# VALUE

## 2020 Value of an Adviser Study

How can financial advisers amplify their value?

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## Executive summary

At Russell Investments, we focus on the value of advisers.

Our annual report looks holistically at the real, measurable value advisers deliver for their clients, in their portfolios, and in vital services advisers provide. We developed a formula to calculate the full value equation of an adviser's services.

This year, the data has shown a particular uptick in the value that advisers deliver through behavioural coaching. The topic is highly relevant to the increased volatility we've seen in markets in 2020. In fact, just this single category - of helping investors avoid behavioural mistakes - more than offsets the 1% fee advisers typically charge for their services. Despite this fact, there are still advisers who may be challenged to communicate the material value they deliver. So, let's look at the full value equation of an adviser's services. The data clearly shows that the value is much greater than the fee.

*In 2020, we believe the value of an adviser in EMEA is calculated at 3.57%.*

## Let's simplify to amplify

Downward fee pressure seems constant. It comes from regulators, robo-advisers, and even from demanding clients. Fees are top-of-mind for many investors. With the rise of passive solutions, it doesn't seem hard to throw together a winning portfolio. This view completely overlooks the fact that standard investment selection is just one part of an adviser's value. But often advisers struggle to clearly articulate that the value their clients can derive materially exceeds the 1% fee they typically charge. Let's make that easier. We've run the data to measure the value advisers deliver. Then, we've created an easy-to-remember formula to help advisers communicate their value.

## The ABCs of adviser value

The value of an adviser study is meant to quantify the contribution the technical and emotional guidance a trusted human adviser can offer. The formula we created is designed to categorise the areas of value creation in a repeatable, memorable way:

**A** — **Annual** rebalancing of investment portfolios

+

**B** — **Behavioural** mistakes individual investors typically make

+

**C** — **Cost** of basic investment-only management

+

**P** — **Planning** costs & ancillary services

**>**

is greater than

**Your fee**

the annual advisory fee you charge clients

A | B | C | P

0.10%

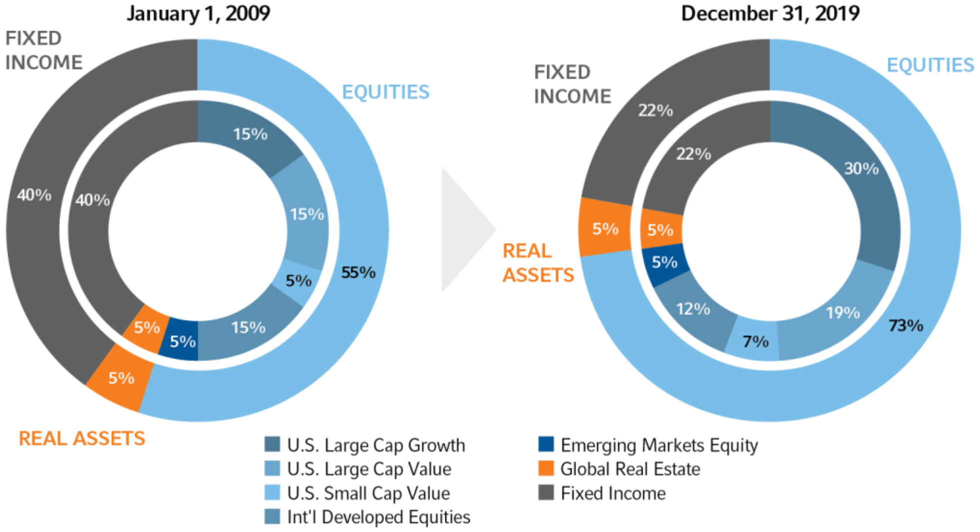
# A is for Annual rebalancing = 0.10%

When markets are rising calmly, it can be easy to underestimate the importance of disciplined rebalancing. But when volatility strikes, this annual process gets the attention it deserves.

*Avoiding unnecessary risk exposure*. As this chart demonstrates, a hypothetical balanced index portfolio that has not been rebalanced would look more like a growth portfolio and expose the investor to risk they didn't agree to.

