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How Much Is an Advisor Worth? Much More Than They Charge: Russell

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Russell Investments calculates how much value advisors add to the typical client's portfolio



Advisors are worth up to four times the 1% fee they typically charge on assets under management, according to Russell Investments' [annual study on the value of a financial advisor](#).

As in the past four years of this study, Russell concluded that the value an advisor delivers to their clients materially exceeds the 1% fee they typically charge for their services.

This year, Russell assessed the value of an advisor to be approximately 4.08%.

“The technical and emotional guidance that only a trusted, human advisor (as opposed to [robo-advisors](#), for instance) can offer to investors who are attempting to undertake the complex job of coordinating the accumulation, distribution and transfer of their wealth, is invaluable – particularly in an environment that is likely to deliver [lower returns and higher volatility](#) than investors have grown accustomed to recently,” the report states.

Of course “invaluable” is a difficult sum to bill a client for, so Russell Investments attempted to estimate the value of an advisor.

To do this, Russell looks at the different ways human financial advisors deliver value – including annual rebalancing of investment portfolios, preventing behavioral mistakes individual investors typically make, cost of basic investment-only management, planning costs and ancillary services, and tax-aware planning and investing – and calculates what percentage fee that service is worth.

Russell Investments' analysis concludes that standard investment selection has arguably become one of the least valuable parts of an advisor's value.

"What should an advisor who delivers investment-only management and no financial plan, no ongoing service, no guidance, nothing except for an annual statement, online access and a phone number to call in case of questions charge their clients?" the report states. "Robo-advisors have set that price at approximately 0.33%."

However, the value advisors deliver rests in many places, according to the report.

Most likely the single largest contributor to the total value advisors bring is being a "behavior coach" to their clients.

"Left to their own devices, many investors will 'buy high' and 'sell low,'" the report states. The average stock fund investor's inclination to chase past performance cost them about 2% annually from 1984 to 2016.

This is why Russell calculates an advisor's ability to keep their client to stick to their long-term financial plan – and avoid irrational, emotional decisions – as worth 2%.

Tax-aware investing is another area where advisors can add value, as much as 0.80%, according to the report.

"Tax-aware planning and investing is an area where advisors can distinguish themselves from the competition and demonstrate fiduciary standards of expertise and putting their clients first," the report states.

Tax-aware advisors can add value for their clients by helping them build and implement a personalized, comprehensive tax-sensitive investment approach.

Another area where advisors add value is by building and regularly updating a custom financial plan for each client and conducting regular portfolio reviews. Many also offer ancillary services.

According to the report, ancillary services – such as investment education, assistance with annual tax return preparation, Social Security and retirement income planning, as well as one-off custom requests from clients – could cost thousands of dollars if purchased à la carte.

Advisors consistently underestimate the value of ancillary services, such as planning and tax preparation, which can add as much as 0.75% in value.

Regular rebalancing by advisors also has the potential to add value. Regular rebalancing has the potential to add value – to the tune of 0.2% in additional return and 1.6% in risk reduction, according to the report.

As such, the report determines the value of annual rebalancing of investment portfolios is 0.2%.

If advisors are delivering all the services and value beyond the cost of investment-only advice, then the total value of their services is 4.04%, the report concludes. This is up from last year, where the total value of an advisor was 3.75%.

“For many advisors this means that the value they deliver is worth more than the fee they charge their clients,” the report states.