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Quality financial advice

Plain Talk® Library



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The value of partnership

Many people find it difficult to invest on their own, particularly as they accumulate wealth and their financial situations become more complex. That's when professional financial advice can help.

An experienced financial adviser provides customised portfolio management and discipline that can better position you to reach your long-term investment objectives.

A financial adviser will also build a relationship with you that goes beyond traditional financial planning and results in a more valuable financial life planning approach.

Financial advisers' knowledge of the investment process

Financial advisers don't merely pick shares or recommend investments—they carefully analyse your personal circumstances and assess the market environment as they develop your investment strategy.

An experienced financial adviser has the training and insight to:

- Understand your goals, your objectives, and your reasons for investing.
- Help create an investment strategy that can meet both your short and long-term needs.
- Explain an array of investments from traditional shares and bonds to exchange traded funds, superannuation, and other investment vehicles and determine how they fit into your financial plan.
- Act as an effective behavioural coach to keep you focused on your goals.

In real terms, an experienced financial adviser may offer the strategic planning, discipline, and monitoring that can add up to an additional 3 percentage points of net returns to your portfolio¹, further positioning you for long-term success.

¹ Source: *Putting a value on your value: Quantifying Vanguard Adviser's Alpha™*, February 2016.

The importance of an investment strategy

A carefully planned investment strategy is a practical way that you and your financial adviser can make sure that you maintain the direction and discipline you need to reach your investment goals.

The first step in creating an investment strategy is to work with your financial adviser to understand your current situation and decide what you want to achieve with your portfolio. Together with your financial adviser, you will need to determine your investment goals, risk tolerance and timeframe.

Your financial adviser will ask you questions about your current investments, the amount you plan to invest and your investment time frame, the level of risk you're comfortable with, and the return you expect from your portfolio.

Periodically, your financial adviser will revisit your investment strategy to ensure that your portfolio is on track and, if needed, make any necessary adjustments.

Understanding your investment philosophy

Together with your financial adviser, you'll clarify your objectives as an investor and define your investment philosophy.

Your financial adviser will help you define your attitudes toward investment risk, asset allocation and diversification, trading, investment costs, and other issues that make up what's important to you as an investor. Establishing your unique investment philosophy will help guide the fundamental decisions you and your financial adviser make about your portfolio.

Allocation of assets

Asset allocation is a critical factor in determining the long-term return patterns of your portfolio. Asset allocation also helps you and your financial adviser determine the trade-off between risk and return for your particular needs.

Your financial adviser will consider a number of factors when developing an asset allocation that's appropriate for you, including:

Investment goals. Your financial adviser will need to understand your short and long-term objectives—for example; a home purchase, education, retirement, or business financing—to create an allocation that helps you reach your goals.

Risk tolerance. Do you lose sleep when the markets slide? Or do you shrug off market volatility as a normal course of events? Your financial adviser can help you understand your emotional reactions to the risks of investing and can help you create a plan that suits your investment temperament.

Timeframe. In order for your financial adviser to tailor your portfolio to your goals, it's important to define your financial timeframe. A portfolio invested to finance retirement in 20 years would include a different selection of securities than a portfolio intended to finance an imminent retirement. For example, a growth-oriented investor seeking to maximise his or her long-term return potential may be willing to tolerate the large short-term price fluctuations that can occur with a concentration in shares. On the other hand, an investor with short-term goals might be more likely to choose a bond-oriented allocation that's more suitable for generating income. Your financial adviser will work closely with you to establish an allocation to meet your particular needs.

Comfort with risk versus return. Risk and return are closely related. The concept of risk/return suggests that low levels of investment risk will result in low returns, while high levels of risk will generate higher returns. Of course, there are no guarantees. While increased risk offers the possibility of higher returns, it also can lead to bigger losses. Balancing the risk you are willing to accept with the investment returns you need or want is something your financial adviser will discuss with you.

The diagram below is a simple illustration of the relationship between risk and return.