**When balanced becomes the new growth**

The potential result of an un-rebalanced portfolio




The drift was most pronounced among total U.S. Equity and Fixed Income allocations.

U.S. Equity Allocation ↑ 21%

Fixed Income Allocation ↓ -18%

Source: Hypothetical analysis provided in the chart & table above for illustrative purposes only. Source for both chart & table: U.S. Large Cap Growth: Russell 1000 Growth, U.S. Large Cap Value: Russell 1000 Value, U.S. Small Cap: Russell 2000, International Developed Equities: MSCI World ex USA, Emerging Markets Equity: MSCI EM, Global Real Estate: FTSE EPRA NAREIT Developed, and Fixed Income: Bloomberg Barclays U.S. Aggregate Bond.

| A | B | C | P |
|---|---|---|---|
| 0.10% | | | |

*Additional returns.* Regular rebalancing has the potential to add 0.32% in additional returns and 0.4% in risk mitigation.

**Hypothetical rebalancing comparison of $500,000**[1]
March 2005–December 2019

| | | BUY AND HOLD | ANNUAL REBALANCING |
|---|---|---|---|
| **0.32% =** | **Annualised return** | **6.73%** | **7.05%** |
| | Standard deviation | 9.3% | 8.9% |
| | Ending value | $1.3 million | $1.4 million |
| | | Reduction in portfolio volatility | -0.4% |

[1]For illustrative purposes only. Not meant to represent any actual investment.
Standard deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The greater the degree of dispersion, the greater the risk. See disclosure details on methodology and criteria.
Source Portfolio: Diversified portfolio consists of 30% U.S. large cap, 5% U.S. small cap, 15% non-U.S. developed, 5% emerging markets, 5% REITs, and 40% fixed income. Returns are based on the following indices: U.S. large cap = Russell 1000® Index; U.S. small cap = Russell 2000® Index; non-U.S. developed = MSCI EAFE Index; emerging markets = MSCI Emerging Markets Index; REITS = FTSE EPRA/NAREIT Developed Index; and fixed income = Bloomberg Barclays U.S. Aggregate Bond Index. Start date corresponds to index start dates (January 1988 is the inception of the MSCI Emerging Markets Index).

While 0.32% may not seem like much, compounded over a multi-year period, it can quickly add up. In the hypothetical example above, that's a $100,000 difference.

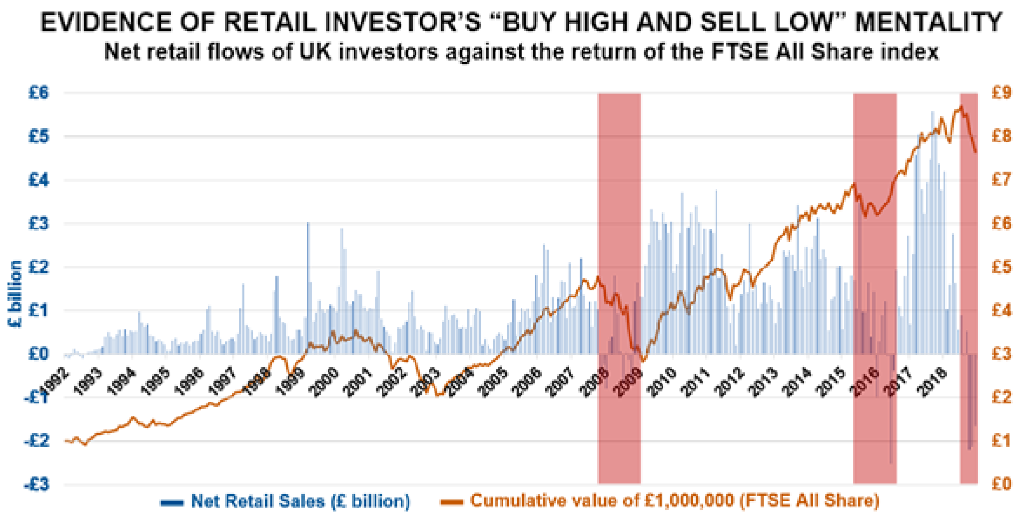
**Put it in writing. Provide a written statement to your clients, including:**

- The benefits of a systematic rebalancing policy
- Your strategic rebalancing policy
- How frequently you rebalance their portfolios
- Your approach to strategic rebalancing policy during periods of market volatility


## B is for Behavioural mistakes = 2.23%

Behavioural mistakes cost real money. They can happen at any point in the market cycle. That's why we believe behaviour coaching is one of the most vital parts of the adviser job description. Furthermore, when it comes to delivering value, avoiding behavioural mistakes may be the most significant contributor to total value. Left to their own devices, many investors buy high and sell low.

