

Uncommon INSIGHT

SYM FINANCIAL ADVISORS NEWSLETTER

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SYM Employee Highlights - 3



SYM

Financial Advisors
Uncommon Relationships. Uncommon Results.

Estimating the Value Added by a Financial Advisor Relationship

Part of acting in a prudent and fiduciary capacity involves charging a reasonable fee that is transparent to the client. SYM Financial Advisors has long favored cost transparency through fiduciary relationships with all clients. We believe it is simply the right way to do business.

Working with an expert advisory team provides a peace of mind and convenience that, in our view, many clients consider worth the fee in and of itself. SYM advisors also aim to quantitatively grow client portfolios in amounts that exceed the fees charged for their services. Determining whether or not our relationship causes clients to be “money ahead” is a complex assessment, and involves more variables than simply market returns.

One approach to attain an impartial estimate of fee-only advisors’ value-add is by studying the third-party valuation assessments published by prominent industry sources. The research arms of Vanguard, Morningstar and Russell Investments each released the results of their own independent investigations into the value of fee-only advisors’ investment advice.

According to the three independent studies detailed below, a fiduciary advisory relationship can be expected to add an average 2.45% to 4.08% per year to client returns.

Vanguard is one of the world’s largest investment companies, offering a large selection of low-cost mutual funds, ETFs, and related services. Vanguard started the first index mutual fund in 1976 and now manages approximately \$4 trillion in global assets (Vanguard, n.d.).

Vanguard set out to measure the potential value added by a financial advisor relationship by researching seven processes or modules. Their findings are as follows.

Module 1 – Asset allocation – Asset allocation is the process of determining what percentage of a portfolio will be invested in various asset classes such as stocks, bonds and cash investments



Vanguard

“Putting a Value on Your Value: Quantifying Vanguard Advisor’s Alpha”

Vanguard Research, 2016
Kinniry, Jaconetti, Joseph, Ziberling; Web: <https://www.vanguard.com/pdf/ISGQVAA.pdf>

continued on page 2

and is based upon the investor's financial situation, risk tolerance and time horizon. *Vanguard determined the potential value-add of an advisor is significant but too unique per each investor to quantify.*

Module 2 – Cost-effective implementation – Cost-effective implementation refers to the creation of portfolios while keeping internal investment expense ratios low when possible. *Vanguard found the value-add for cost-effective implementation is 45 basis points for advisors who prioritize the use of low-cost funds.* This value-add is calculated as the difference between the average investor experience (measured by asset-weighted expense ratios of the mutual fund and ETF industry), and the lowest-cost funds available.

Module 3 – Rebalancing – As a portfolio's investments produce different returns over time, the portfolio will likely drift from its target asset allocation. *Vanguard found that annually rebalancing can add up to 35 basis points in a risk-adjusted 60% stock/40% bond portfolio versus the same portfolio, not rebalanced.*

Module 4 – Behavioral coaching – Because investing is tied to emotion, we believe advisors need to help clients maintain a long-term view and a disciplined approach. Abandoning a planned investment strategy can be costly. Research shows the two most significant distracters are behavioral ones: the allure of market-timing, and the temptation to chase performance. *Vanguard found that investors who deviated from their initial retirement fund investment trailed the target-date fund benchmark by 150 basis points.*

Module 5 – Asset location – Asset location is the distribution of assets between taxable and tax-advantaged accounts. *Vanguard found that a financial advisor can add 0 to 75 basis points of value with an informed and effective division of assets between taxable and tax-advantaged accounts.*

Module 6 – Withdrawal order for spending from portfolios – Withdrawal order is the determination of the sequence in which clients spend from accounts within a portfolio. *Vanguard found that an informed withdrawal strategy can add up to 70 basis points, depending on the investor's breakdown of assets between taxable and tax-advantaged assets.*

Module 7 – Total-return vs. income investing – In today's historically low interest rate environment, some investors struggle to live off the "income-only" portion of a portfolio. *Vanguard believes the value-add of an advisor is deemed significant but too unique to each investor to quantify, based on each investor's desired level of spending and the composition of their current portfolio.*

In conclusion – Informed by the findings of the seven modules, Vanguard's research indicates the potential value-add of a financial advisor relationship is "about 3%".

