

Vanguard Research Quantifies the Value of Advice

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Advisors who follow best practices can add up to about 3% in net returns

VALLEY FORGE, PA (March 10, 2014)—Financial advisors can add up to about 3% in net returns for their clients using Vanguard Advisor's Alpha™, a wealth management framework that focuses on portfolio construction, behavioral coaching, asset location, and other relationship-oriented services, according to a paper released today by Vanguard.

Putting a value on your value: Quantifying Vanguard Advisor's Alpha examines the individual best practices within the Advisor's Alpha framework and quantifies the value advisors can add relative to others who are not employing such practices.

"We believe advisors have the opportunity to meaningfully improve investor outcomes, and we are pleased to be able to provide advisors a mechanism to demonstrate their value to clients in a quantifiable manner," said Francis Kinniry Jr., one of the study's authors and a principal in Vanguard's Investment Strategy Group. "As the industry continues to evolve from a commission-based to a fee-based model, advisors who successfully explain their value have more time to serve clients, leading to increased client satisfaction and retention."

Calculating how much an advisor can add in net returns is based largely on their approach to five wealth management principles. Although the exact amount may vary depending on client circumstances and implementation, an advisor can add value by:

Being an effective behavioral coach. Helping clients maintain a long-term perspective and a disciplined approach is arguably one of the most important elements of financial advice. (Potential value add: up to 1.50%.)

Applying an asset location strategy. The allocation of assets between taxable and tax-advantaged accounts is one tool an advisor can employ that can add value each year. (Potential value add: from 0% to 0.75%.)

Employing cost-effective investments. This critical component of every advisor's tool kit is based on simple math: Gross return less costs equals net return. (Potential value add: up to 0.45%.)

Maintaining the proper allocation through rebalancing. Over time, as its investments produce various returns, a portfolio will likely drift from its target allocation. An advisor can add value by ensuring the portfolio's risk/return characteristics stay consistent with a client's preferences. (Potential value add: up to 0.35%.)

Implementing a spending strategy. As the retiree population grows, an advisor can help clients make important

decisions about how to spend from their portfolios. (Potential value add: up to 0.70%.)

How an advisor approaches two additional principles, asset allocation and total return versus income investing, can also add value, but are too unique to each investor to quantify.

Vanguard's Advisor's Alpha framework incorporates all of these principles, making it possible for advisors to add up to about 3% in net returns for their clients. This figure should not be viewed as an annual add, however. Vanguard's research emphasizes that it is more likely to be intermittent, as some of the most significant opportunities to add value occur during periods of market duress or euphoria that tempt clients to abandon their well-thought-out investment plans.

In such circumstances, the advisor may have the opportunity to add tens of percentage points, rather than merely basis points. Although this wealth creation will not show up on any client statement, it is real and represents the difference in clients' performance if they stay invested according to their plan as opposed to abandoning it.

About Vanguard

Vanguard, headquartered in Valley Forge, Pennsylvania, is one of the world's largest investment management companies and a leading provider of company-sponsored retirement plan services. Vanguard manages more than \$2.53 trillion in U.S. mutual fund assets, including \$346 billion in ETF assets. The firm offers more than 160 funds to U.S. investors and more than 100 additional funds in non-U.S. markets. For more information, visit vanguard.com.

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All asset figures are as of February 28, 2014, unless otherwise noted.

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