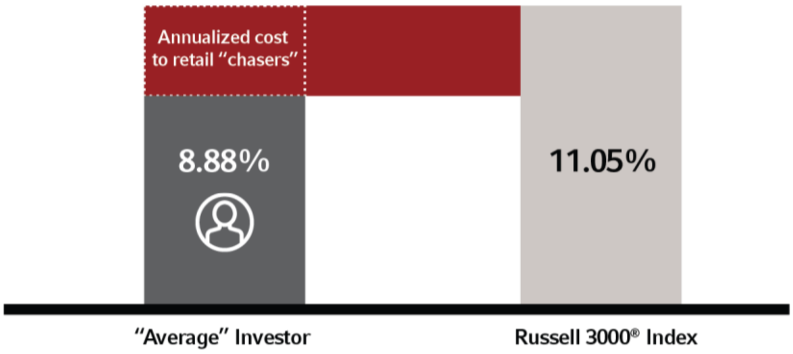
The chart below shows that with history as our guide, we can see that investors have made a lot of human mistakes. On this chart, the bars above the horizontal line represent net inflows of investor money into the UK stock market; the bars below the horizontal line indicate net outflows of investor money from the UK stock market.




Sources: Morningstar and the Investment Association, 31 December 2018. Monthly net sales by UK domiciled investors in the UK specific funds including passive and active funds, against the FTSE All Share Index. Indexes are not managed and may not be invested in directly.

