The Value of a Financial Advisor

First Ascent Asset Management

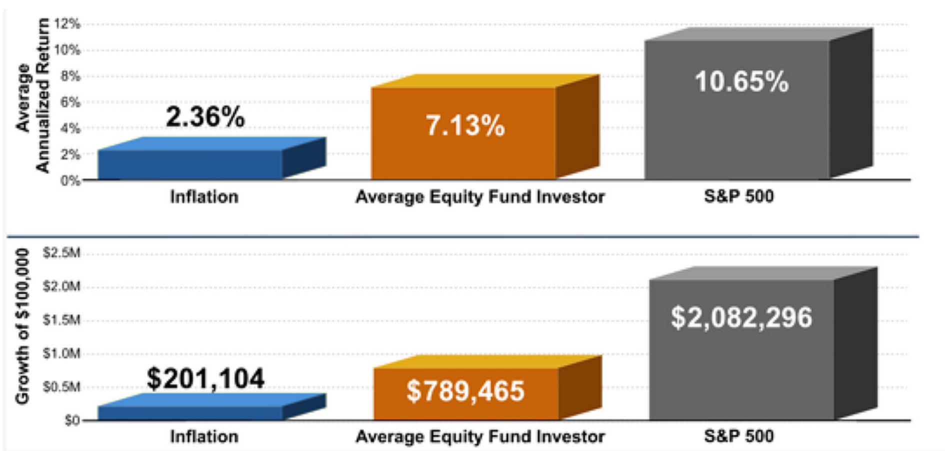
When investors make decisions on their own, many end up making costly mistakes. For many years, Dalbar has studied the differences between investor performance and the performance of the financial markets. Every year the news is grim when it comes to investor performance.

For example, you can see below the difference between the average equity fund investor's performance and the performance of the S&P 500 index. For the 30 years ending December 31, 2021, the average investor underperformed the index by over 3% on an annualized basis.

You can also see that this underperformance was very costly and caused significant harm to the average investor's long-term financial security.

The Dalbar Study: 30 Years of Average Equity Fund Investor vs. Indexes

30 Years (1/1/1992 - 12/31/2021)



Source: Dalbar QAIB 2022 Study

A good financial advisor can bring great value to the relationship with a client. Many studies have been done to identify the ways advisors add value and quantify the value that they add. These include recent studies by *Vanguard*, *Morningstar*, and *Envestnet*.

Here is a summary of some of the many ways that financial advisors can help you achieve your financial goals and become a successful long-term investor.

Financial Planning. To be a successful investor you must first identify and prioritize your goals. Financial advisors are skilled in guiding clients through this process.

Advisors can also help you understand your attitudes toward risk and your ability to assume it. Identifying your risk limits is essential in designing a portfolio that you can stick with over time.

Once you identify your goals and risk limits, you need to develop a specific plan to achieve those goals within the risk limits you establish. Financial advisors are skilled in this process.

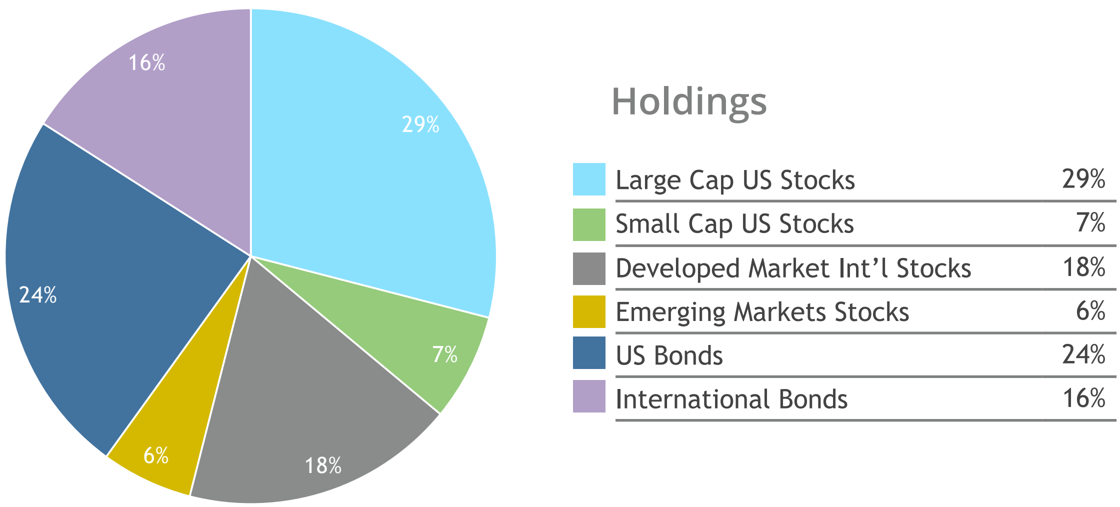
They also add value by periodically revisiting your goals and financial plan, making necessary adjustments along the way, and serving as a source of accountability.

Building a Portfolio. The next step is to structure a portfolio tailored to your specific goals and risk limits. The first step in this process is determining how to allocate the assets in your portfolio among the different asset classes such as stocks and bonds. Research shows that asset allocation decisions can determine more than 90% of the variability in portfolio returns over time.*

The next step is selecting mutual funds, exchange-traded funds (ETFs), or other investments to implement the asset allocation plan. This involves both quantitative and qualitative analysis.

An advisor's skill in these areas can increase the likelihood of achieving your goals in a manner that is consistent with your ability to weather the ups and downs of the financial markets.

Broadly Diversified Global Portfolio



Source: First Ascent Asset Management. The information shown is provided only as an example of how a portfolio might be constructed. A client's portfolio allocation may be different based on their specific needs and objectives. This information is not intended to represent the allocation of a specific portfolio and should not be viewed as an investment recommendation.

