

# SCS Connection

Southern Capital Services, Inc.  
Registered Investment Advisor Since 1982

November 2017 • Volume: 25 • Issue: 11



## What is the Added Value of an Investment Advisor?

By Eric Nager, CRPS®

As clients of Southern Capital Services, you have already been introduced to the value of having a fiduciary advisor manage your accounts. A fiduciary is one who is required to put the client's interests ahead of his or her own, and does not receive commissions or compensation from any investment product. Not getting compensated by transactions or products the fiduciary advisor is free to recommend investments that he/she feels are truly in the best interests of clients, and that is what a fiduciary is all about.

Now there is a study that actually quantifies the benefit of a fee-only advisor. We share it here to add perspective to all the factors that are considered, and so that you can share this information with friends who might be looking for direction in light of a good year so far in the market. Russell Investments conducts an annual "Value of an Advisor" study, and this year their estimate of that added value is about 4%. To calculate this they took several factors into account that we will examine here: 1) the annual rebalancing of investment portfolios; 2) the mistakes

that some individual investors often make; 3) the value of other services provided by the advisor; and 4) the effect of taxes on non-qualified accounts.

The first factor addresses rebalancing, and Russell looked at a hypothetical balanced portfolio invested in index funds that started at the 2009 market lows. Their study showed that because of the strong market growth since then, the portfolio today would look more like a growth objective, if it was not rebalanced, and have more risky characteristics. Without rebalancing, the growth elements of the portfolio would become a larger percentage because they grew faster in the good market years. In an account managed by an advisor who did rebalance, Russell found a likely .2% better return, along with a potential for 15% less volatility risk. A return of .2% might not sound like much, but Russell points out that over a 29-year period on a beginning balance of \$100,000, the added return compounded would yield an extra \$60,000.

The second factor looked at investor behavior. The



study showed that in the years 2009-2013 when the market was in recovery, investors took more money out of the market than they put in. After a severe downturn like 2008, it can be psychologically difficult to invest again but usually the time right after a bear market is the best time to invest. Another tendency the study found for individual investor behavior was what is called “chasing” winners. This means investing in funds that are coming off a good year and do not necessarily sustain their performance going forward. The Russell study showed that the value of an advisor added 2% by taking these mistakes out of the equation.

Factor three is the value of additional services provided by an advisor. Most advisors offer other services that are included in the management fee. At Southern Capital these include looking at and recommending 401(k) choices for plans we do not manage, consulting about maximizing Social Security benefits, providing tax reconciliation documents during tax season, tracking required minimum distributions for RMDs, 401(k) plan reviews for plans we do manage, periodic personal reviews that touch on elements of financial planning, and teaching financial literacy. Russell estimates that the value of ancillary services advisors offer is worth an additional .75%.

The final factor is taxation. For non-qualified, or taxable, accounts, the Russell study found that a typical investor in a non-managed account of U.S. equities for the five years ending in 2016 lost an average of 1.53% to taxes, while an advisor-managed account for the same period lost .73% to taxes. The difference is a value of .8% for the advisor-managed accounts.

The total of these factors adds up to just under 4%. The value will vary somewhat from year to year and partly depends on the services and expertise of the advisors. However, we feel it is safe to conclude that there is additional value to be gained by having a fee-only advisor manage one's accounts over and above the fee that the advisor charges. We hope you find this study interesting, and we thank you in advance for your referrals!

*To read the full report, please visit:*

<https://blog.helpingadvisors.com/2017/03/21/2017-value-fiduciary-advisor-4/>

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## Southern Capital's New Logo!



Southern Capital Services has been located near the beautiful waters of Mobile Bay and the Gulf of Mexico since its inception in 1982. To honor 35 years of a successful business, Southern Capital is proud to unveil their new branding: the SCS Anchor!

The anchor was chosen because it is a symbol of stability and security in fluctuating waters. The emblem also represents—like investments—a successful and rewarding end to a long journey. Our associate and talented artist, Kristi Lawhorn, constructed the new nautical logo to embody Southern Capital's vision of this steadfast dedication.

Kristi also refreshed our website with new color and design making it more useful to our clients and prospects.

Apart from the logo, we have adopted three statements that we hope clearly communicate our desire for our clients:

- *Embrace your future with confidence*
- *Reach your retirement dreams*
- *Relax. We'll help handle your investments while you enjoy life.*

For all of you who have been with us through our strides for change, thank you for your loyalty and confidence in Southern Capital Services, Inc.