Vanguard Advisor's Alpha strategy model		Value-add %
I	Suitable asset allocation using broadly diversified funds/ETFs	> 0
II	Cost-effective implementation (expense ratios)	0.45
III	Rebalancing	0.35
IV	Behavioral coaching	1.50
V	Asset location	0 - .75
VI	Spending strategy (withdrawal order)	0 - .70
VII	Total-return versus income investing	> 0
Potential value added		"About 3%"



Morningstar, Inc. is a provider of independent investment research throughout North America, Europe, Australia and Asia, offering a wide range of data, software, research and investment to financial advisors, asset managers, sponsors and individual investors. Additionally, Morningstar offers insights on managed investment products, listed companies, capital markets and real-time global market data.

Morningstar's "value add" research, released in June 2017, was a supplement research released in August 2013. In the 2013 article, Morningstar introduced a metric called "gamma" to quantify the value of more intelligent financial planning decisions and the benefits of working with an advisor. Here, Morningstar estimates the benefit using a framework of seven questions in a

portfolio construction process.

Question 1 - Why invest at all? Investors and their advisors need to start with a clear understanding of the investor's financial and life goals and how they relate to each other. *Morningstar estimates that this can add 5 -100 basis points of value.*

Question 2 - Which type of account is best for my situation? To effectively determine a proper account type, advisors must be aware of their clients' needs and invest assets in a way that maximizes tax efficiency. *Morningstar estimates this function of a financial advisor can add 10 - 50 basis points of value.*

Question 3 - What is the appropriate risk level? It is important to ensure a portfolio is consistent with an investor's goals and risk-aversion. *Morningstar estimates that appropriately working within the investor's risk level can add 10 - 100 basis points of value.*

Question 4 - Which asset classes should be included? There are significant benefits to constructing a portfolio that is diversified among asset classes such as domestic stocks and international stocks. *Morningstar estimates that proper diversification can add 0 - 60 basis points of value.*

Question 5 - How does the risk of the goal affect how I invest? Portfolios should be constructed by considering personal goals and the risk of the assets. These can be competing forces in the development of a portfolio. *Morningstar estimates that if effectively done, this practice can add 5 - 50 basis points of value.*

Question 6 - What specific investments will help me reach my goal? Selecting well matched investments and choosing managers, strategies, active versus passive oversight and investment vehicles are the core functions of a financial advisor. *When well-constructed, Morningstar estimates that such investment decisions can add 0 - 150 basis points of value.*

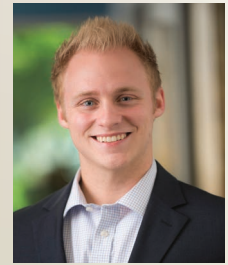
Question 7 - When should my investments be revisited or rebalanced? The process of revisiting the portfolio to ensure it remains consistent with the underlying goals and objective of the investor can be easily overlooked. *Consistently applied, Morningstar estimates that this service can add 10 - 160 basis points of value to an investor's portfolio.*

In conclusion - Morningstar estimates that through informed advice, an advisors' value is equivalent to a boost in returns of about 2.45% annually for the average investor. Morningstar's analysis is based solely on portfolio management and construction, though they also note that "providing other financial planning services such as savings guidance, pension optimization, insurance planning and withdrawal planning would likely result in even more value for the client."

Seven-Question Framework - Each aspect of planning has value in building a gamma-efficient portfolio

	Benefit of Financial Advice (%)	Low	Average	High
1	Why invest at all?	0.05	0.30	1.00
2	Which type of account is best for my situation?	0.10	0.25	0.50
3	What is the appropriate risk level?	0.10	0.40	1.00
4	Which asset classes should be included?	0.00	0.20	0.60
5	How does the risk of the goal affect how I invest?	0.05	0.20	0.50
6	What investments are right to help me reach my goal?			
	Investment Cost	0.00	0.20	0.60
	Investment Quality	0.00	0.10	0.30
	Tax Considerations	0.00	0.15	0.60
7	When should my investments be revisited or rebalanced?			
	Rebalancing	0.00	0.05	0.10
	Investing for the Long-term	0.10	0.50	1.00
	Tax-Loss Harvesting	0.00	0.10	0.50
	Total	0.40	2.45	Significant

Welcome



Please join us in welcoming Ethan Brown as a Client Service Representative in SYM's Fort Wayne office. Ethan graduated in 2016 from Indiana University Fort Wayne with a BS in Business Finance. He is originally from Logansport, Indiana and currently resides in Fort Wayne's Dupont area.

