Why work with a financial advisor?

Because that relationship may be one of your best investments.
What can a financial advisor do for me?

The sustained market volatility and uncertain economic outlook experienced in the spring of 2020 serves as a stark reminder of the value of working with a financial advisor.

At Russell Investments we believe the biggest value that a financial advisor provides is as a behavior coach. As humans, we are vulnerable to behavioral biases—those emotional responses to market movements that have the potential to significantly impact our portfolios. Many of us were likely tempted to take our money out of the equity markets when they began to drop as the news flow on the novel coronavirus COVID-19 worsened. But doing so would have meant selling at a potential low point in the market, contrary to the tenet of successful investing: buy low, sell high. As we have seen time and time again, severe market declines are eventually followed by market rallies. A financial advisor can help mitigate emotional responses to the volatility, keeping you invested and on track with your plan.

While that is likely the biggest value a financial advisor can provide, they do so much more. Even when markets are calm, or steadily rising as they had been for several years, financial advisors provide a variety of necessary services. A financial advisor can provide holistic wealth planning: from selecting investments, to managing your portfolio through different life changes, to retirement and estate planning. They can also provide guidance on reducing the tax drag on your portfolio so that you have a better chance of keeping more of what you make.

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

\[
A + B + C + P + T = \text{Value of an advisor}
\]

- **A** Annual rebalancing of investment portfolios
- **B** Behavioral mistakes individual investors typically make
- **C** Cost of basic investment-only management
- **P** Planning costs & ancillary services
- **T** Tax-smart planning & investing
A is for Annual rebalancing

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.

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 twice 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 and risk tolerance.

When balanced becomes the new growth
The potential result of an un-rebalanced portfolio

Source: Hypothetical analysis provided at left is for illustrative purposes only. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

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.

We like to think we make rational and logical decisions when we are investing. That’s because volatile markets can spark our “blink” reflexes: those intuitive “fight or flight” responses that we make when faced with danger or uncertainty. Daniel Kahneman and the late Amos Tversky, both leading behavioral scientists, divided the human thought process in two ways: blink, and “think,” which is when we are rational, systematic and controlled. Researchers in the fields of economics, psychology and neuroscience (which together make up behavioral science) have uncovered more than 200 types of unconscious biases in humans* that result in our blink responses—and can ultimately jeopardize the health of our wealth—if left unchecked.

* Investments & Wealth Monitor, May/June 2017, p. 5
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 ongoing trade wars, a global pandemic, and an uncertain economic outlook has 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
Three common human mistakes to watch out for

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<tr>
<th>Overconfidence</th>
<th>Herding</th>
<th>Familiarity</th>
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<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>
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which 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. We believe 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 January 2000 to December 2019, $100 constantly invested in the Russell 3000® Index more than tripled in value. And those who chose to stay in cash during that period missed a cumulative return of nearly 250%, based on the Russell 3000® Index.

![Investors don’t always do what they should. Recent proof of a “buy high and sell low” mentality](image)

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 December, 2019. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

C is for Cost of investment-only management

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

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<th>Asset Allocation</th>
<th>Security Selection</th>
<th>Portfolio Construction</th>
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Your advisor also purchases specific funds or securities for your portfolio—but he or she doesn’t stop there.
P 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 strategizing with your other trusted 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.
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.

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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:

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.

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.
Notes
To learn more, speak with your financial advisor.

IMPORTANT INFORMATION AND DISCLOSURES

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.

**Bloomberg Barclays U.S. Aggregate Bond Index:** An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities (specifically: Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

**FTSE EPRA/NAREIT Developed Index:** A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

**MSCI Emerging Markets Index:** A float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

**The MSCI World ex U.S. Index** tracks global stock market performance that includes developed and emerging markets but excludes the U.S.

**The Russell 1000® Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

**The Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**The Russell 1000® Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

**The Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

**The Russell 3000® Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. Indexes 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.

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.

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