Lync Wealth Management

# Assessing the value of financial advice

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## Introduction

When you appoint a financial adviser, they will be very upfront about the initial and ongoing costs of their services.

They will also no doubt have a conversation with you about what you are getting for your money and this article is intended to look at this subject in detail. Firstly, it's worth looking at the components that make up the initial advice that you receive.

These can include:

**Identifying your goals and how to achieve them:** Every client is an individual and it requires a detailed look at your personal circumstances, understanding what you want to achieve with your finances, both now and in the future.

**Assessing your attitude to risk:** Much of your financial plan will involve risk-based investments, such as stocks and shares. Although these types of investment are proven to be beneficial to investors over time, their performance can be volatile. Assessing your tolerance to this volatility will help to construct a portfolio of investments with which you can feel comfortable in terms of the level of the fluctuations in value over the life of your plan.

**Constructing a financial plan:** This possibly involves a variety of complex decisions and combining several products and services, which themselves may be complex and may include:

- **Tax planning:** Ensuring you maximise the reliefs and allowances available to you

- **Retirement planning:** Ensuring that you are maximising the use of your pension benefits.

- **Cash flow modelling:** Creating a realistic idea of what your finances might look like in the future, if you act on the advice given.

The value of this initial advice is probably easy for clients to understand. There are many hours of work, put in by extremely qualified people, in order to create your financial plan.

What is less understood is the value of the ongoing advice that you receive and how to quantify this. However, as with the initial advice, we can look up the components that might make this and then, in addition, use external sources to look at the value they bring.

The components of this ongoing advice may include:

**Ongoing financial and tax planning:** Over the life of your financial plan, many things may change: your personal circumstances, your income and expenditure and tax law are but a few of them. Your regular reviews with your adviser will ensure your plan remains up to date.

**Asset allocation:** It is important to look at the asset classes making up your portfolio of investments over time. Your adviser will work with you to ensure that the mix of these assets matches your circumstances. For example, as you enter retirement, it might be appropriate to reduce the number of riskier assets that have helped achieve growth in your portfolio in the past.

**Behavioural coaching:** Probably the least understood aspect of your financial adviser's contribution to the long-term success of your financial plan. However, this is arguably the most valuable aspect!

As human beings, we are subject to a myriad of emotional and behavioural biases. Whilst useful to us historically in terms of survival, these biases tend to not help in decision making when it comes to our investments, particularly when it comes to market falls. Our separate paper 'The Importance of Remaining Invested' looks at this in more detail. However, in short, your adviser is there to help you to make the right decisions at the right time when it comes to your investments.

**Withdrawal strategies:** It is important to make sure that, if you are withdrawing funds, this is done in a tax efficient manner, as well as ensuring the integrity of your investment strategy is maintained.

**Investment selection:** As previously stated, it is important to marry your long-term objectives with the level of risk you are prepared to accept. This will dictate the mix of investments that your adviser will create initially, but this mix may change over time, to suit changes in your circumstances. There may also be changes in relation to the individual investments that you hold, such as a fund manager leaving, which might require a switch to another fund, or a change to the economic outlook, which requires changes to your asset allocation.

**Rebalancing:** This is the process of ensuring that as the assets that make up your investments perform differently over time, this may create imbalances in the makeup of your portfolio, possibly changing its risk characteristics. A regular review will enable your portfolio to stay aligned to your risk profile.

## Assessing the value of the components of ongoing advice

So, having identified the components that make up some of your advisers ongoing services to you, how can we put a value on them for clients? Fortunately, there has been much industry and academic research carried out on this subject. EDVOA (Educating and Demonstrating the Value of Advice) is an independent website that has looked at much of this research* and consolidated it, in order to determine a value that may be given to each component on an annual basis. The resulting values are:

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|---|---|
| **Financial and tax planning** | 0.5% |
| **Asset Allocation** | 0.28% |
| **Behavioural coaching** | 1.5% |
| **Withdrawal strategies** | 0.23% |
| **Investment selection** | 0.45% |
| **Rebalancing** | 0.35% |

Source: EDVOA.co.uk* 15/09/21

*EDVOA drew on research from the following sources:

Vanguard Adviser Alpha, Evestnet Capital Sigma: The return on advice, Morningstar Apha, Beta and now Gamma, Russell Investments: Why advisers have never been so valuable, The Kitces report, evaluating financial planning strategies and quantifying their economic impact, Dalbar quantitative analysis of investor behaviour and Royal London: Value of advice

When totalled, these components end up at an annual figure of 3.31% which we think helps to put the value of your ongoing advice into perspective and can be balanced against the ongoing fees your adviser might charge you.

## The ongoing costs associated with advice

In addition to determining the value of advice, we feel it is also useful to explain what costs advisers incur in order to deliver their services:

- Network fees (these cover the regulatory and ongoing compliance costs of running an adviser firm)
- Office costs
- Personnel costs
- Professional body membership
- Training and maintaining competence
- Travel
- Product research
- Investment research
- Technology and record keeping

By drawing on external research we hope that clients can now have a good understanding of what benefits ongoing financial advice brings to them and be better equipped to put a value on this advice, whilst also reminding ourselves that providing ongoing advice does come at a cost to the adviser.

## Quantifying the value of financial advice

It is hard to quantify the value of financial advice because it is subjective to the individual but research from the International Longevity Centre (ILC) aimed to answer that question.

This research showed that, while holding other factors constant, those who took advice around the turn of the century were on average over £47,000 better off a decade later than those who did not.

This result came from detailed analysis of the government's Wealth and Assets Survey which has tracked the wealth of thousands of people over two yearly 'waves' since 2004-06. The wealth uplift from advice comprises an extra £31,000 of pension wealth and over £16,000 extra in non-pension financial wealth.

One of the key findings from the research is that the proportionate impact of taking advice is greater for those of more modest means. For the 'affluent' group identified in the research, the uplift from taking advice is an extra 24% in financial wealth (e.g. shares, ISAs, bank accounts) compared with 35% for the non-affluent group. On pension wealth, the uplift is 11% for the affluent group compared with 24% for the non-affluent.

Assessing the value of financial advice requires a careful evaluation of both the tangible and intangible benefits that it can bring. Tangibly, financial advice can significantly improve your long-term wealth through better investment strategies, tax planning and retirement preparation. Intangibly, it offers peace of mind, helps prevent costly mistakes and provides personalised guidance that aligns with your financial goals.

Whether the cost is justified depends on your unique financial situation, goals and comfort with managing your finances independently. Ultimately, the value of financial advice is a personal decision, but one that can have a profound impact on your financial future.

**It is important to remember that investments carry risk. The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.**

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## Important information



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