It used to be that you would hire a broker or financial advisor because they knew how to pick the right stocks, or the right time to be in/out of the market, or if they did not, they at least knew how to find the right money managers who did. Those days are behind us. Stock and bond market index funds are a formidable opponent to traditional active management, and most investors no longer believe that advisors and money managers have a crystal ball telling them how to predict and exploit the financial future.

In a world where traditional, beat-the-market investing schemes don’t work, how can professional financial advice add value to you? What role, if any, can an advisor play in investors’ lives?

Financial Value: Simplify Your Financial Life

Most people are preoccupied with day-to-day life, so trying to think through and plan for their financial goals over the next 20, 30, or 40 years is difficult. A financial advisor who is used to discussing individuals’ and families’ lifetime objectives can lend perspective and make it easier for you to sort through and prioritize what you wish to accomplish both during and after your lifetime. Having a clear set of needs, wants, and wishes makes aiming at and hitting targets much easier and more probable.

The benefit of simplifying your financial life doesn’t have to stop at the “goal-planning” phase. Most people accumulate investments, accounts, and even advisors over the course of their lives. A knowledgeable advisor can show you how to minimize, streamline, and coordinate your efforts. Investors typically need only a small number of accounts and a few broad-based investment funds. I recently wrote a blog article detailing how an investor could reduce their investment portfolio from 50 different individual stocks and mutual funds down to just five, while actually increasing diversification! Many people and too many advisors think complex financial solutions are sophisticated. They aren’t; they are just complicated.

Portfolio Value: Invest Better

Just because stock picking and market timing isn’t profitable doesn’t mean we should only invest in a basic index fund or a target date fund. Informed asset allocation decisions are an important ingredient for success, and a financial advisor can help you build a portfolio that improves your odds of a better investing experience.

We tend to worry more about short-term portfolio volatility than our long-term expected return needs, which leads us to overweight “safer” but lower-returning investments such as bonds in portfolios. A common rule of
thumb I see is to “own your age” in bonds. But history has shown that stocks have significantly higher expected returns than bonds. The increased potential gains from greater stock exposure can make it easier to achieve more of your goals.

Your mix of stocks and bonds matters, but so too does your allocation within stocks. We have more than 90 years of data on the US market which shows that smaller and more value-oriented stocks have outperformed larger and more growth-oriented stocks. The conclusions are similar when we look at international developed stock market data since 1970 and emerging markets stock data since 1989. A stock portfolio that emphasizes smaller and more value-oriented stocks compared to large cap growth-heavy market index funds has historically generated 2-3% a year higher returns with greater long-term return consistency, further improving an investor’s chances of success.

Better and more consistent expected returns are helpful, but only if you don’t pay too much of them back in taxes. The purpose of investing isn’t to avoid taxes, of course; almost no investor could achieve their goals earning just 2% tax-free interest on municipal bonds today. Instead, you should try to maximize your portfolio’s after-tax returns. Understanding the tax characteristics of your various accounts and the different asset classes you own can do this. Placing tax inefficient asset classes (such as bonds and REITs) in IRA accounts and stocks in taxable accounts can enhance tax efficiency. Using “tax-managed” and “tax-aware” stock mutual funds can further improve tax efficiency without the reduction in expected returns that comes from using traditional index funds and exchange-traded funds (ETFs). Selling shares of mutual funds that have dropped considerably since purchase, known as “tax-loss-harvesting,” is another way to reduce tax liabilities and preserve more of your wealth.

**Emotional Value: Achieve More of Your Goals**

Imagine the improvement in your financial decisions when they are made with the help of an independent financial advisor who knows you well and who truly has your best interests in mind. You should have more confidence and peace of mind that you’re on the right path when you and your financial advisor have thought through all of your goals, weighed your options, and you are investing according to a plan based on your unique circumstances.

Because your financial advisor encourages you to stick to your plan, even when difficult times arise, you will most likely be more disciplined and avoid the “behavioral costs” that many investors pay from chasing performance or panicking during market declines and selling low.

Partnering with a financial advisor doesn’t just have the potential to be more effective, it’s also a more efficient use of time for most people who already don’t have enough hours in the day. When you don’t have to spend as much time thinking through your goals, researching options and strategies, and then managing your investments, you have additional free time to spend on more rewarding aspects of life—you can devote greater effort and attention to your career, to your family, and to your hobbies and interests. You don’t have to worry that you’re ignoring your finances and suffer the consequences. On the contrary, you could achieve a better outcome with less effort.

**The New Face of Financial Advice**

The financial advisory industry has evolved greatly in the last two decades, away from a sales-based business built on selling financial products and generating commissions, towards a profession that emphasizes wealth management and helping individuals and families to achieve their most important lifetime goals. I’m proud that Servo is at the forefront of this evolution.

By helping you simplify and clarify your financial situation, invest better, and save you time that could be spent on more important things in life, a modern approach to wealth management can offer meaningful value. You might be able to retire sooner, have more money to spend in retirement, and leave a larger legacy to your beneficiaries, all without having to spend an inordinate amount of time on your finances. A focus on helping you achieve your aspirations instead of outguessing the market is the new face of financial advice.

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