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Is a financial adviser really worth the cost?

This week is Global Financial Planning Week, a time when the merits of financial planning are meant to be highlighted and debated. With investment returns under pressure in South Africa in the last few years, some may be thinking that they can forego the advice of financial advisers to boost their own returns. But is that a good idea? Is their input really worth the fees they charge?

We believe the answer is a most certainly "**yes**", and we're not the only ones. Vanguard Group, one of the world's largest unit trust providers, conducted a study that puts into context just how much value a good financial adviser can add to your investment. Here we take a closer look at the Vanguard study to help demonstrate the merits of using a good financial adviser.

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While recognising that many aspects of advice are qualitative and therefore difficult to quantify, Vanguard's 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.

What is interesting is that half of this was derived solely from behavioural coaching or through helping their clients stick to their personal financial plan. The next largest factor was asset allocation decisions between taxable and tax-advantaged investments, at between 0-0.75% p.a. Importantly, the study found that value from behavioural coaching wasn’t added uniformly over time, but typically in large “chunks” every few years, as markets moved between cycles.

Financial advisers helped manage their clients’ expectations by reminding them about the “normal” cyclical or volatile nature of markets and gave them appropriate long-term time horizons upon which to evaluate their investment returns, measuring against a personalised long-term financial plan. They helped investors overcome their innate biases towards fear and greed in extreme conditions. For example, panicking and selling their investments in a market downturn, which would simply lock in losses and destroy their earlier hard-won gains.

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. Their value lies in the ways their expertise can help clients avoid making mistakes (typically in extreme times).

In short, using a financial adviser is not just about deciding how and where to allocate your investment. Instead, it’s about establishing a partnership with someone who you trust to give you the right advice even when it’s not necessarily the advice that you want to hear. It can be difficult to remove emotions from your investment decisions, but as the Vanguard study shows, it is precisely in times like these that having the right adviser by your side can make all the difference.

For more information, speak to your financial adviser or call our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.

***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.*