

# WHY ADVISORS HAVE NEVER BEEN SO VALUABLE

2017 VALUE OF AN ADVISOR STUDY

THIS MATERIAL IS FOR FINANCIAL PROFESSIONAL USE ONLY AND  
NOT FOR DISTRIBUTION TO CURRENT OR POTENTIAL INVESTORS.

NOT FDIC INSURED • MAY LOSE VALUE • NO BANK GUARANTEE

---

# EXECUTIVE SUMMARY

---

As part of Russell Investments' commitment to powering advisor success, this annual report looks holistically at what advisors do for their clients and the additional value they contribute to an investor's portfolio.

With growing regulatory attention on advisory fees and natural consumer skepticism about delivered value, given strong U.S. stock performance, today's advisors may be challenged to articulate the material value they deliver. By looking at the full value equation of an advisor's services—annual rebalancing, behavior mistakes investors make, the cost of investment-only management, planning and ancillary services, and tax-aware investing—it is clear that the value an advisor delivers to clients materially exceeds the 1% fee they typically charge for their services.

*In 2017, the value of an advisor in the U.S. is calculated at 4.08%.*

## Introduction

In recent months, the DOL fiduciary rule has put the spotlight on all manner of fees. While the final ruling is still unknown, the fact remains that fees are top-of-mind for investors. With eight years of strong U.S. stock market performance (Russell 3000® Index) and virtually all stocks rising, there is natural skepticism about paying for advice—it doesn't seem hard to throw together a winning portfolio. While this view completely overlooks the fact that standard investment selection is just one part of an advisor's value, advisors struggle to clearly articulate that the value their clients derive materially exceeds the 1% fee they typically charge.