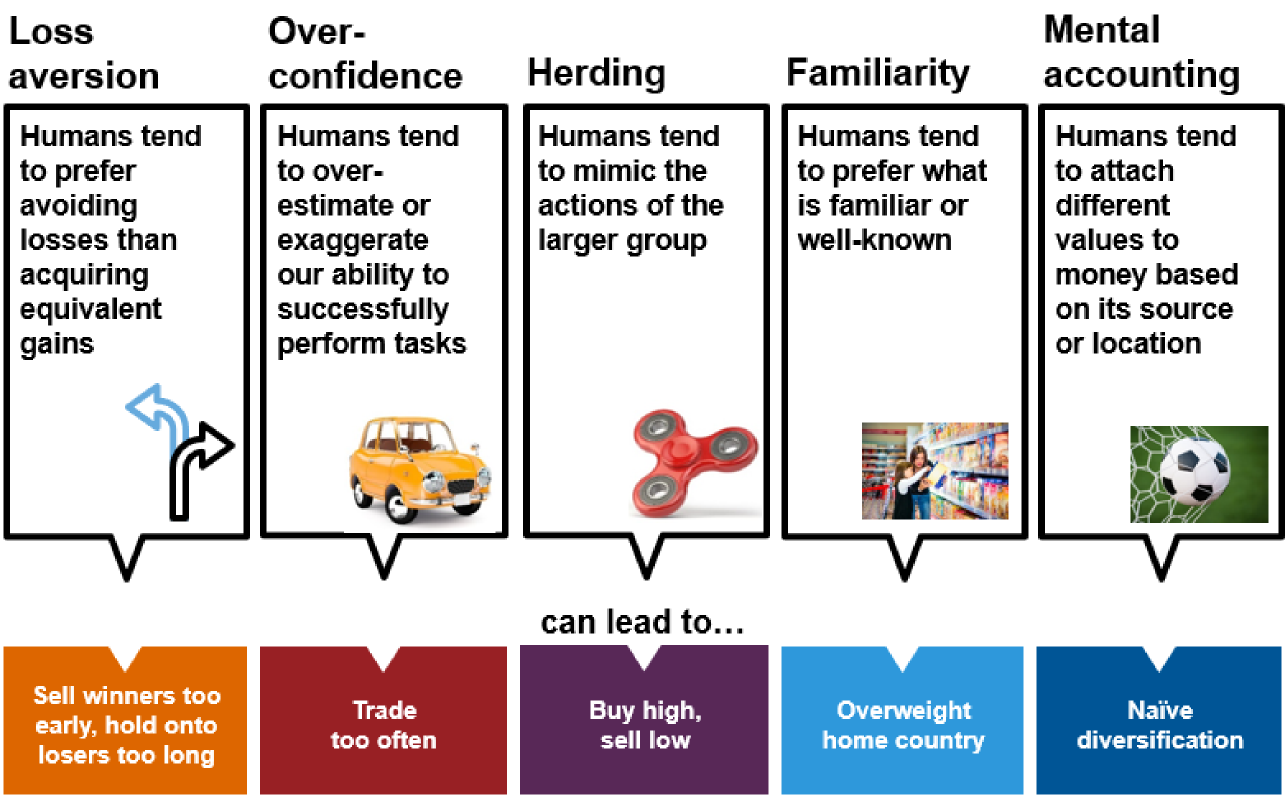

*No one likes to consider themselves to be an average investor.* But the numbers don't lie. By working with an adviser, investors can address this issue. We believe an adviser's ability to help clients stick to their long-term financial plan and skirt irrational, emotional decisions add this value of 2.23%.

**The high cost of investor behaviour**
1984 – 2019




Source: "Average" Investor – Russell Investment Group, Thomson Reuters DataStream. 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 Russell 3000® Index and held without alteration from 1 January, 1984 to 31 December, 2019. 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.


**Manage the conversation**
Using behavioural finance to help avoid the pitfalls of humanity




## C is for Cost of investment-only management = 0.33%

What would investment management cost if a robo-adviser did it? You can't get much more bare bones than that. But we understand the importance of quantifying this aspect of an adviser's role.

Robo-advisers that deliver investment-only management and no financial plan, ongoing service, or guidance for annual statements, online access, and a phone number to call in case of questions. Robos, by definition, are data driven. We believe in data and the value of data. But data doesn't always tell you the entire picture, especially when it comes to humans. The business model of robos is not designed to deliver the personalised guidance that many investors require to stay on course during tough times.

**The building blocks of basic investment-only management**


Asset Allocation


Security Selection


Portfolio Construction

**Robos have learned from us. What can we learn from them?**

- How can we embrace technology to enhance the online planning process?
- How can I improve my online presence to stay connected with clients and show our value?
- Which processes would improve with technology? Client experience? Inventory strategies?


## P is for Planning = 0.91%

Outcomes matter. Advisers understand that. But it's worth stating that financial advisers add value by doing the hard work of shepherding a strategy from origination to the final outcome investors desire. That means building and regularly updating custom financial plans, conducting regular portfolio reviews, and offering a long list of valuable, often overlooked ancillary services. These might include university funding, investment and cashflow analysis, retirement income planning, assistance with annual tax return preparation and one-off custom requests from clients.

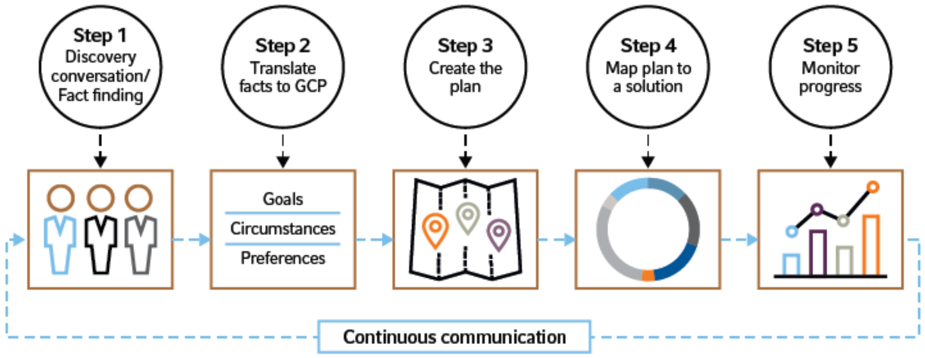
### How much does the financial planning component cost nowadays?

