The Alpha factor in having a financial advisor

One of the questions financial advisors hear a lot is, “Why do I need a financial advisor?” The answer to that is two-fold: maybe you do, and maybe you don’t.

If you have a lot of financial savvy, a good sense of how all the elements work together and you thrive on managing your own investments and financial interests, then you probably don’t need an advisor to help you. A study by Vanguard, one of the world’s largest investment companies, found 25 per cent of individuals manage their own investments.

Sound overwhelming? It takes significant financial savvy to be comfortable doing all this on your own. If you haven’t got the money smarts or comfort level to do your own investing in your future, get help. The most financially savvy thing you could do is turn to a professional financial advisor.

Whether you’re a wealthy high-income earner with a lot of disposable income or in Canada’s middle class and concerned about your financial future, an advisor can help you make the best decision about your financial interests.

Research shows the value

Vanguard noted in its study that 75 per cent of individuals don’t manage their own investments. And research by Russell Investments, a money management firm, shows you can increase your returns 3.75 per cent through working with a professional financial advisor who follows best practices. Other research has shown your investment returns can be almost four times greater than without having an advisor.

Helping you assess risk comfort

Maybe you’re thinking about a guaranteed income certificate (GIC) or a tax-free savings account (TFSA) in which to invest some money for your goals and interests. Or maybe you’re thinking about buying some shares and playing the stock market to build a retirement fund. How do you really know whether that GIC or TFSA is really the best option for you? And do you really know how much investment risk you’d be comfortable with?

If you sit down with a financial advisor and talk about your situation, your needs and your interests, one of the first things he or she will do is walk you through an investment risk questionnaire. It only takes a few minutes. It will help you discover your risk level (low, moderate or high), and what kinds of investments are appropriate for your comfort level.

The Alpha factor

Vanguard calls the increase in returns you can have by working with a professional financial advisor, the *Advisor’s Alpha*.

According to Vanguard, there are seven ways a financial advisor can add value for you:

- **The right asset allocation.** Everything starts here, so this is probably the most important thing your advisor can do for you.

- **Guiding you on total return versus income investing.** Maybe you have an annual income in mind that you'd like to reach with dividends and interest. That's income investing. But if you get fixated on reaching specific numbers every year, and put too much emphasis on income investing, you could end up taking too much risk. And that could be disastrous. An advisor can show you how and why total return through diversification is a better way to look at your portfolio. Total return focuses on both income and money growth.

- **Rebalancing.** Your situation and markets can change, which means you sometimes need to shift the mix of your investments. The idea is to minimize your risk, not maximize your return. An advisor can help you make sure you don't end up with more risk than you can afford if things change. At the same time, you could see your return increase.

- **Cost-effective investing**. Maybe you've seen those television commercials about mutual funds in which the person is asking why they're paying so much in fees and where their money's going. A professional financial advisor can help identify investments that will help you meet your goals without breaking your piggy bank.

- **Asset location.** This, of course, depends on your income level and the tax bracket you're in. If you're looking for tax advantages, a professional advisor can guide you on the best strategies for investing your money and getting desirable returns along with tax deductions available to you.

- **A strategy for withdrawal**. With some investments, such as TFSAs, you're not taxed when you withdraw money. But with things such as registered retirement savings plans, you are penalized for withdrawing any money early. It's not a good idea to withdraw funds from your investments willy-nilly. According to Vanguard, being able to tap into the knowledge and expertise of a professional advisor can make a big difference if you need to withdraw funds. If you've developed a relationship with an advisor, he or she will know your circumstances intimately, and be able to help you develop the best strategy.

- **Coaching.** Remember the 2008 financial crisis? Some people lost a lot of the money they'd invested. It took a long time, but the markets eventually recovered. They go through cycles of ups and downs. And that can put you on a roller coaster of emotions, instincts and impulses. Having a professional advisor who'll provide solid, steady advice based on facts to guide you through the cycles and help prevent you from doing something drastic that you could later regret, is invaluable. The Russell Investments study found coaching is the penultimate benefit of having a professional advisor.

How do you find the right advisor for you? For the most part, advisors rely on referrals to build their business. You'll want to find an advisor with whom you'll be comfortable building a long-term, trusted relationship. So ask around. You can also find a professional financial advisor at ouradvisor.ca.