### Value of an Advisor = A+B+C+P+T

**A** Annual rebalancing of investment portfolios

**B** Behavioral mistakes individual investors typically make

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

**P** Planning costs or the costs of providing a financial plan, updates and your services

**T** Tax-aware planning/investing

**Your fee**  
Annual advisory fee  
you charge clients

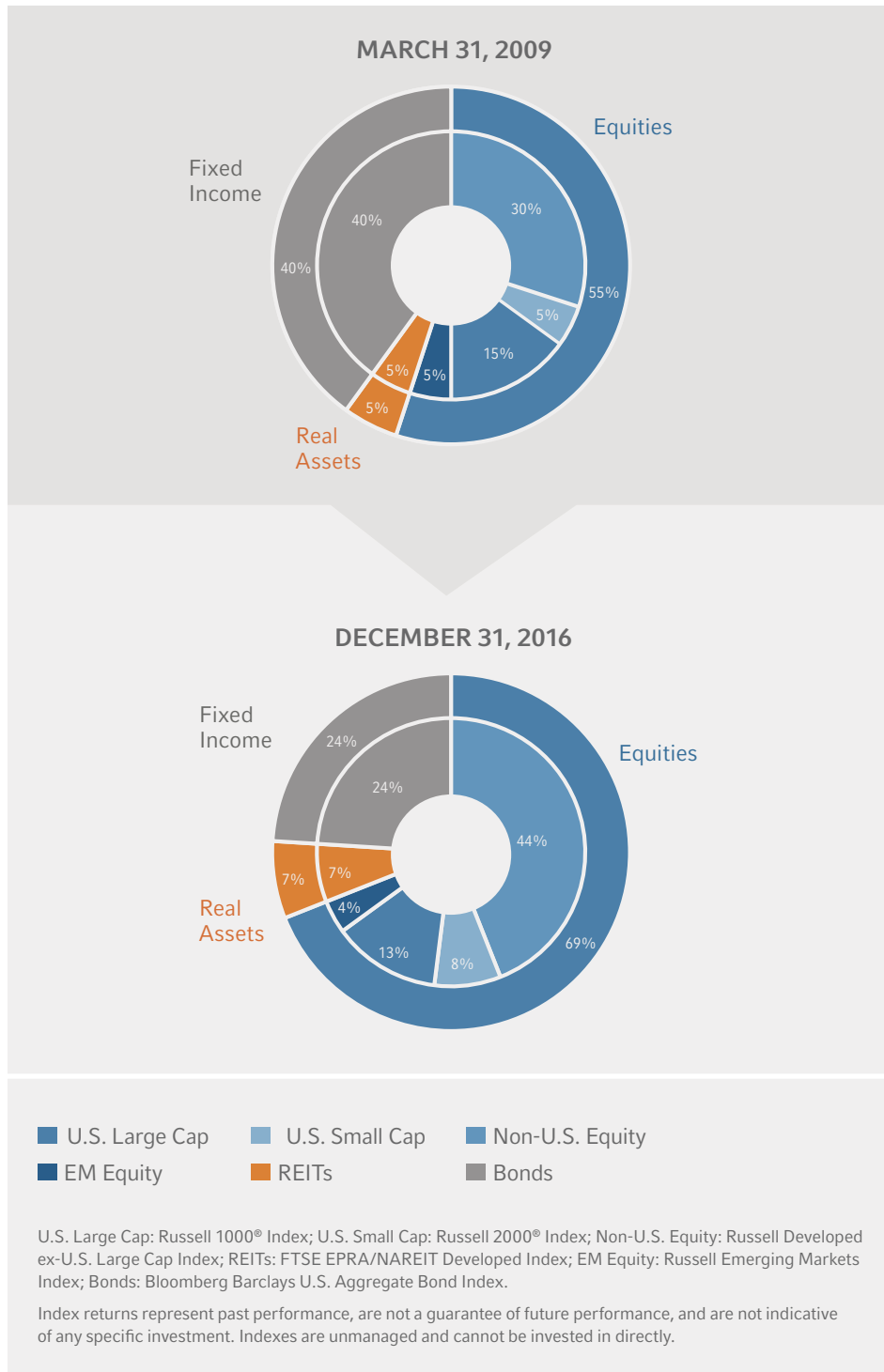
Coordinating the accumulation, distribution, and transfer of wealth is complex, particularly as we move into a time of potentially lower returns and higher volatility. The fourth annual Value of an Advisor report is designed to quantify the contribution from the technical and emotional guidance a trusted human advisor can offer.

## Annual Rebalancing = 0.2%

When markets are rising, it can be easy to underestimate the importance of disciplined rebalancing.

### 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.



Left alone, a hypothetical 'balanced' index portfolio drifted into a 'growth' index portfolio, exposing the portfolio to more downside risk.

### Additional Returns

Regular rebalancing has the potential to add 0.2% in additional return and 1.6% in risk.

#### Hypothetical rebalancing comparison: Jan. 1988 - Dec. 2016

	Buy and hold	Annual
Annualized return	8.6%	8.8%
Annualized standard deviation	10.4%	8.8%
\$100,000 investment over 29 years	\$1,094,120	\$1,154,085

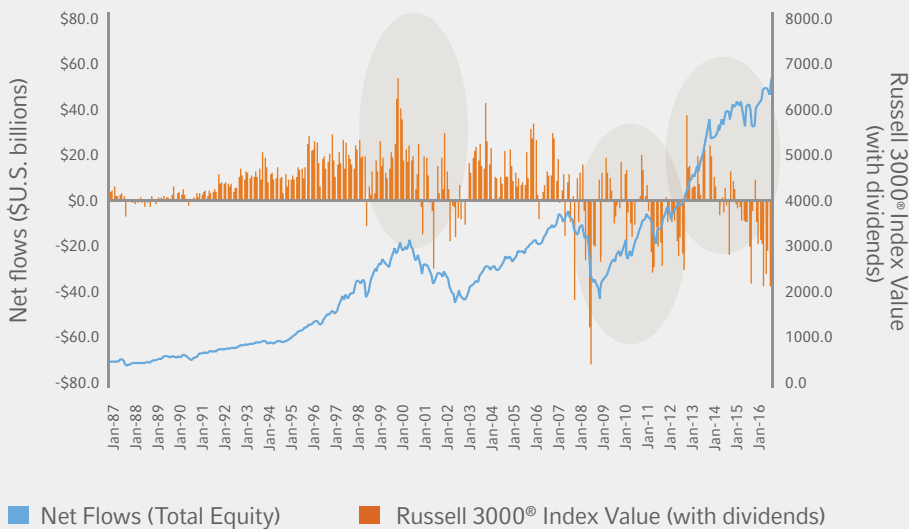
For illustrative purposes only. Not meant to represent any actual investment Methodology available in footnotes at the end of this report.

