PRUDENTIAL
INVESTMENT MANAGERS

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What's the value of a financial adviser?

Let's face it: many of us are reluctant to use a financial adviser to help us with our investments because we are worried about how much they will charge. We wonder if their input is really worth the fees we're paying them – we want to know what their true value is.

At Prudential we've often been asked if it's possible to quantify the potential value that a financial adviser can add to their clients' investments. The answer, according to Vanguard Group, the world's largest unit trust provider with over US$5.1 trillion in assets, is about 3.0% p.a. – very significant value indeed. So if you're looking to start off 2019 in a positive way and give yourself the best chance of earning good returns after a difficult 2018 for South African financial markets, consider using a qualified financial adviser.

Vanguard undertook a study to quantify the value added to investors of best practice in wealth management. While recognising that many aspects of advice are qualitative and therefore difficult to quantify, their research** concluded that a financial adviser could add a potential total of "about 3%" p.a. in terms of net returns relative to the average client experience.

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What is interesting to note is that half of this – or 1.5% – was derived solely from **behavioural coaching, or guiding their clients in adhering to their personal financial plan.** The next largest factor was asset allocation decisions between taxable and tax-advantaged accounts, at between 0 - 0.75% p.a. Importantly, the Vanguard study found that value from behavioural coaching isn't added uniformly over time, but typically in large "chunks" every few years, as market cycles moved from downturns to upturns. Financial advisers can help manage their clients' expectations by reminding them about the "normal" cyclical or volatile nature of the markets, and also give them an appropriate long-term time horizon on which to evaluate their investment returns, measuring against a personalised long-term financial plan. They can help investors overcome their innate biases towards fear and greed in extreme conditions. For example, they can keep them from panicking and selling their investments in a market downturn, which would simply lock in losses and destroy their earlier hard-won gains.

So it turns out that the behavioural guidance provided by a financial adviser is more important (and valuable) than their "normal" role of suggesting the appropriate investments for your portfolio based on your individual circumstances. Their value lies in the ways their expertise can help clients avoid making mistakes (typically in extreme times). Prudential has long advocated the benefits of using a financial adviser, and the data on the actual investor experience uncovered by Vanguard show why we do.

For more information please contact your financial adviser. Alternatively, feel free to call our client services centre on **0860 105 775** or email us at query@prudential.co.za. To find a certified financial adviser in your area, please visit the Financial Planning Institute of South Africa.

**Francis M. Kinniry Jr, Colleen M. Jaconetti, Michael A. DiJoseph and Yan Zilbering, 2014, “Putting a value on your value: Quantifying Vanguard Advisor’s Alpha”, Vanguard Group, Valley Forge, PA.

https://www.prudential.co.za/insights/articlesreleases/what-s-the-value-of-a-financial-adviser/