunity - an opportunity to truly differentiate your service model and educate your clients in exactly how you add value. Some effective ways to do this include:

- **<u>List Out All the Services you Provide</u>**: Present clients with an exhibit showing everything you do for them and why it's important. This sets expectations and can help clients refer prospects who need guidance in your areas of expertise.
- **<u>Describe Common Investor Mistakes</u>**: A big part of your value-add is steering clients away from common mistakes they can make without professional help
- **<u>Manage Toward Goals Rather Than Returns</u>**: It can be very useful to show clients how they are progressing towards their goals versus an arbitrary index. Keeping their attention on the important things in their lives (which they defined) will go a long way towards shielding outside noise and reinforcing your role as their coach/advisor.
- **<u>Focus on the Relationship:</u>** There is no substitute for a trusted and reliable resource. You can't put a price on an advisor who is an expert in their clients' financial lives, works tirelessly in their best interests and genuinely cares.

There will always be pressure to lower fees, but to the extent you can clearly define and demonstrate your value, clients will never second-guess their bill.