While 0.2% may not seem like much, compounded over a multi-year period, it can quickly add up. In the hypothetical example above, that's a \$59,965 difference.

### Behavioral Mistakes = 2.0%

While *behavior coach* isn't part of the advisor job description, it is a significant contributor to total value. Left to their own devices, many investors buy high and sell low. From 2009 to 2013, investors withdrew more money from U.S. stock mutual funds than they put in. All the while, the Russell 3000® Index climbed 16.1%. For those that chose to stay in cash since the market bottom on March 9, 2009 to the end of 2016, they missed a cumulative return of 300%, based on the Russell 3000® Index.

#### Investors chase patterns

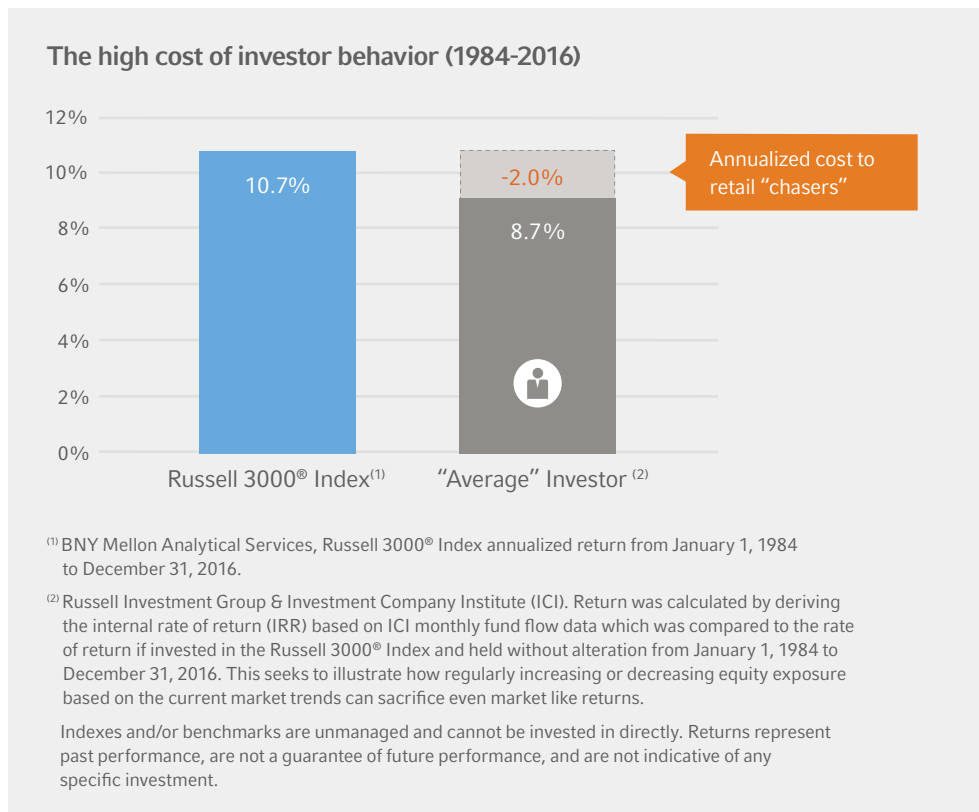


Data shown is historical and not an indicator of future results.

Source: Industry flows into equities. [www.ici.org/research/stats](http://www.ici.org/research/stats). Russell 3000® Index: [www.ftserussell.com](http://www.ftserussell.com) ("value with dividends"). Data as of December 31, 2016.

Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

The average stock fund investor’s inclination to chase past performance cost them 2% annually in the 33-year period from 1984-2016. Therefore, an advisor’s ability to help clients stick to their long-term financial plan and skirt irrational, emotional decisions adds this value.



