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## Measuring the Value of a Financial Advisor

Weekly Educational Update – February 5, 2020

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**What is a relationship with a financial advisor worth to an investor?** A 2019 study by Vanguard, one of the world's largest money managers, attempts to answer that question.

Vanguard's whitepaper concludes that when an investor worked with an advisor and received professional investment advice, they saw a net portfolio return about 3% higher over time.<sup>1</sup>

**How did this study arrive at that conclusion?** By comparing self-directed investor accounts to an advisor model, Vanguard found that the potential return relative to the average investor experience was higher for individuals who had financial advisors.<sup>1</sup>

Vanguard analyzed three key services that an advisor may provide: portfolio construction, wealth management, and behavioral coaching. It estimated that portfolio construction advice (e.g., asset allocation, asset location) could have added up to 1.2% in additional return, while wealth management (e.g., rebalancing, drawdown strategies) may have contributed over 1% in additional return.<sup>1</sup>

The biggest opportunity to add value was in behavioral coaching, which was estimated to be worth about 1.5% in additional return. Financial advisors can use their insight to guide clients away from poor decisions, such as panic selling or accepting excessive risk in a portfolio. Indeed, the greatest value of a financial advisor may be in helping individuals adhere to an agreed-upon financial and investment strategy.<sup>1</sup>

Past performance does not guarantee future results. This study provided feedback and estimates based on customer experience. The value of advice is not a guarantee of performance. Actual returns will fluctuate.

Of course, financial advisors can account for additional value not studied by Vanguard, such as helping clients implement wealth protection strategies, which protect against the financial consequences of loss of income, and coordinating with other financial professionals on tax management and estate strategies.

After years of working with a financial advisor, the value of a relationship may be measured in both tangible and intangible ways. Many such investors are grateful they are not "going it alone."

## QUOTE OF THE WEEK



*"It took me quite a long time to develop a voice, and now that I have it, I am not going to be silent."*

– Madeleine Albright

## RECIPE OF THE WEEK



### Good Ol' Chicken Soup



Serves 10

#### Ingredients:

- 1 whole chicken, about 3 lbs.
- 4 carrots, halved
- 4 stalks celery, halved
- ½ potato, diced
- 1 cup of green peas
- 1 large onion, halved
- Water to cover
- Salt and pepper, to taste
- 1 tsp. chicken bouillon granules (optional)

#### Directions:

1. Place chicken and vegetables (except potato and peas) in a large pot.
2. Cover contents with cold water
3. Heat and simmer, uncovered, skimming foam now and then.
4. Once cooked to point where chicken easily falls off bone.
5. Strain the broth, remove all other contents, and set aside.
6. Season broth with bouillon, salt, and pepper.
7. Add potatoes and peas to broth.
8. Pick chicken meat from bones and return meat to broth.
9. Chop vegetables and return to broth.
10. Once potatoes and peas are fully cooked, serve.

Recipe adapted from allrecipes.com<sup>2</sup>



### **Do You Know the Difference Between Taxable and Nontaxable Income?**

All income you receive is taxable unless the rules explicitly state that it isn't. According to the IRS, taxable income includes earned income, like wages, as well as any income earned by bartering or the exchange of property or services. Rental income is taxable, as are other forms of unearned income, like interest and dividends or Social Security.

Some income is not taxable unless certain conditions are met. For example, life insurance proceeds are usually not taxable to the beneficiary unless you redeem a life insurance policy for cash. Any amount you receive above the cost of the policy is taxable. State and local income tax refunds may be taxable and should be reported on your federal taxes.

There are also some forms of income that are usually not taxable:

- Gifts and inheritances.
- Child support payments.
- Welfare benefits.
- Damage awards for physical injury or sickness.
- Cash rebates from a dealer or manufacturer for an item you buy.
- Reimbursements for qualified adoption expenses.

\* This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax professional.

Tip adapted from IRS.gov<sup>3</sup>



### **A Two-Piece Ball or a Multi-Layer Ball?**

Besides the construction, what differentiates a two-piece golf ball from a multi-layer golf ball? Do the two different types of cores suit different types of golfers?

In a general sense, yes. Different golfers have different swing speeds, and multi-layer golf balls are a response to this reality. A two-piece ball just has a skin and a large core, so it can easily absorb power transferred from a slower swing. A golfer who consistently shoots in the seventies or eighties probably has a faster swing and can likely shape a shot better than a high handicapper. A hard, fast swing (think 280-yard drive) will activate all the layers in a multi-layer ball; a less forceful swing (think 40-yard soft pitch) will just activate outer layers, allowing a really good golfer more control, backspin, and feel on such a shot. If you consistently break 90, you should play a multi-layer ball.

Tip adapted from TGW.com<sup>4</sup>



### **Show Your Heart Some Love**

This February is American Heart Month. Heart disease is the number one killer of men and women in the U.S., accounting for 25% of all deaths. While genetics and family history are primary risk factors, some lifestyle habits are associated with better heart health. But first, make sure to discuss any medical concerns with your health care provider before beginning any dietary and fitness regimen; this information is not a substitute for medical advice.

- **Manage your blood pressure.** And get it checked regularly. Hypertension is often asymptomatic.
- **Maintain a healthy weight.** Being overweight or obese may increase disease risk.

- **Eat well and exercise.** Both are associated with lower incidence of heart disease.
- **Drink less alcohol and don't smoke.** These habits are harmful to your cardiovascular health.
- **Sleep well and reduce stress.** Lower cortisol levels may reduce your risk.

While not all disease risk factors are controllable, some are. The list above, however, is not comprehensive. Give your heart some love this month and talk to your doctor about the best ways to care for it.

Tip adapted from MedlinePlus.gov<sup>5</sup>



### **Swap Paper Towels with Cloth**

Many items in your kitchen have environmentally friendly replacements that can make a big difference over time.

One of the biggest things you can do is to replace your paper towels with cloth ones. You'll have to wash them more, but you'll be able to reuse them over and over again. Because the fabric and clothing industry isn't known for being especially eco-conscious, pick up several sets of cloth napkins at a thrift store. Not only will you score a great bargain, but you won't feel bad about staining the napkins you typically use for special occasions.

Tip adapted from Green Living Ideas<sup>6</sup>

### ***Share the Wealth of Knowledge!***

*Please share this educational update with family, friends, or colleagues.  
We love being introduced!*

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<sup>1</sup> <https://advisors.vanguard.com/iwe/pdf/ISGQVAA.pdf>

<sup>2</sup> <https://www.allrecipes.com/recipe/8814/homemade-chicken-soup/>

<sup>3</sup> <https://www.irs.gov/businesses/small-businesses-self-employed/what-is-taxable-and-nontaxable-income>

<sup>4</sup> <https://www.tgw.com/golf-guide/golf-ball-shopping-tips/>

<sup>5</sup> <https://medlineplus.gov/howtopreventheartdisease.html>

<sup>6</sup> <https://greenlivingideas.com/2019/08/22/zero-waste-kitchen-6-single-use-items-to-replace/>