Why work with a financial advisor?

Because that relationship may be one of your best investments.

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Like many investors considering working with a financial advisor, you probably wonder what you would get for the fee you will pay. After all, the S&P 500® Index has experienced a 10-year record-length bull market, so how hard can it be to throw together a winning portfolio?

With the 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. You might feel that a robo-advisor is all you need: for a minimal fee you can select your investment portfolio and monitor it regularly.

However, investment selection and monitoring is just one part of an advisor’s value.

Understanding the markets doesn’t necessarily help you invest in them logically. Investing can be challenging and emotional responses in periods of volatility have the potential to undo years of past or potential gains in your portfolio.

Advisors can assist you in a full 360-degree spectrum of wealth planning, from investments, to managing your portfolio through different life changes, to retirement and estate planning, as well as guidance on potential tax implications of your investments—in order to help you work toward your financial goals. But more than that, they can act as behavior coaches: guiding you through your emotional responses to help ensure your portfolio remains on track.

We have developed a formula that can help you understand the value of working with an advisor.

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\text{Value of an advisor} = \text{Annual rebalancing of investment portfolios} + \text{Behavioral mistakes individual investors typically make} + \text{Cost of basic investment-only management} + \text{Planning costs & ancillary services} + \text{Tax-smart planning & investing}
\]
A is for Annual rebalancing

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

What is rebalancing? Technically, it is the periodic buying and selling of assets in your portfolio to maintain your originally desired asset allocation—or mix of investments.

We believe there are two reasons that many investors don’t rebalance if left to their own devices:

1. Because it’s an easy thing to forget to do. Investors know they’re supposed to do it. We also know we’re supposed to change the batteries on our smoke alarms once a year. But do we really do it?
2. Because, in many cases, rebalancing may be the equivalent of buying more of what’s been hurting my portfolio and selling what’s been doing well. It may run counter to what an investor’s gut feelings are telling them they need. Rebalancing takes discipline. Your advisor can help deliver that discipline and help position your portfolio for long-term success.

We believe rebalancing is a vital service, because it helps you remain on track with your plan, avoiding unnecessary risk. You may have started out with a balanced portfolio of 60% stocks and 40% bonds, but under certain market conditions that ratio can change significantly. As you can see from the illustration below, without rebalancing, over the years your balanced portfolio could end up looking like a growth portfolio—with a much larger exposure to U.S. stocks and a much-smaller exposure to bonds than you had originally determined. This leaves you with a greater exposure to the risk of any potential sharp shock in U.S. stocks.

The difference may seem small, but the simple act of rebalancing can help capture gains, reduce volatility, and help your asset allocation remain in the range you initially determined was right for your desired outcome.

is for Behavioral mistakes

We like to think we make rational and logical decisions when we are investing. But researchers in the fields of economics, psychology and neuroscience have cast doubts on that assumption. They have uncovered over 200 types of unconscious biases in humans that lead us to make decisions that can ultimately jeopardize the health of our wealth—if left unchecked.

Most people act like humans, not investors. People tend to let their emotions and other human tendencies influence their decision-making. In many parts of life, that’s perfectly reasonable. But when it comes to investing, acting like a human may actually cost you money.

To be a successful investor, it is important to be objective and disciplined when making investment decisions. This means making sure decisions align with your long-term goals. While you would be forgiven if tightening U.S. monetary policy, global trade war escalation, and uncertainty over Brexit prompted you to second-guess your investment strategy, making changes off the back of these events may be detrimental to your portfolio.

Guarding against mindless investing
3 common human mistakes to watch out for

<table>
<thead>
<tr>
<th>Overconfidence</th>
<th>Herding</th>
<th>Familiarity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Humans tend to over-estimate or exaggerate our ability to successfully perform tasks</td>
<td>Humans tend to mimic the actions of the larger group</td>
<td>Humans tend to prefer what is familiar or well-known</td>
</tr>
</tbody>
</table>

- Can lead to...
  - Trade too often
  - Buy high, sell low
  - Overweight home country
You may find you become overly optimistic when markets are rising, or overly pessimistic when markets are declining. Your advisor can help you remain objective and disciplined through the cycle of market emotions. Avoiding behavioral mistakes is a significant contributor to total value. In fact, sometimes it’s the decisions you choose not to make that count more.

Left to their own devices, many investors buy high and sell low. From December 2007 to December 2018, investors withdrew more money from U.S. stock mutual funds than they put in. All the while, $100 constantly invested in the Russell 3000® Index—shown in the blue line below—had an ending value much higher than the starting value.

Investors don’t always do what they should.
Recent proof of a “buy high and sell low” mentality
U.S. open ended mutual fund and passive ETF flows vs market flows

Data shown is historical and not an indicator of future results.
Sources: Monthly mutual fund, passive ETF flows and Russell 3000® Index, Morningstar, Direct
Data as of February 28th, 2019. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.
Robo-advisors have been springing up like mushrooms in a bog. These automated platforms provide basic investment management—taking your hard-earned money and purchasing specific funds or securities. The fee is typically minimal, but in most cases all you get in return is an annual statement, a website where you can monitor your portfolio, and a phone number to call in case of questions.

