Should I use a financial advisor?

by Judy Loy, ChFC®, RICP®, Financial Advisor and CEO of Nestlerode & Loy Investment Advisors

I debated writing this particular column as it seems rather self-serving: a financial advisor telling you why you should use a financial advisor. It seems like the basic concept is a conflict of interest, but I'm not sure people actually realize what we bring to the table. Before you decide to "do it yourself," consider your options among advisors and varying levels of assistance.

A **traditional broker** is the historical model and the way the industry started. They still exist today and may play a much smaller part due to the Department of Labor (DOL) Fiduciary Rule. Brokers work on commissions. This means that they get paid on the product you purchase and make money when you trade.

This is not necessarily a problem but some products pay more than others. For example, an annuity will pay a commission of 5 to 8 percent and typically have higher underlying fees. A mutual fund will pay a commission of 4 to 5 percent. This means a broker automatically has a conflict because more money can be made selling their client an annuity. A broker makes sense when you plan on a very long buy and hold strategy with mutual funds. When you trade rarely, a broker might be less expensive. A broker has a suitability requirement to their client, which means a product can pay more than another and still be considered suitable.

A **fee-based advisor** gets paid by assets under management. This helps to eliminate some of the perceived conflicts of being paid by a product or by trading. If you want to retain assets or grow your portfolio, your advisor is more aligned with you. If your account grows, your advisor makes more money too. Fee-based advisors are typically registered with the SEC or their state exchange commission. They have a fiduciary duty to their clients, which means they need to avoid conflicts of interest and put their clients' needs first.

Finally, advisors can work as **consultants**, who are paid on an hourly basis or on work done. This creates the least conflict and they merely review the information and provide independent advice. However, they do not provide ongoing advice, which might be needed.

Vanguard, the low-cost mutual fund behemoth, put out a research paper in 2014 entitled, **"The Added Value of Financial Advisors."** The Vanguard research quantified the assistance of a financial advisor as adding up to 3 percent to investor returns. They provide this through portfolio construction, behavioral coaching and wealth management.

Portfolio construction involves knowing the best places to put assets for tax purposes and making sure there is proper diversification. Behavioral coaching is helping clients adhere to a financial plan. Wealth management involves rebalancing and withdrawal strategies. The benefit of this knowledge can add 3 percent to a client's assets over time.

Does this mean every year you will see a 3 percent greater return on your portfolios compared to indices? No, I can guarantee you it will not. Advisors will not beat the markets year in and year out and give huge, oversized returns. However, it does mean that the added value of an advisor will help you over time.

In my experience, having an objective third party to discuss financial matters is important to some families. I have fielded questions ranging from whether parents can afford to help with the down payment on a home for their grown children without hurting their retirement, to whether a vacation home can be purchased. I love being able to provide peace of mind and a successful retirement plan.

A financial advisor can help a client work through options on investment or retirement plans. Is a Roth contribution or a traditional IRA contribution better for you? Because of your income, are you eligible to make a contribution? Should you be invested in exchange-traded funds or mutual funds? With expectations of rising interest rates, how will that affect fixed income (bonds)? A financial advisor will share knowledge with you to help you understand the why and where of investments.

If you decide a financial advisor is the right thing for you, decide what your top priorities are and find an advisor who fits your goals and style. Do you want quick responses? Do you want to be involved in the investment choices? Do you prefer regular meetings or do you want limited contact? Will the advisor work through a detailed financial plan with you?

There are many good reasons to work with an advisor but each one, first and foremost, is tied to a clients' overall needs.

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