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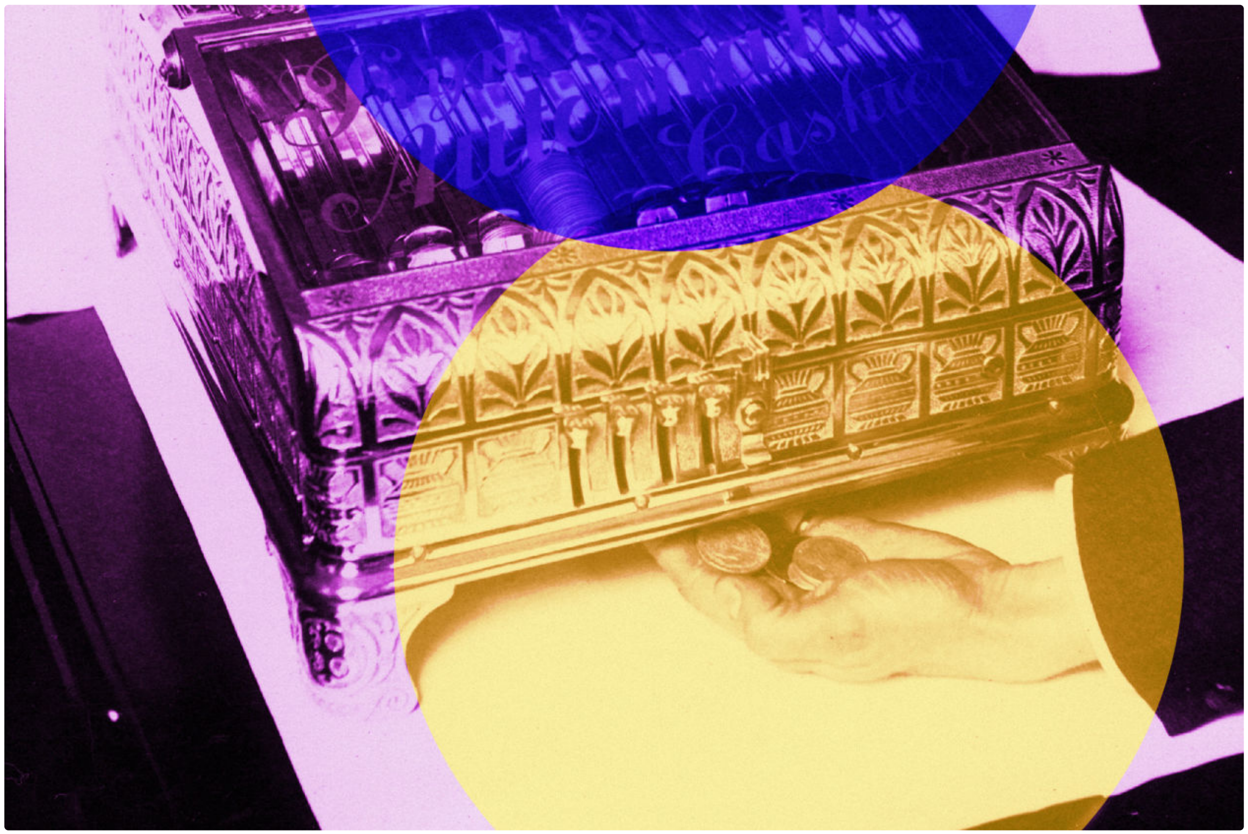
RETIREMENT FEATURE

Why It Still Makes Sense to Pay a Financial Advisor

By Sarah Max Jan. 20, 2019 7:00 a.m. ET



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At a time when computer models can create and rebalance our portfolios, and index funds offer inexpensive exposure to every corner of the investment universe, why would anyone pay a premium for human advice?

Increasingly, the role of advisor isn't picking stocks or even working through the intricacies of asset allocation. It's coaching clients through decisions that have the greatest impact on returns: aligning life goals with financial realities; saving money consistently; and, when the going gets tough, sticking to your knitting.

Paying out 1% of your assets under management–the industry average for professional advice–might seem like a high price for handholding, but studies suggest that, for many people, there is a noticeable return on investment.

Consider this: In a recent study of K-12 teachers by AXA Equitable Life, those educators who worked with advisors had nearly double the retirement assets in their 403(b) plans than those who chose to go it alone.

While some of this gap might be explained by better returns in their portfolios, the biggest drivers seemed to be behavioral. On average, teachers who worked with a pro contributed 49% more to their plans annually and increased their contributions 24% more frequently than peers who flew solo.

Now, studies about the impact of advisors don't always address the question of cause and effect. It stands to reason that people who work with advisors have larger nest eggs. The fact that they hired an advisor suggests they are motivated to save and they have the resources to do so.

What's notable about this study–which spanned 20 different financial institutions, not just AXA–is that it controls for some of that causality. There were no statistically significant differences between the advisor and non-advisor groups with regard to age, gender and income. Moreover, most of the teachers who connected with advisors did so through onsite services provided by retirement-plan providers. The upshot, says Steve Scanlon, head of group retirement at AXA Equitable Life, is that individuals in all income brackets could benefit from some professional advice.

Digging a little deeper, Vanguard does ongoing research on how advisors can add value. While the researchers acknowledge that it's difficult to quantify how and where professional advice adds value, they estimate that advisors who follow best practices in wealth management can add an additional 3% in net returns–with half of that coming from behavioral coaching.

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

Meanwhile, more advisors are earning their keep through comprehensive financial planning where investment portfolios are just one part of the equation. "The broader context of financial planning is, 'When I invest, what does that mean for me in the future?'" says Anne Marie Stonich, co-founder and chief operating officer of Paracle Advisors in Seattle. "In our meetings with clients, we spend 95% of the time talking about financial-planning topics and 5% of the time talking about the investment return."

An attorney turned senior wealth advisor, Jared Snider and his team at Exencial Wealth Advisors, in Oklahoma City work with clients on an exhaustive list of issues, from investments and taxes, to debt management and philanthropy. The real art, however, is in overlapping these details with what they talk about as "things that matter most," which they put in four main categories: family and relationships; occupation and meaningful pursuits; recreation; and money.

It's not unlike the difference between working with a personal coach, psychologist, and nutrition expert, versus dieting and exercising on your own. Your smartwatch might be able to analyze your daily activity, track your progress and tell you to get up and move around, but it's not going to talk you through an injury or fitness plateau.

By that same token, human advisors still have a role–provided they don't simply check the boxes, and offer a plan that doesn't reflect your individual goals and challenges. "Just as you wouldn't want to go to a trainer who charged you $50 to watch you run on the treadmill," AXA's Scanlon says.
