

# Why Do I Need a Financial Advisor?



## Do You Really Need a Financial Advisor?

Maybe you don't think you have much to save, or you mainly just use your 401(k) as your savings vehicle. Perhaps retirement is so far off that you can't even conceptualize it. While retirement may not be top of mind, most of us are worried about finances at some level. A study by Northwestern Mutual found that 85% of adults in the United States feel financial anxiety—and the level of anxiety has gone up for more than a third of Americans over the past three years. Maybe all the anxiety is caused by our lack of success in this area. According to a Google Consumer survey, 62% of Americans have less than \$1,000 in their savings accounts and around one fifth don't have a savings account.

If we do need financial help, does it have to be from a financial advisor? With all of the increased automation in recent years to the banking industry, many of us never set foot inside of a bank these days—so can't that carry over to all of your financial

matters? Can you get all of your financial needs covered without having to talk to a human? The answer is no, you can't. Not if you want the job done right.

The decision to self-advise on your finances involves taking on a significant role and presents many challenges notwithstanding recent technological advances. Even if you are somewhat knowledgeable about finances, you may not want to devote the time necessary to deal with this responsibility yourself. As pensions go the way of the dinosaur, we are more responsible for our own financial security, and we are living longer which increases that responsibility. Building financial security isn't a simple or short-term endeavor and the costs of making mistakes are significant and sometimes irreversible, with dire implications like having to work longer or having to live a more austere lifestyle.

In addition, your life is changing all of the time and these changes have impacts on your finances. You may get married, support dependents, decide to go back to school or move to a different state. And life will probably also present you with unexpected events like—divorce, death, sickness, job loss or disability. During these times, the last thing you want to have to worry about is finances.

What can a financial advisor do for me?

A good financial advisor provides more than advice on whether to buy a mutual fund, stock or an exchange-traded fund. An advisor can help you get organized, prioritize your long-term goals and craft a

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tax-efficient savings plan. He or she can help determine if you can afford to buy that new boat or vacation home. An advisor can help decide the best place from which to take income and help prepare you for unexpected emergencies. An advisor can keep an eye on things when you are busy living your life and let you know when something needs to change. And most importantly, he or she can also give you peace of mind that your savings plan is on track and that you are doing what is necessary to meet your family's goals.

### Can you use the internet as an alternative approach?

The internet provides a vast field of free information, but the challenge is getting to the answer that is tailored to your circumstances. When I search for "retirement income" in Google, I get almost six million hits. Sorting through that information can be intimidating. We are all unique and that uniqueness demands individualized solutions and advice. The bottom line is that computers aren't good at handling all of the messy, complex times that life hands us, but financial advisors are.

The benefit of working with an advisor builds over time and has as much to do with avoiding bad mistakes as it does with encouraging good behavior. Is there evidence to support this?

A study by Vanguard<sup>1</sup> suggests something called advisor alpha. The research indicated that an advisor

can add around 3% in net returns through a robust value-add practice. This is outside of investment return and includes services like providing the client guidance on asset location, behavioral coaching, spending strategy and asset allocation. Another study by management consulting firm Oliver Wyman<sup>2</sup> found that small businesses that work with an advisor are 50% more likely to set up a retirement plan. Advised individuals have a minimum of 25% more in assets than non-advised individuals. The study found that these investors also have more diversified portfolios and make fewer mistakes. A separate study by the Department of Labor<sup>3</sup> suggests that those mistakes cost investors \$114 billion annually.

So, does the future of financial advice involve a financial advisor? How can it not? While it can take some time to find the right professional, it is worthwhile to build that relationship. Seek out help if you aren't already and insist that it be delivered in the way that best suits your life. Dreading the thought of sitting in an office and discussing your finances? Getting good advice doesn't have to involve regular office visits. It can be delivered via phone, e-mail or video.

Finding a financial advisor you trust and committing the time to work with this individual is key to arming yourself with the expertise you need to achieve financial security. ■

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[1] "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha." 2023, Vanguard Research.

[2] "The role of financial advisors in the U.S. retirement market." 2015, Oliver Wyman.

[3] NERA Comments on the Department of Labor Proposal and Regulatory Impact Analysis; National Economic Research Associates (NERA), 2011.