Russell Investments

Why do I need financial advice?

ONGOING GUIDANCE AND ADVICE FOR LIFE'S MAJOR MOMENTS

A RELATIONSHIP WITH YOUR ADVISER, THAT PROVIDES YOU WITH IN-DEPTH UNDERSTANDING OF YOUR FINANCIAL AND PERSONAL SITUATION AND ONGOING GUIDANCE AND ADVICE FOR LIFE'S MAJOR MOMENTS, CAN BE ONE OF YOUR BEST INVESTMENTS.

Wealth planning is one of the most important services an adviser can provide, and it requires an in-depth understanding of an individual's entire personal and financial situation to help ensure you get it right. Professional guidance to uncover and comprehend what's most important to you takes time and knowledge.

WHY WORK WITH AN ADVISER?

With a wealth of information at our fingertips, you may think you understand the markets enough to invest for yourself or that getting a financial professional to manage your assets is expensive. However, investing is challenging to say the least, and emotional responses in periods of volatility can undo years of past or future success.

Advisers can assist with interpreting the headlines. What is hype vs what do you really need to know and what, if anything, do you need to do? it's this expert guidance that can create value when it is needed most. We would like to demonstrate that the services an adviser provides can be more than simply selecting investment products for you. Investment advisers can assist you in a full 360-degree spectrum of wealth planning, from investments, to retirement and estate planning, as well as guidance on taxation, in order to help you work toward your goals. In addition to specific services, advisers can provide education on investing principles and behavioural finance coaching.

A Financial Adviser is similar to a personal trainer

In your sessions with a Personal Trainer, they will build a program of exercises, selecting the most appropriate exercises for you depending on:

-What you are trying to achieve (weight loss, improved fitness, injury recovery)

-What needs to be tailored for your personal circumstances (previous injuries, what equipment is available, your age and health circumstances)

However, the added benefits of a personal trainer are that they also provide broader education on how and when to exercise, nutritional insights, how to manage injuries, best techniques and why.

A personal trainer increases the level of objective discipline in sticking to your goals compared to if you were on your own. They can keep someone accountable to their plan, how to respond to any short-term set-backs and how to stay on track and maximise your chance of achieving your long term goals. They also provide the personal interaction that so many of us need to ensure that an expert is there and ensuring you are on track, not making any mistakes, celebrating short term wins and your long term success!

As background, Russell Investments has been producing a report in the US since 2013 – The value of advice. Over the past 20 years, we've worked with top advisers around the world including the US, Canada, UK, and Australia. The study is based on our 20 years of experience coaching advisers to make their practices more sustainable and to help build deeper relationships with their clients. Over time the study has evolved to reflect the changes in the industry, new competitive forces such as robo-advice and the capital market environment.

We make reference to the study in this report and discuss some of the key assumptions it makes.

1. Advisers can help you avoid common mistakes caused by human behaviour.

Investors are human. Humans make mistakes. People tend to let emotions and other human tendencies get in the way of their financial goals. Ultimately, investing like an emotional human may actually cost you money. You may ask - what is it about being human that can get in the way of achieving your goals?

› *Your tendency to buy high and sell low (Emotional investing)*

Typically, when the market is going up we want to buy. When the market is going down we want to sell. This happens because a positive perception of an investment or market can lead investors to feel they have a higher return and lower risk than they actually do, while a negative feeling can lead to predictions of lower returns and higher risk. Put another way, when scared, we run away and when we're not scared, we may become too confident.

› *Taking your investment cues based on others' fears and goals (Social investing)*

Family, friends, co-workers, social media and the news can influence an investor to make decisions based on the emotions and situations of others, not their own goals.

› *Allowing behaviour patterns make you lose sight of your goals (Ego investing)*