The building blocks of basic investment-only management

- Asset Allocation
- Security Selection
- Portfolio Construction

Your advisor also purchases specific funds or securities for your portfolio—but he or she doesn’t stop there.
is for Planning costs and ancillary services

Advisors advise. That can start with building and regularly updating a financial plan that fits your needs based on your specific goals, circumstances and preferences, conducting regular portfolio reviews, and being available to answer your questions, guide you through market volatility and make recommendations when you go through one of life’s big moments—such as getting married, buying a house, sending a child off to college, or entering retirement.

They can also offer additional services such as investment education, assistance with annual tax return preparation, Social Security and retirement income planning, and helping you make sure you have proper insurance coverage.

Your financial plan is a key element to help your reach your goals. A robust financial plan may incorporate coordination of your multiple financial goals, considerations for investing at different stages in your life, and implementation with a variety of financial professionals dedicated to your financial health.

Your advisor may provide:

**Financial planning topics**
- Savings & distribution analysis
- Investment & cashflow analysis
- 401(k) plan options review
- Tax & estate planning
- Student loans
- Stock options
- Employee benefits review
- College funding
- Regular plan updates and reviews

**Ancillary services**
- One-off requests for advice
- Investment education
- Property & casualty
- Long-term care
- Disability insurance
- Life insurance

Your advisor will likely work with you to tailor your custom financial plan and investment solutions to what matters most to you. The process begins with a deep discovery conversation. Followed by translating what is heard into goals, circumstances and preferences. And because your priorities and circumstances are likely to change over time, your advisor may choose to engage with you continuously to help you reach your desired goals.

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**Client-centered wealth management process**

Your long-term goals are our goals

1. **Step 1** Discovery conversation/Fact finding
2. **Step 2** Translate facts to GCP
3. **Step 3** Create the plan
4. **Step 4** Map plan to a solution
5. **Step 5** Monitor progress

Goals

Circumstances

Preferences

For illustrative purposes only.
T is for Tax-smart investing

When it comes to investing, it’s not what you make that counts. It’s what you get to keep. Your advisor can help you navigate the complex world of tax implications of your investments—asset location across taxable and non-taxable accounts, tax-smart withdrawal strategies, taxable trusts, and more.

Taking a tax-managed approach to investing and incorporating strategies designed to help reduce the impact of taxes on investment returns may help you achieve better outcomes. We believe it’s important to take a long-term view when building wealth. At the heart of this belief is the power of compounding returns. Maximizing after-tax returns can play a big role here. Since you don’t pay taxes until you realize gains, deferring taxes into the future has the potential to significantly compound returns over time.

Let’s take a look at a hypothetical example of an investor with $500,000 in investable assets. In the illustration below, we assume the ending wealth difference under three scenarios:

<table>
<thead>
<tr>
<th>Initial Investment: $500,000</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10 YEARS</th>
</tr>
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<tbody>
<tr>
<td>$854,072</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>10-year hypothetical impact of taxes, assumed annual return: 7.5%</td>
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<tr>
<td>$854,072</td>
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<td></td>
<td></td>
<td></td>
<td>2% tax drag</td>
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<tr>
<td>$938,569</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>1% tax drag</td>
</tr>
<tr>
<td>$1,030,516</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No tax drag</td>
</tr>
</tbody>
</table>

This is a hypothetical illustration and not meant to represent an actual investment strategy. Taxes may be due at some point in the future and tax rates may be different when they are. Investing involves risk and you may incur a profit or loss regardless of strategy selected.

Tax-drag is the difference between pre-tax and after-tax return. The smaller the tax drag number, the less you’ll likely pay in taxes. The difference of a few percentage points may not seem important, but over time, reducing tax drag can make a real difference in your portfolio’s ending wealth projection.
The bottom line
Your advisor charges for the service he or she provides. As we demonstrate below, your advisor can play many roles, each of which has significant value and can ultimately help you and your family reach your long-term financial goals.

<table>
<thead>
<tr>
<th>The value of an advisor relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Planning</td>
</tr>
<tr>
<td>Financial Therapist</td>
</tr>
<tr>
<td>Rebalancing Strategy</td>
</tr>
<tr>
<td>Investment Advocate</td>
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<tr>
<td>Tax Coordination</td>
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<tr>
<td>Financial Educator</td>
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</tbody>
</table>

A successful relationship with your trusted financial advisor requires engagement—on both sides. We outlined above what your financial advisor typically delivers to clients. Following are some considerations for how you can be an engaged client:

• Be open with your advisor about your current situation, goals, circumstances, preferences, values, asset location and other relevant wealth management information;
• Engage in proactive, two-way communication with your advisor as your family’s situation changes;
• Participate in regular face-to-face meetings with your advisor;
• Share with your advisor your annual state/federal tax return to optimize the tax implications of your investments;
• Provide feedback to your advisor about client events and educational workshops they host;
• Introduce to your advisor those people in your professional and personal networks whom you believe your advisor could help.
To learn more, speak with your financial advisor.