Choosing the right adviser

If you are not as confident as you would like to be about making important financial decisions and if getting things wrong would have a big impact on your lifestyle, you may wish to consider engaging the services of a professional financial adviser. Despite the standards for UK advisers being among the best in the world now (although this was certainly not always the case), many people still find the task of finding and choosing one rather daunting. This is where a simple framework can help.

However, first of all it may be helpful to consider some of the varying ways in which financial advisers are described as even though all authorised and regulated individuals are subject to the same requirements, they do not all work in the same way.

- *Financial advisers* tend to be focused on the provision of advice on a particular issue or transaction at a point in time, such as buying a house, setting up a pension scheme or arranging life assurance. There may be subsequent ongoing service but not necessarily unless you request it.

- *Financial planners* generally follow a standard process which starts with a discussion of what you want to achieve in your life, what resources you have available (of whatever types) and how much risk you are willing and able to take in pursuit of those goals. They then carry out an analysis of how achievable those goals are and recommend the steps you might take to improve your chances. Since it is likely that your goals, circumstances and external factors will change over time, they then monitor and regularly review your plan with you to help you to stay on track so that you can make adjustments in plenty of time if they appear necessary. A financial planner can also work through possible alternative scenarios with you (for example, stopping paid work earlier, giving assets away or buying additional property) to help you to assess the likely impact on your future security.

- *Wealth managers* tend to focus on clients whose affairs are more complex than average and who require ongoing service, possibly across more than one generation, which often involves managing sustainable withdrawals from portfolio so may involve cashflow planning. However, there is considerable variety among those who call themselves wealth managers in terms of the service they provide. Some are little more than stockbrokers or investment managers, who will manage a portfolio but have limited knowledge of the legal and taxation aspects and often no training in financial planning so may not address pension or insurance issues. Ideally a wealth manager should provide both comprehensive financial planning (i.e. be focused on helping you to achieve your goals) and also provide ongoing investment portfolio management.

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Understand the charges

Costs are important in the financial sector, as every pound that you spend on third parties is a pound you do not have to spend on achieving your own goals and with low investment returns likely to be the norm for the next few years at least, it is essential to ensure that you receive sufficient value for the costs you pay. However, as with neurosurgery, choosing the lowest cost option may not be the most effective route in the long term. Since commissions were abolished for most products in 2012, at least you can identify the costs that you pay more easily now. Most advisers charge by fixed fee, hourly rates, a percentage of the value of the funds invested (possibly tiered, so that the rate reduces as the portfolio grows) or some combination of these. However, whatever charging method they use, they are obliged to provide a cash figure as an indication of what those costs might be for the proposed service.

Remember also that the charges paid to the adviser are only part of the total – those payable to fund managers, custodians, product providers and for transactions within your portfolio all add up and can have a material impact over time.

Determining value

Financial planning advice should help you to achieve better financial outcomes compared with not taking it. A good adviser should save you time and help you to:

- make well informed decisions and
- to stay disciplined in the face of the inevitable ups and downs of the stock market and of life in general.

A recent study[1] concluded that, "Based on our analysis, advisers can potentially add 'about 3 percent' in net returns…….". It arrived at this figure by placing a value on the following services:

- Using low-cost funds: 0.45%
- Annual portfolio rebalancing: Up to 0.35%
- Behavioural coaching: 1 to 2%
- Tax efficiencies: Up to 0.75%
- Withdrawal order for spending: Up to 0.70%

It is noteworthy that none of these includes skill at selecting the 'best' markets, funds or shares in which to invest or in determining the best times to buy or sell them. Not only are these very hard to do but they do not add great value even if they can be done occasionally. Indeed, the highest value came from 'behavioural coaching' - helping clients to resist various common behaviours, such as trading too much or allowing their decisions to be driven by emotion, which have been shown by a number of studies to contribute to destroying their wealth (or rather to transferring it to other investors who were not displaying those behaviours at the time).

[1] '*Putting a value on your value: Quantifying Vanguard Advisor's Alpha', Francis M. Kinniry Jr., CFA, Colleen M. Jaconetti, CPA, CFP ®, Michael A. DiJoseph, CFA, and Yan Zilbering, March 2014*

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In conclusion

While there is certainly no guarantee that taking financial advice will add an extra 3% to your annual returns, if you choose a firm that is right for your needs, there is a very high chance that you will feel more confident about your finances, you should worry a lot less and you will probably have more freedom to be, do or have what you want from your life.

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