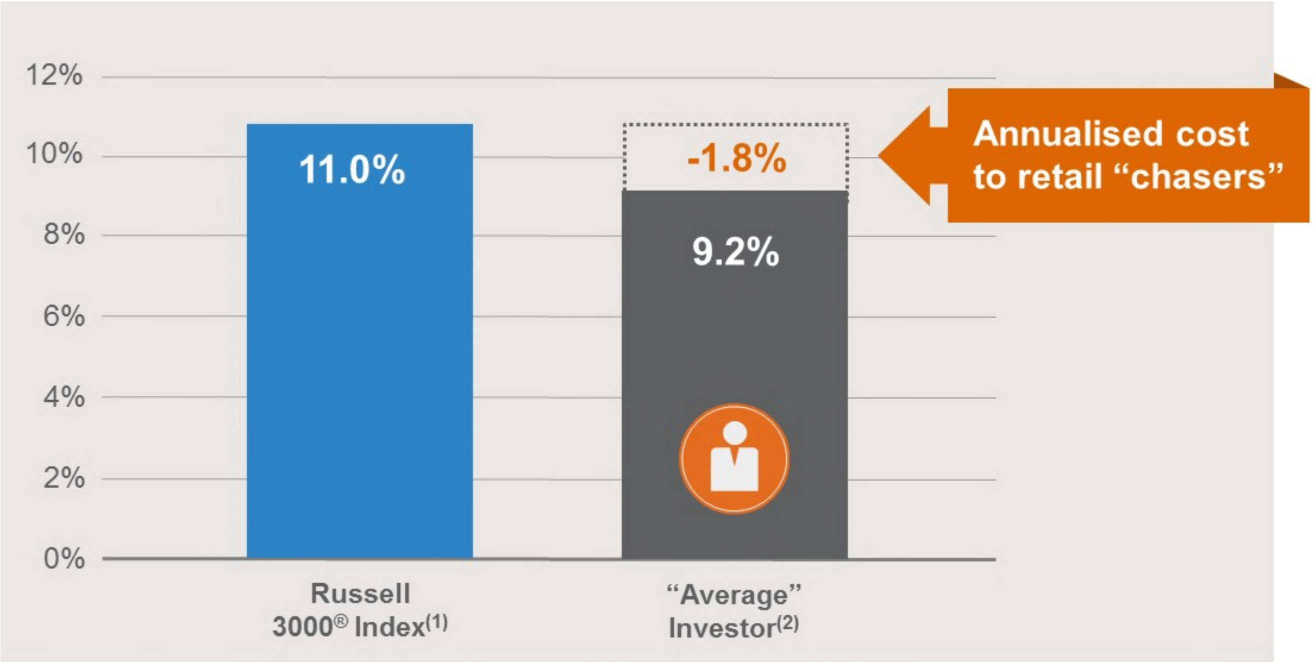
Many investors don't heed their own advice. An investment professional can help you discover how much cash you need on hand to provide for your lifestyle and the lifestyle of your dependents against potential market downturns over the next few years. At the same time, an adviser may help you take advantage of investment opportunities with the rest of your wealth. Having professional advice may allow you to maximise the potential return of your wealth rather than investing it with fear. Knowing what an investor needs to do and doing it can be very different.

Based on our study (see table below illustrating this point), the average investor's inclination to chase past performance has cost them 1.8% annually in the 34-year period from 1984-2017.[1] Therefore, an adviser's ability to help clients stick to their long-term financial plan and skirt irrational, emotional decisions adds this value.

[1] "Average" US equity investor is based on general cash-flow trends as measured by the ICI compared to the market's overall performance.US mutual fund data was used as robust global or Australian historical data is not currently available.

The high cost of investor behaviour

(1984-2017)



(1) BNY Mellon Analytical Services, Russell 3000® Index annualized return from January 1, 1984 to December 31, 2017.

(2) Russell Investment Group & Investment Company Institute (ICI). Return was calculated by deriving the internal rate of return (IRR) based on ICI monthly fund flow data which was compared to the rate of return if invested in the securities of the Russell 3000® Index and held without alteration from January 1, 1984 to December 31, 2017. This seeks to illustrate how regularly increasing or decreasing equity exposure based on the current market trends can sacrifice even market like returns.

Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

This seeks to illustrate how regularly increasing or decreasing equity exposure based on the current market trends can sacrifice even market-like returns.

The bottom line... We believe advisers can play a critical role in helping investors avoid common behavioural tendencies and may potentially help their clients achieve better portfolio returns than those investors making decisions without professional guidance.

2. An adviser can provide a more tax-aware investment approach

Managing your tax affairs can be complicated and tedious at the best of times. However, an adviser can assist clients to make more tax aware decisions in managing someone's financial position.

For example, superannuation is a tax advantaged environment for everyone. However, a financial adviser may provide guidance on choosing the appropriate tax-aware solutions and strategies that may improve your overall financial outcome.

Tax-aware advisers may potentially add value for their clients by:

- Considering investment solutions that actively implement tax-aware strategies such as lower turnover styles, tax-minimisation overlays and centralised portfolio management
- Tax advice through superannuation contribution strategies (salary sacrifice and transition to retirement) and reinvesting tax savings
- Insurance premium – identifying tax deduction benefits in super
- Optimising tax for non-superannuation assets and managing 'tax surprises' as regulatory changes occur (e.g. recent superannuation legislative changes)

By reference to our study, and the above considerations we estimate that the value added may be around 1%, including at least the sum of:

- Tax benefits achieved from tax-aware investment solutions
- Re-invested tax savings from salary sacrifice pre and post superannuation contributions

3. Your time is valuable. Don't underestimate how much time creating and maintaining a disciplined financial plan may take.