### Cost of Investment-only management = 0.33%

Robo-advisors that deliver investment-only management and no financial plan, ongoing service, or guidance have set prices at approximately 0.33%<sup>1</sup>—for annual statements, online access, and a phone number to call in case of questions.

### Planning = 0.75%

Advisors add value by building and regularly updating custom financial plans, conducting regular portfolio reviews, and offering ancillary services such as investment education, assistance with annual tax return preparation, Social Security and retirement income planning, and one-off custom requests from clients.

#### The cost of planning

According to a recent Financial Planning Association (FPA) study, the cost of developing and building an initial financial plan averages \$2,600.<sup>2</sup> Planners typically charge approximately \$200 per hour for ongoing monitoring and updating.<sup>2</sup> Based on this, the value of providing and maintaining a plan is worth 0.50% on a \$500,000 account.

### The cost of ancillary services

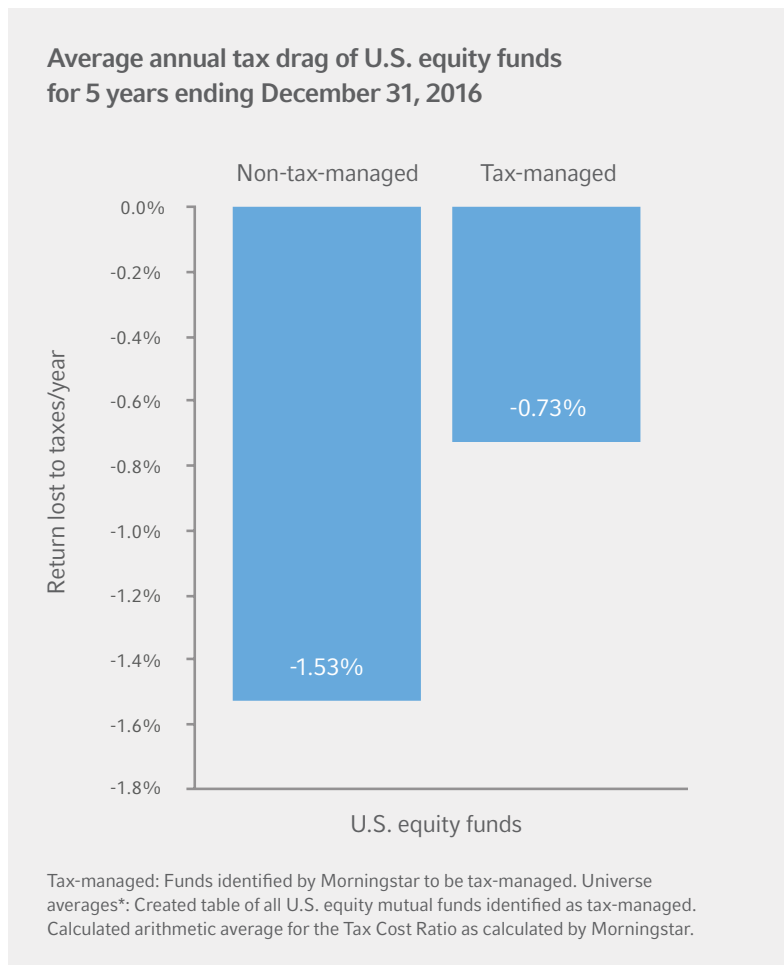
Advisors consistently underestimate the value of ancillary services. From the time savings and peace of mind offered during tax season to preparation for retirement and custom requests, these services can quickly consume up to 100 hours each year. We estimate this value at 0.25%, assuming they are part of the annual advisory fee.

### Tax-aware investing = 0.80%

Providing a more tax-aware approach is an area where advisors can distinguish themselves and demonstrate fiduciary standards of expertise.

### Dialing down tax drag

The average annual tax drag for the five years ending December 31, 2016 was material. Investors in non-tax managed U.S. equity products (active, passive, ETFs) lost on average 1.53% of their return to taxes. Those in tax-managed U.S. equity funds forfeited only 0.73%. With taxable investors holding \$7.2 trillion of the \$15.7 trillion invested in open-end mutual funds, this is a widespread concern.<sup>3</sup>



Tax-aware advisors add value by helping build and implement a personalized, comprehensive, and tax-sensitive investment approach using a variety of products. This can add 0.80% in value.

