

When Should You Hire a Financial Advisor?

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Should you hire a financial advisor? Are they worth the cost? Is now the right time?

If you've ever asked yourself any of these questions, then this article is for you. With all the wealth that has been lost over the past 6 months, money management is as important as ever. I know. I work at a wealth management firm. Of course, I can understand why that might make you skeptical of my advice. As the saying goes, "Never ask a barber if you need a haircut."

However, I'm not here to pitch you to hire a financial advisor. In fact, I am going to *anti-pitch* you. How so? By explaining the handful of scenarios when someone *should* hire an advisor. And, in doing so, I hope you realize why hiring a financial advisor may not be right for you (at least not yet).

So who should hire an advisor? Let's dig in.

You Are Tired of Doing it Yourself

There is [this great episode of Invest Like the Best](#) where Michael Kitces breaks down who really gets financial advice and why. In it he defines three groups of financial consumers (as identified by [Forrester research](#)): Delegators (people who want to outsource their financial decisions), Validators (people who make their own financial decisions but want a second opinion), and Soloists (people who do it themselves). Last year [Forrester estimated](#) that 64% of all individuals fall into the Delegator or Validator camp, which means that Soloists (i.e. do-it-yourselfers) represent the other 36% of the population.

If you happen to fall into this 36% and you are tired of going at it alone, you might want to consider hiring a financial advisor. I know how difficult it can be to be a financial Soloist because I have been my whole life. As I detailed in Ch.1 of [Just Keep Buying](#), I've been neurotic at times about my money. I've created countless spreadsheets. I've simulated my financial future more times than I can count. And I never wanted a second opinion. I still don't.

However, I'm obsessed with this stuff. I see tweets about how Steven Tyler of Aerosmith did \$6M worth of cocaine in his lifetime and [I wonder how much more he](#)

would have had if that was invested in the S&P 500 instead (Answer: \$170 million). But maybe you aren't like me. Maybe you've been doing this by yourself for a long time and you'd rather not worry anymore. You'd rather have someone else do it for you. Maybe you just want to enjoy your retirement. I don't know. Regardless, if you're tired of doing it yourself, this is your sign to pull the trigger.

But it's not the only sign. Even if you *aren't* tired of doing it yourself, you still may need to hire an advisor as your financial life gets more complicated.

Your Financial Life is Complex

If you have a complex financial life and need help navigating it, then hiring an advisor might be right for you. Finding professionals who are well-versed in financial planning can be worth their weight in gold. Not only can they save you time and money, but they can also educate you on changes in the financial/tax environment that you can use to your advantage.

For example, I recently learned that business owners can deduct 100% of their business meals in 2021 and 2022 instead of the standard 50% deduction. The IRS made this temporary change (see IRS Notice 2021-25) in order to incentivize the purchase of business meals and support the restaurant industry. But what if you missed out on this IRS Notice and the tax savings that went along with it? Depending on your situation, this could have been quite costly.

This is why paying someone to help with your finances can make a ton of sense. Because, as your financial life gets more complex (i.e. marriage, kids, businesses, trusts, etc.), the cost of making a financial mistake increases. This is especially true for people with higher amounts of wealth. I've seen many examples where an advisor pays for themselves by helping a client handle a complicated tax/planning issue simply because the amount of money at stake was so large. Without professional help, such situations would be difficult to navigate on your own.

On the flip side, if your financial life is more straight-forward (i.e. fewer accounts, single, no kids, etc.), then hiring an advisor would make far less sense. This is why I have steered a few friends *away from* financial advisors because it wouldn't be valuable for them (at least not yet). Once their financial lives are more complex, *then* they should consider advisory services.

But don't let the lack of financial complexity stop you. If you need somebody to talk to about your money, hiring an advisor is a great way to go.

You Feel the Need to Talk To Someone About Your Money

Whether you want a second opinion or you need someone to talk you off the ledge during a volatile market, hiring an advisor can do wonders for your financial peace of mind. In fact, of all of the reasons to hire a financial advisor, having someone to talk with about your money might be the most valuable. And there's proof.

This 2019 paper from Vanguard illustrated that advisors can add to their clients' returns through behavioral coaching. How much do they add? About 1%-2% per year in net return. As they state:

Providing discipline and guidance could be the largest potential value-add of the tools available to advisors.

In addition, a 2015 study from Financial Engines found that "401(k) participants who get professional investment help in the form of managed accounts, target-date funds or online advice, earned higher median annual returns than those who go it alone." From these pieces of research it seems clear that professional help can add directly to the bottom line.

But in addition to adding to your returns, talking to an advisor can also help you navigate an investment landscape with an overwhelming number of products and technologies. Having a trusted source that can help you separate the signal from the noise can be a financial lifesaver. This won't always show up on the bottom line, but it can make your financial life a whole lot easier.

You Aren't On the Fence

Lastly, you should only consider hiring a financial advisor if you aren't on the fence about it. If you are still debating, then it's not for you. Trust me. The happiest clients are those who understand the value of the service they are getting. They understand what they are paying for and how it will help them. If you have a shred of doubt about any of this, then you won't stick with it.

We'll create a financial plan for you, but then you'll leave after the first downturn. We will give you guidance, but you'll ignore it. We'll provide our take, but you'll question it. This isn't something that you want and it isn't something that your future advisor wants either.

Ultimately, whether or not you decide to hire an advisor should be obvious. It should be "Hell yes!" or "No." If it isn't, then maybe now isn't the right time. Maybe now you aren't a good fit for financial advice. And that's okay. But, maybe one day you will be.

Thank you for reading!

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