Congratulations



SYM Financial Advisors is pleased to announce the promotions of Brandon Stewart, CFP® and Kaleigh Stoddard, CFP®, to Associate Financial Advisor. Kaleigh joined SYM in 2012 and works from the Midland, Michigan office. Brandon joined SYM in 2013 and operates from the Winona Lake, Indiana office. Congratulations!



Photo credits - Stephanie Redman, Niagara Falls; Kristin Whitacre, Charleston



"2017 Value of a Financial Advisor Update: More than 4%"

Russell Investments, *Helping Advisors Blog*, 2017; Web: <https://blog.helpingadvisors.com/2017/03/21/2017-value-fiduciary-advisor-4/>.

Russell Investments is a global asset management firm founded in 1936. It provides multi-asset investing solutions to institutional investors and to individuals via financial advisors. Russell currently has assets under management of approximately \$361 billion (Russell, n.d.).

In Russell's research, areas of potential value-add from working with a financial advisor include:

Area A - Annual rebalancing of investment portfolios – *A disciplined process to rebalance a portfolio to its targeted asset allocation can add 20 basis points of value.*

Area B - Behavioral mistakes individual investors typically make – *By preventing clients from making poor investment decisions and abandoning their investment plan, an advisor can add 200 basis points.*

Area C - Cost of basic investment-only investment management – *Although independent investors (not working through an advisory firm) can buy their own index funds and "set it and forget it"*

Estimating the value added by a financial advisor relationship - continued

via today's technology, there is still a sunk cost of implementing the portfolio. This sunk cost is considered as investment-only management with no financial plan, no ongoing service or guidance; nothing except for an annual statement, online access and a phone number to call in case of questions. *Russell concludes the value (i.e. sunk cost) of investment-only management to be 33 basis points.*

Area P - Planning costs or the cost of providing a financial plan – As part of a fee-based relationship, advisors add value by building a custom financial plan for each client with regular reviews. Services may also include investment education, tax planning, Social Security and retirement planning. *Combined, these services can add 75 basis points in value to the relationship.*

Area T - Tax-aware planning/investing – *Tax-aware advisors can add 80 basis points in value* by helping clients build and implement a personalized, comprehensive tax-sensitive approach using a variety of account types.

In conclusion - Russell's research concludes that the value an advisor delivers to their clients "materially exceeds" the fee advisors typically charge for their services. They assess the value of a financial advisor to be approximately 4.08%.

Value of an advisor: A + B + C + P + T > Your Fee		Value-add %
A =	Annual rebalancing of investment portfolios	0.20
B =	Behavioral mistakes individual investors typically make	2.00
C =	Cost of basic investment-only management	0.33
P =	Planning costs or the cost of providing a financial plan	0.75
T =	Tax-aware planning/investing	0.80
Total		4.08



Estimating the Value Added by an Advisory Relationship

This research is independent of SYM Financial Advisors and is intended to provide value estimates as seen by prominent financial institutions who estimate that gains from working with a quality advisor can result in values averaging 2.45% to 4.08%. While each set of researchers approached the value question in a slightly different way, it seems clear this is more than a performance number relative to an arbitrary index.

All such research is subjective and unique to every individual investor, and the same value may not occur every year. Added value is likely to be intermittent because some of the most significant opportunities to add value occur during periods of market duress or euphoria, when clients are tempted to abandon their well-thought-out investment plan.

Please let your advisor know if you would like to receive copies of the referenced documents.

Disclosures: Past performance is not indicative of future results. The opinions expressed herein are those of SYM Financial Corporation ("SYM") and are subject to change without notice. This material is not financial advice or an offer to sell any product. SYM reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. SYM is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about SYM including our investment strategies, fees, and objectives can be found in our ADV Part 2, which is available upon request. SYM-17-15.

Works cited: Vanguard. (n.d.). Who we are. Retrieved from <https://about.vanguard.com/who-we-are/a-remarkable-history/>

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THE SYM DIFFERENCE

If you have any questions about your portfolio, please don't hesitate to contact your advisor or team.

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