As per an article in the Financial Times, a standard retirement plan, transferring a £100,000 pension with guaranteed annuity rates, will cost approximately £2,000 in fees.[1]

True wealth management is also an intentional, valuable process. It begins with a deep discovery conversation that requires the professional guidance of an adviser. It is then followed by translating that conversation into goals, circumstances and preferences. The framework is wrapped in a cycle of continuous communication.

**Elevate your value: Delivering true wealth management is incredibly valuable**

Don't give it away




For illustrative purposes only.

[1]The Financial Times "Eight steps to choosing a financial adviser" 23 March 2019 article: https://www.ft.com/content/0f18ea78-293f-11e8-b27e-cc62a39d57a0


## What is the value of typical ancillary services an adviser and their team offer?

Over our decades of practice management, too often we have found that advisers and their team consistently underestimate the value of the ancillary services they provide to clients, such as addressing insurance needs, custom requests and questions.

These additional services can quickly consume 20, 50, or 100 hours each year. If the adviser is providing these ancillary services, we estimate that the total planning fee goes up by an additional 0.20%.

**Planning is complex and varied**


## Map your client engagement

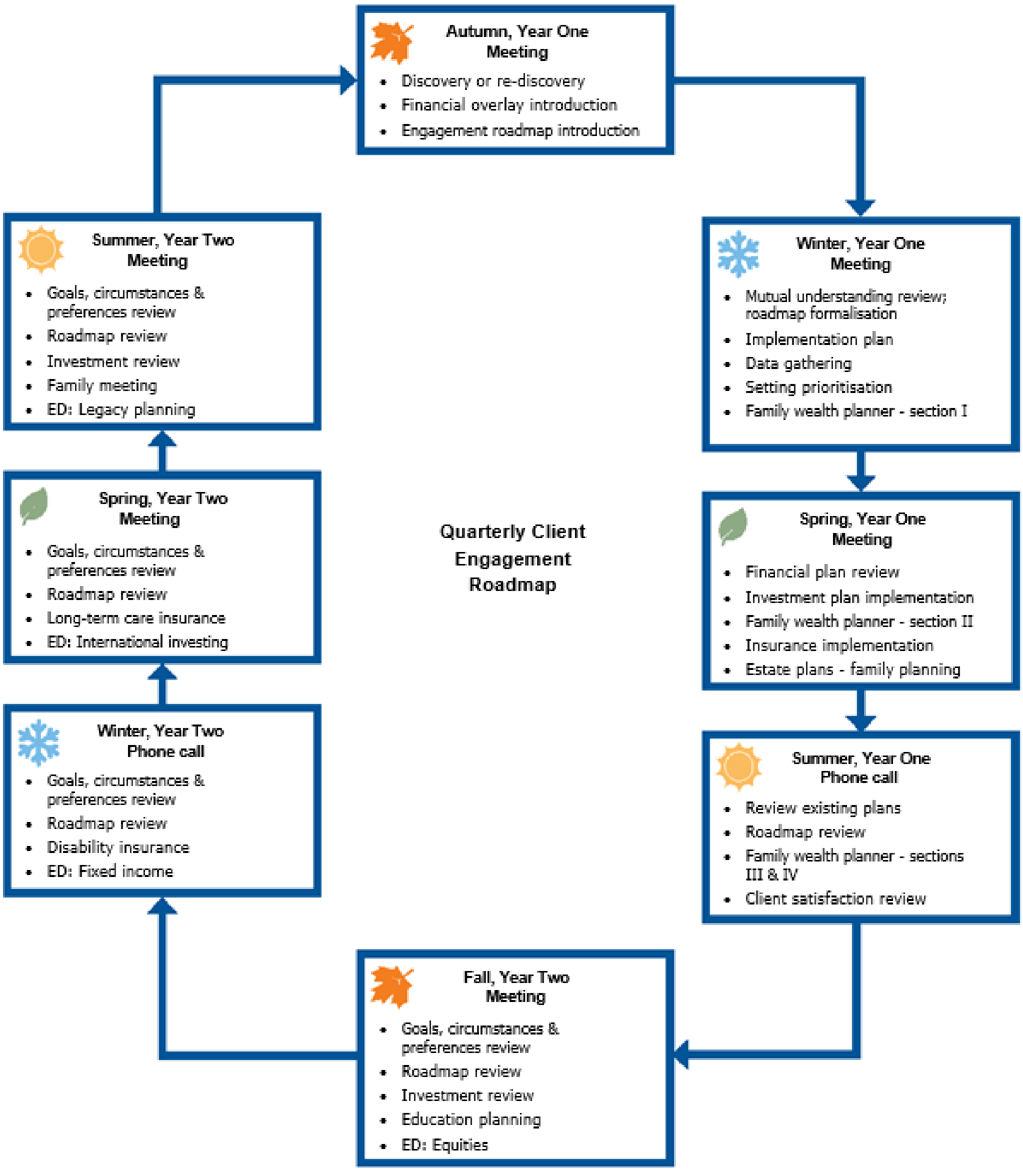
As an adviser, one of the primary ways you deliver value is by helping your clients stay focused and on course. It's not easy. Despite your best efforts, clients sometimes struggle to remember the plan you built together. A solution to this common problem is to provide them with a Client Engagement Roadmap. The Client Engagement Roadmap positions you as the coordinator of your clients' multi-faceted financial affairs. It also helps your client articulate and then document their goals and objectives - a critical part of the process. Ask your Russell Investments representative for access to this easy-to-use tool and value communication materials approved for client use.