## The Bottom Line

Advisors delivering services and value above and beyond investment-only advice have an estimated contributory value of 4.08%. By demonstrating to clients how this value exceeds the fee charged, advisors can improve client satisfaction at a time of record high U.S. equity markets and likely rising interest rates. Likewise, this value is a meaningful differentiator in a time of margin compression, regulatory scrutiny, and demographic change.

Your clients are your most persuasive advocates. Helping them understand the value you deliver is key.

<b>A</b>	Annual rebalancing of investment portfolios	<b>0.20%</b>
<b>B</b>	Behavioral mistakes individual investors typically make	<b>2.00%</b>
<b>C</b>	Cost of basic investment-only management	<b>0.33%</b>
<b>P</b>	Planning costs or the costs of providing a financial plan, updates and your services	<b>0.75%</b>
<b>T</b>	Tax-aware planning/investing	<b>0.80%</b>
<b>Total 2017 value of an advisor</b>		<b>4.08%</b>

At Russell Investments, we believe in the importance of advisors. We see the advantages you create for your clients. We know the commitment you bring to your relationships. This annual Value of an Advisor study quantifies that dedication and the resulting benefit. It is one small part of our work in powering advisor success.

---

### Footnotes

1. Based on the average fee charged for investment-only management by 10 robo advice offerings for a client portfolio of \$500,000 as accessed on the companies' websites on 3/7/2017.
2. FPA Research & Practice Institute, "Financial Planning in 2015: Today's Demands, Tomorrow's Challenges." [https://www.onefpa.org/business-success/ResearchandPracticeInstitute/Documents/RPI-2015\\_Trends-In-Financial-Planning\\_10-15-15.pdf](https://www.onefpa.org/business-success/ResearchandPracticeInstitute/Documents/RPI-2015_Trends-In-Financial-Planning_10-15-15.pdf)
3. 2016 Investment Company Factbook.

---

## IMPORTANT INFORMATION

\*Methodology for Universe Construction: From Morningstar, extract U.S. equity and fixed income mutual fund and ETF's for reported period. Averages calculated on a given category. For example, average after-tax return for the large cap category reflects a simple arithmetic average of the returns for all funds that were assigned to the large cap category as of the end date run. For funds with multiple share classes, each share class is counted as a separate "fund" for the purpose of creating category averages. Morningstar category averages include every type of share class available in Morningstar's database. Large Cap/Small Cap determination based upon Morningstar Category. Tax Drag: Morningstar's Tax Cost Ratio.

The Morningstar categories are as reported by Morningstar and have not been modified.

© 2017 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is not a guarantee of future results. Indexes are unmanaged and cannot be invested in directly.

Morningstar, Inc., Morningstar, the Morningstar logo and Morningstar.com are registered trademarks of Morningstar, Inc. All other Morningstar products and proprietary tools, including Morningstar Category, Morningstar Rating, Morningstar Risk, Morningstar Return, and Morningstar Style Box are trademarks of Morningstar, Inc. All other brands and names are the property of their respective owners.

Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

Nothing contained in this material is intended to constitute legal, tax, securities or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Russell Investments' ownership is composed of a majority stake held by funds managed by TA Associates with minority stakes held by funds managed by Reverence Capital Partners and Russell Investments' management.

Frank Russell Company is the owner of the Russell trademarks contained in this material and all trademark rights related to the Russell trademarks, which the members of the Russell Investments group of companies are permitted to use under license from Frank Russell Company.

The members of the Russell Investments group of companies are not affiliated in any manner with Frank Russell Company or any entity operating under the "FTSE RUSSELL" brand.

Copyright © Russell Investments Group, LLC 2017. All rights reserved.

**Russell Investments Financial Services, LLC, member FINRA ([www.finra.org](http://www.finra.org)), part of Russell Investments.**

First used: September 2017. RIFIS: 19182