Ongoing Monitoring. Once a portfolio has been constructed, advisors add value by monitoring the portfolio and taking action when needed.

Advisors monitor the allocation of assets within a portfolio and rebalance the portfolio to its target asset allocation when necessary.

For taxable accounts, advisors can add value through a process known as "tax loss harvesting." This involves generating tax benefits by realizing losses during temporary market declines.

Advisors can also identify opportunities to improve the long-term prospects for the portfolio, such as replacing a fund in the portfolio with a new one with a lower expense ratio.

Behavioral Coaching. The most important characteristic of a successful investor is the ability to maintain perspective and discipline, especially when markets become turbulent.

All too often investors act based on fear, emotion, or lack of understanding about how financial markets work. Acting based on these factors can be very costly to the investor.

Advisors can provide the guidance, insight, and reassurance necessary to get clients through difficult periods in the markets.

* Brinson, Hood, Beebower (1986); Brinson, Hood, Singer (1991)

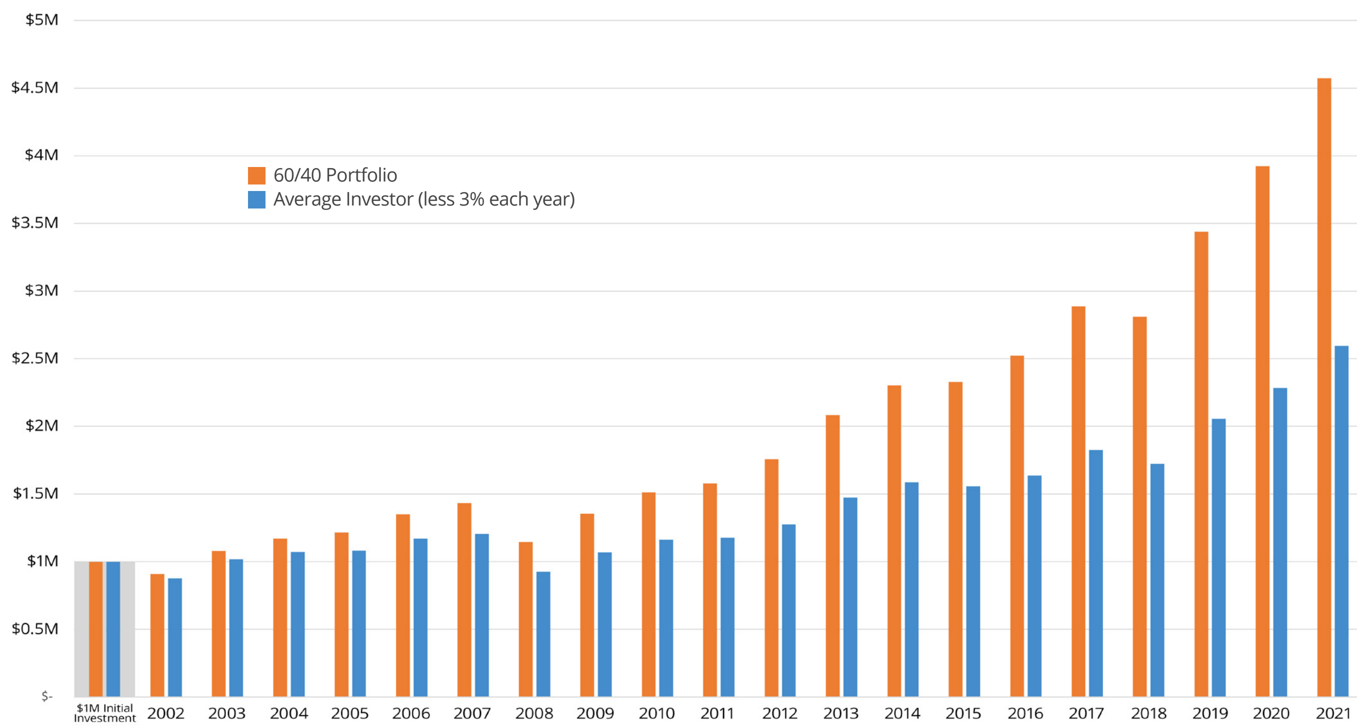
Quantifying the Value. Many of the studies done on the value of a financial advisor attempt to quantify that value. Measurement of this value is, of course, difficult and depends on the nature of the services provide by the advisor and the client's willingness to follow the advice.

While these quantification efforts admittedly involve some level of subjective judgment, both the Vanguard and Envestnet studies mentioned above estimate the value at about 3% annually.

The graphic below shows the impact that 3% could have on your long-term financial well-being. Over the 20 years from 2002 through 2021, a portfolio consisting of 60% US stocks and 40% US bonds returned 7.90% on an annualized basis. One million dollars invested in that portfolio at the beginning of 2002 would have been worth $4,573,731 by the end of 2021.

The "Average Investor" portfolio, returning 3% less each year, would have had an annualized return of 4.88% and would have been worth only $2,594,514 at the end of 2021. That's a difference of almost $2 million over the 20-year period.

$1M Invested in a 60/40 Portfolio vs. Average Investor (3% less each year)
2002-2021



Data Source: Morningstar. 60/40 portfolio consists of 60% stocks represented by S&P 500; 40% bonds represented by Bloomberg Aggregate Bond. Portfolio rebalanced annually.

There are two other important factors that are rarely discussed or quantified in the studies that evaluate the value of a financial advisor. The first is the value of being able to delegate the responsibility for the bulk of the investment management effort to an advisor.

The second is the value of the peace of mind that comes with knowing that you are not alone on your journey toward achieving your long-term financial goals.

To many, the value of being guided and accompanied on this journey by a knowledgeable professional who assumes much of the ongoing burden is priceless.