

Why Having a Financial Professional Matters



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A good professional provides important guidance and insight through the years.

What kind of role can a financial professional play for an investor? The answer: a very important one. While the value of such a relationship is hard to quantify, the intangible benefits may be significant and long-lasting.

There are certain investors who turn to a financial professional with one goal in mind: the “alpha” objective of beating the market, quarter after quarter. Even Wall Street money managers fail at that task – and they fail routinely.

At some point, these investors realize that their financial professional has no control over what happens in the market. They come to understand the real value of the relationship, which is about strategy, coaching, and understanding.

A good financial professional can help an investor interpret today’s financial climate, determine objectives, and assess progress toward those goals. Alone, an investor may be challenged to do any of this effectively. Moreover, an uncoached investor may make self-defeating decisions. Today’s steady stream of instant information can prompt emotional behavior and blunders.

No investor is infallible. Investors can feel that way during a great market year, when every decision seems to work out well. Overconfidence can set in, and the reality that the market has occasional bad years can be forgotten.

This is when irrational exuberance creeps in. A sudden Wall Street shock may lead an investor to sell low today, buy high tomorrow, and attempt to time the market.

Market timing may be a factor in the following divergence: according to investment research firm DALBAR, U.S. stocks gained 10% a year on average from 1988-2018, yet the average equity investor’s portfolio returned just 4.1% annually in that period.¹

A good financial professional helps an investor commit to staying on track. Through subtle or overt coaching, the investor learns to take short-term ups and downs in stride and focus on the long term. A strategy is put in place, based on a defined investment policy and target asset allocations with an eye on major financial goals. The client’s best interest is paramount.

As the investor-professional relationship unfolds, the investor begins to notice the intangible ways the professional provides value. Insight and knowledge inform investment selection and portfolio construction. The professional explains the subtleties of investment classes and how potential risk often relates to potential reward.

Perhaps most importantly, the professional helps the client get past the “noise” and “buzz” of the financial markets to see what is really important to his or her financial life.

The investor gains a new level of understanding, a context for all the investing and saving. The effort to build wealth and retire well is not merely focused on “success,” but also on significance.

This is the value a financial professional brings to the table. You cannot quantify it in dollar terms, but you can certainly appreciate it over time.

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Citations.

1 - cnbc.com/2019/07/31/youre-making-big-financial-mistakes-and-its-your-brains-fault.html [7/31/2019]