7 Ways a Financial Advisor Benefits Your Bottom Line

By: Jack Mahoney, CFP®

Alpha, in the financial world, is an investment's ability to beat the market. It's the excess return an investment provides relative to the return on a benchmark. We know that the right investments can provide alpha, but what about the right investment advisor?

When you work with an advisor, factoring in the advisory fee that you are paying them is a must. Thus, to provide alpha, an advisor must provide value in excess of their fees. So how do you know if paying an advisory fee is worth it? Read on to learn the 7 main ways an advisor can provide alpha.

1. Asset Allocation

Asset allocation and diversification are arguably two of the most powerful tools in investing. Proper asset allocation provides a pathway to achieve your financial goals and manage investment risk in the process. An advisor provides alpha when they can hone in on your specific needs and risk tolerance to develop an asset allocation that maximizes returns while remaining within your comfort zone. At Simon Quick, we believe a sound investment plan begins with an individual's investment policy statement, which outlines the financial objectives of the portfolio as well as any other pertinent information, such as the investor's asset allocation, annual contributions to the portfolio, planned expenditures, and time horizon.

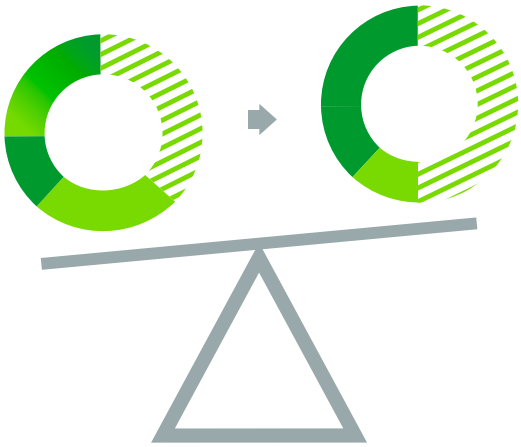
2. Cost-Effective Implementation

As an investor, you only get to keep, spend, or bequest net returns. Therefore, the focus of wealth management should always be on maximizing net returns. Your net return is your gross return less costs, like expense ratios, trading or frictional costs, and taxes. Cost-effective implementation is a critical component of your investment strategy because every dollar paid for management fees, trading costs, and taxes is a dollar less of potential return for you. The average investor does not take the time or effort to evaluate these costs, but a good advisor will.

3. Rebalancing

As your portfolio's investments produce different returns over time, it will likely drift from its target allocation, acquiring new risk-and-return characteristics that may be inconsistent with your original preferences. Because of this, a portfolio must be periodically rebalanced or realigned with the original investment strategy.

An advisor will provide alpha if they can systematically direct investor cash flows into the most underweighted asset class and/or rebalance to the "most appropriate" boundary. This reduces the client's rebalancing costs, thereby increasing the returns that they keep.



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4. Behavioral Coaching

One of the greatest benefits an advisor provides is through behavioral coaching. In fact, Vanguard found that the behavioral coaching a good advisor provides can be worth up to 1.5% in returns. [1] Abandoning a planned investment strategy can be costly and research has shown that some of the most significant derailers are behavioral, such as the allure of market-timing and the temptation to chase performance. An advisor who develops a deep relationship with their client can help you stay the course during a difficult market so that you don't miss out on the upside. Alternatively, an advisor may encourage you to partially sell out of an investment that has performed well so that you can lock in those gains. This directs the focus away from recency bias in investing and focused on the appropriate investment time horizon.

5. Asset Location

From a tax perspective, optimal portfolio construction aims to minimize the impact of taxes by holding tax-efficient broad-market investments in taxable accounts and by holding income generating, taxable investments within tax-advantaged accounts. Those incremental differences have a powerful compounding effect over the long run. Making use of the most efficient asset location can make a meaningful difference in net returns.

6. Portfolio Withdrawal

Just as asset location is important when you're putting money into investments, it's just as important when you begin to take it out. When you begin to spend your portfolio, where you choose to draw money from substantially impacts your tax situation. For example, if you pull funds from a traditional IRA before the age of 59 ½ you will be slapped with a 10% penalty fee. On the other side, if an IRA account holder fails to take out a required minimum distribution after the age of 72, the IRS will charge a 50% penalty, known as the excise tax[2]. A good advisor will understand the tax law and ensure that the withdraws you make are minimizing your taxes. They will also keep track of these important milestones for you to make sure you don't miss an important deadline and wind up paying a penalty.

7. Total Return vs. Income Investing

Historically, you may have heard success stories about investors who were able to live comfortably off their stock dividends or from interest payments from their bond portfolios. However, in recent years interest rates have fallen dramatically, as have the yields on stocks making this approach, or income investing, less effective. Taking a total return approach, considers both income and capital appreciation. By combining capital appreciation and income investing an advisor can help you make decisions that are more tailored to your individual needs based on the current market environment, your income requirements, and tax situation.

[1] https://www.vanguard.com/pdf/ISGQVAA.pdf

[2] https://www.investopedia.com/articles/retirement/05/011005.asp

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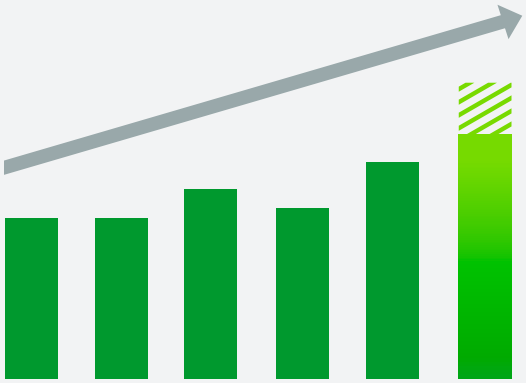

How Simon Quick Provides Alpha

Paying a fee for advice and guidance to a professional who uses the most up-to-date tools and tactics can add meaningful value compared to the average investor experience, whether advised or not. Industry studies estimate that sound financial advice can add between 1.5% and 4% to account growth over extended periods.[3] However, this increase in potential net returns should not be viewed as an annual value-add but is likely to be intermittent, as some of the most significant opportunities to add value occur during periods of market duress or euphoria when clients are tempted to abandon their well-thought-out investment plan.

At Simon Quick, we seek to provide alpha to all our clients in the above seven ways. We also set up regular reviews to help you refine your financial plan when there are changes in your lifestyle and personal situation. We have a wide network of trusted professionals that can advise on the nuances of your financial situation, such as CPAs, tax attorneys, estate planning attorneys, boutique investment banks, and small business owners.

Good financial planners don't just map out a saving and investing plan that fits into the broader context of your situation. We take steps to make sure you buy into the plan, stay motivated, and adjust sensibly.

[3]https://www.barrons.com/articles/you-should-pay-for-a-financial-advisor-51547985601

About Jack

Jack Mahoney is a Vice President and Client Advisor at Simon Quick Advisors and is responsible for providing investment and financial planning advice to high-net-worth individuals and families. He also serves as co-head of the hiring committee, where he oversees the recruitment of new team members at the firm. Jack graduated from Connecticut College in New London, CT, with a bachelor's degree in international relations and economics and enjoyed being a member of their lacrosse team. He became a CERTIFIED FINANCIAL PLANNER™ practitioner in 2015. He and his wife are residents of Montclair, NJ, where Jack remains involved with the youth lacrosse program. To learn more about Jack, connect with him on LinkedIn.

973-525-1044

jmahoney@simonquickadvisors.com

If you would like to learn more about how we approach consultative financial planning and provide value for our clients, call us at 973-525-1000 or email Info@simonquickadvisors.com.

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