**Making a commitment to your clients –and in return having some expectations from clients, too.**

| WHAT YOU CAN EXPECT FROM US | WHAT WE EXPECT FROM OUR CLIENTS |
|---|---|
| • Transparency into our partnership process, values and priorities | • Openness about your current situation, goals, circumstances, preferences, asset location, and other relevant wealth management information |
| • Comprehensive financial planning process - creating, monitoring, and updating your custom financial plan | • Proactive, two-way communication as your situation changes |
| • Regular, ongoing, and proactive interactions with our team to help guide you through the emotions that markets, and investing, may trigger | • At least two face-to-face updates/meetings per year |
| • On-going asset allocation, investment selection, customised portfolio design and construction<br>• Proactive rebalancing of portfolios | • Feedback on our client events and educational workshops throughout the year |
| • Help you build a team of experts to meet all your wealth management needs (trust and estate attorney, insurance, banking, business succession, etc.) | • Introductions to individuals in your professional and personal networks for whom you believe we can add value |


**Frame conversations to the client's journey and goals**

Help clients see their whole financial picture




## The bottom line

With a data-driven approach, this report is designed to quantify the value we believe a trusted human financial adviser can offer, through both technical and emotional guidance.

**3.57% > 1%**

In 2020, we believe advisers delivering services and value above and beyond investment-only advice have an estimated contributory value of 3.57%. Compare that to the 1% advisers typically charge in fees.

This value is a meaningful differentiator in a time of demanding investors, regulatory scrutiny and downward fee pressure. And by demonstrating to clients how their value greatly exceeds the fees charged, advisers can improve client satisfaction and arm their clients to advocate on their behalf.

| | | | | |
|---|---|---|---|---|
| A | **Annual** rebalancing of investment portfolios | 0.10% | | |
| + | | + | | |
| B | **Behavioural** mistakes individual investors typically make | 2.23% | | |
| + | | + | = | **3.57%** total 2020 value of an adviser |
| C | **Cost** of basic investment-only management | 0.33% | | |
| + | | + | | |
| P | **Planning** costs & ancillary services | 0.91% | | |

### Adviser value is real. Amplify it.

At Russell Investments, we believe in the value of advisers. And the numbers back up our belief. We see the advantages you create for your clients. We know the commitment you bring to your relationships. This annual Value of an Adviser study quantifies that dedication and the resulting benefit. All you need to do is turn up the volume.

## For more information

Call Russell Investments at **020 7024 6000** or
visit **russellinvestments.com**

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