

OUTSIDE THE FLAGS

By Jim Parker
Vice President
DFA Australia Limited



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The Seven Roles of an Advisor

What is a financial advisor for? One view is that advisors have unique insights into market direction that give their clients an advantage. But of the many roles a professional advisor should play, soothsayer is not one of them.

The truth is that no one knows what will happen next in investment markets. And if anyone really did have a working crystal ball, it is unlikely they would be plying their trade as an advisor, broker, analyst, or financial journalist.

Some folks may still think an advisor's role is to deliver market-beating returns year after year. Generally, those are the same people who believe good advice equates to making accurate forecasts.

But in reality, the value a professional advisor brings is not dependent on the state of markets. Indeed, their value can be even more evident when volatility and emotions are running high.

The best of this new breed play multiple and nuanced roles with their clients, beginning with the needs, risk appetites, and circumstances of each individual and irrespective of what is going on in the world.

None of these roles involve making forecasts about markets or economies. Instead, the roles combine technical expertise with an understanding of how money issues intersect with the rest of people's complex lives.

Indeed, there are at least seven hats an advisor can wear to help clients without ever once having to look into a crystal ball:

1. *The Expert*: Now, more than ever, investors need advisors who can provide client-centered expertise in assessing the state of their finances and developing risk-aware strategies to help them meet their goals.
2. *The Independent Voice*: The global financial turmoil of recent years demonstrated the value of an independent and objective voice in a world full of product pushers and salespeople.

3. *The Listener:* The emotions triggered by financial uncertainty are real. A good advisor will listen to clients' fears, tease out the issues driving those feelings, and provide practical, long-term answers.
4. *The Teacher:* Getting beyond the fear-and-flight phase often is just a matter of teaching investors about risk and return, diversification, the role of asset allocation, and the virtue of discipline.
5. *The Architect:* Once these lessons are understood, the advisor becomes an architect, building a long-term wealth management strategy that matches each person's risk appetites and lifetime goals.
6. *The Coach:* Even when the strategy is in place, doubts and fears inevitably arise. At this point, the advisor becomes a coach, reinforcing first principles and keeping the client on track.
7. *The Guardian:* Beyond these experiences is a long-term role for the advisor as a kind of lighthouse keeper, scanning the horizon for issues that may affect the client and keeping them informed.

These are just seven valuable roles an advisor can play in understanding and responding to clients' whole-of-life

needs, which are a world away from the old notions of selling product off the shelf or making forecasts.

For instance, a person may first seek out an advisor purely because of their role as an expert. But once those credentials are established, the main value of the advisor, in the client's eyes, may be as an independent voice.

Knowing the advisor is independent—and not plugging product—can lead the client to trust the advisor as a listener or sounding board, someone to whom they can share their greatest hopes and fears.

From this point, the listener can become the teacher, architect, coach, and, ultimately, the guardian. Just as people's needs and circumstances change over time, the nature of the advice service evolves.

These are all valuable roles in their own right and are not dependent on outside forces such as the state of the investment markets or the point of the economic cycle.

However you characterize these various roles, good financial advice ultimately is defined by the patient building of a long-term relationship founded on the values of trust and independence and knowledge of each individual.

Now, how can you put a price on that?



“Outside the Flags” began as a weekly web column on Dimensional Fund Advisors’ website in 2006. The articles are designed to help fee-only advisors communicate with their clients about the principles of good investment—working with markets, understanding risk and return, broadly diversifying and focusing on elements within the investor’s control—including portfolio structure, fees, taxes, and discipline. Jim’s flags metaphor has been taken up and recognized by Australia’s corporate regulator in its own investor education program.

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