PRUDENTIAL
INVESTMENT MANAGERS

Prudential Investment Managers

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How a financial adviser can add real value

It makes sense to use a financial adviser. After all, with an adviser's help and guidance you'll be able to avoid the pitfalls of making investment decisions on your own – like, for example, acting impulsively, ignoring the importance of diversification, and getting caught up in short-term thinking like blowing your retirement savings when you change jobs. A financial adviser can also help you with the crucial task of creating – and sticking to – a balanced, comprehensive financial plan for your investments.

But nothing good comes for nothing, and of course financial advisers charge fees for their services. Knowing that investing is all about returns after fees, it's worth asking the question: can a financial adviser add more value than their cost?

A string of studies suggest that the answer to that question is "yes". In 2014, US research found that financial planners help individual investors generate about 1.59% excess return each year, creating about 29% higher retirement income wealth. Then in 2016, a separate study in the UK revealed that a good financial adviser can add about 3% to your net investment returns every year.

Add it up: whether it's 3%, 1.59% or even 1% every year, that value adds up to a substantial sum over the course of your investing lifetime. It also suggests that good financial advisers can, in effect, pay for themselves.

So how do they do this? By forging a long-term partnership with you, your financial adviser will work to achieve your personal investment goals, encouraging consistency and time in the market, and helping you to choose products that suit your needs. Your adviser will also have the perspective to see your investments over the long term. Many people have a short-term planning horizon and a focus on day-to-day expenses. (That's only natural: it's difficult to plan for 30 years from now when you're battling to keep your daily household budget together) As an objective outsider, your financial adviser will be able to look past that, see the bigger picture of your investment and retirement goals, and help you formulate a financial plan to meet those goals. While you might make decisions based on emotion, your adviser will be cold, calculating and unmoved by scary headlines or by sudden dips or jumps in the market.

Over and above that, a qualified financial adviser can help you to work with complex tax issues, understand confusing financial jargon, and navigate the often-tricky waters of changing regulations and tax laws. They will also add value by creating a well-balanced, diversified portfolio that takes your risk profile and time horizon into consideration – and they'll check it regularly to ensure it has the appropriate asset allocation.

It's important to remember, though, that not all financial advisers are created equal. Sure, you could get your advice from a clued-up friend or a relative who keeps their ear to the ground… but an accredited, qualified financial adviser is bound by laws and codes of conduct, and by bodies like the Financial Planning Institute of Southern Africa that require them to be impartial and informed, and to ensure that you're treated fairly.

If you need more information please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za

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