Many people identify as being time-poor, and as a result people are outsourcing more and more of their personal needs. It could be having a house cleaner, dog walker, home delivered groceries – whatever it might be to save time on the things we don't enjoy, and create more time to do what is important to us. So why not consider your Financial Adviser, as not only delivering you investment value – but also giving you back more time in your life. This can be in two ways.

a) The financial administration burden – quantify YOUR time saved

A financial adviser may provide value in creating a financial plan in less time (and with more expertise) than most investors could do on their own. Beyond the creation of a plan, think about the time you may save by working with an experienced professional to help you monitor and make recommended adjustments to your investments, ongoing savings and contributions and ensure you have the right insurance in place.

A financial plan is a key element in helping investors identify and reach their goals. But there is a lot of research and knowledge that goes on behind the scenes. Consider the time taken to:

	How many hours would this take you?
Identifying your goals, circumstances and preferences - what are your personal goals? How do you translate that into financial goals?	
Centralising and evaluating your overall financial position - understanding your current wealth position including superannuation accounts, insurance, personal or business bank accounts and mortgages, insurances, Centrelink needs. You may have offshore super or have unique family circumstances to consider.	
Modelling your retirement position - based on your current balance, income, age and what your retirement goals are, identify whether you are on track or what you need to do to be on track. Whether you are 22 or 82, everyone can benefit from retirement advice.	
Reviewing your current budget and savings plans	
Knowing what investment, platform and insurance solutions are out there - There are thousands of investment solutions available to choose from Advisers have access to specialist tools to evaluate and identify which of those is best for your needs.	
Documenting a plan and managing your financial paperwork - delivering a consolidated plan report of what you need to know and what, if anything, you need to do.	
Implementing a plan - this is the time taken to fill in application forms to set-up investment portfolios, apply for insurance, manage the follow-up paper work and other administration needs.	
Reviewing and tracking to your plan - once you have a plan, you need to ensure that what you put down in the plan is still relevant over	

time. Have any of your circumstances changed, are you still in the right investments, do you need to save more, increase your insurance, etc?	
Total Hours:	-

NOTE: Always get a detailed list of what services may or may not be included in the fee you pay.

Consider the hours it would take you not only to take these steps, but also the knowledge you would need to have to do it successfully. And that is just coming up with and managing the plan.

While we don't like to consider what could go wrong, what happens in the event you need to claim on your insurance, or you go through a redundancy or a family issue that changes your financial circumstances? Advisers can take much of the burden in these times of crisis allowing you to focus on the things that are important to you.

Making the decision to hire an adviser to help with your financial planning is important. When it comes time to decide whether to hire a professional, ask yourself - do I have the time, skill, inclination, or finances to do it all on my own?

b) The "Peace of Mind factor"

It is hard to put a number on this, but there is also the "Peace of Mind" factor that an adviser can provide you and your family. The first part is assisting in identifying what your goals are. The second part is knowing that you are doing everything you can to make the most out of your financial position and maximise the financial security for you and your family.

For you this might be less sleepless nights, finally getting the will or super consolidation done that you have meaning to or having the knowledge that you are taking the right actions. It might be the comfort in knowing what your total financial position is, and what financial steps you need to take to achieve your personal goals.

Trying to do this on your own can be challenging and daunting. This is different for everyone, but an adviser can help remove that doubt of "I don't know what I don't know", and give you confidence and security that you have the best preparation possible for and your family.

What about limited, automated or robo-advice?

There are other advice services out there, often technology driven. While this can be a tool to provide advice on a single part of your financial circumstances, it is inherently limited in what it can offer.

For example, robo-advice may provide advice on your Superannuation, but it is not taking into account what you own outside of super, other investments, debts, health or family circumstances and therefore is not considered holistic advice or providing a full picture of your financial position. It is also only as good as the technology behind it. The value of a personal relationship in articulating your unique goals, keeping you disciplined, adapting to changes in your whole life and building a longer term trust relationship can be the true value of having an adviser.

CONCLUSION: What is the price you're paying and what is the value you're getting from your adviser?

A financial adviser can be important in helping you manage your money and can bring value to you in three key ways:

1. Steering you away from making behavioural mistakes like chasing performance
2. Providing a more tax-aware investment approach
3. Building complete financial plans that save you time and give you peace of mind, knowing a professional has thoroughly considered, implemented and is actively managing to your personal goals.

When you consider the value of an adviser helping you avoid common behavioural mistakes, the cost of producing and maintaining a financial plan, and the benefits of investing in a manner that increases your tax awareness, we estimate an adviser's services could be worth around 3%[2] to you. Finding an adviser that can help you build and maintain a strategy for long-term investing has the potential to provide more than just financial returns and may pay off in more ways than you thought of.

"Price is what you pay. Value is what you get." *Warren Buffet*

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[2] This report has not been prepared having regard to any investors investment objectives, financial situations or needs.