Determining the amount of investment risk you can tolerate is essential to establishing an asset allocation. Your financial adviser will examine your income, investable assets, investment goals—even your attitude about risk—to determine the risk/return trade-off that's right for you.

Diversification matters. Your financial adviser will generally build your portfolio using a variety of asset classes to achieve a high level of diversification and long-term stability.

Periodic rebalancing is essential

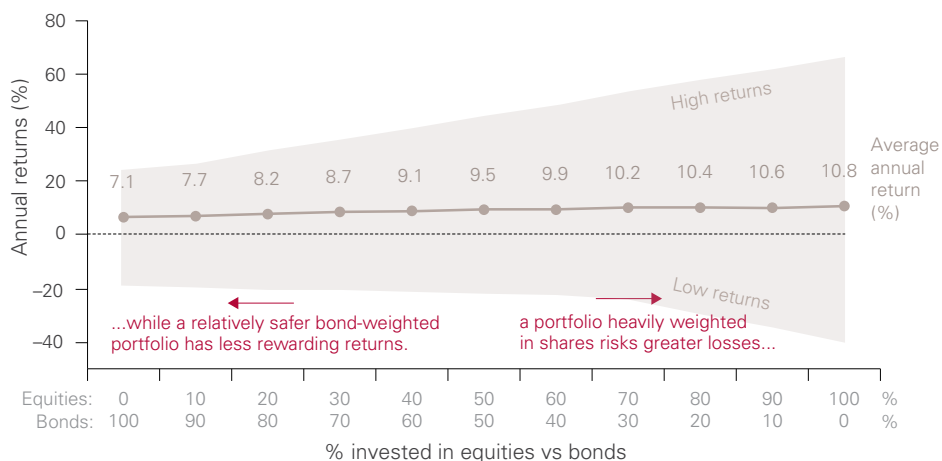
Your needs, goals, and investment time frame change over time. So, too, does the market. One of the ways your financial adviser adds value to your investment plan is by monitoring and periodically rebalancing the asset allocation of your portfolio.

Together with your financial adviser, you can review your investment plan to make sure it stays on track to meet your short- and long-term investment goals.

Asset allocation can influence average returns

Holding more shares in a portfolio has historically resulted in higher average annual returns but greater risk. The chart below illustrates how a portfolio made up of 100% shares delivered an average annual return of 10.8% significantly higher than the 7.1% average annual return of a 100% bond portfolio. The trade-off for that significantly larger return was a much greater exposure to the risk of loss.

Range of annual returns, 1962–2016



Note: Equities are represented by the DMS Australia Equity Total Return Index and the S&P/ASX All Ordinaries Total Return Index, and bonds are represented by the DMS Australia Bond Total Return Index and the Bloomberg AusBond Composite 0+Y Total Return AUD Index. Data are through December 31, 2016.

Sources: Vanguard Investment Strategy Group, using data sourced from FactSet from Dec 1962 to Dec 2016.



Positioning your portfolio

Investment expenses and taxes can significantly erode the value of your portfolio. A low-cost, tax-efficient portfolio can be the foundation for long-term investment success.

The value of tax efficiency

The implementation of tax-efficient strategies is an important way that your financial adviser can add value to your portfolio. When it comes to tax efficient accumulation, your adviser can create a savings strategy to ensure you are making the most savings. They can also implement any plans in a tax sensitive manner.

Costs matter

Never underestimate the importance of investment expenses. Simply stated, investment costs eat into your returns. The adjacent chart illustrates how costs can affect investment returns for two managed funds with different expense ratios. Based on a hypothetical initial investment of \$100,000 in each fund, the lower-cost managed fund would have returned \$202,923 more than the higher cost fund over the approximately 25 years ended October 31, 2017.

Your financial adviser understands the nature of investment costs and can be instrumental in ensuring that your investments are as cost-effective as possible.

How lower fund costs can help you over the long term



Sources: Vanguard Investment Strategy Group, using data sourced from FactSet from May 1992 to October 2017.



The value of planning for a lifetime

As you approach retirement, your financial adviser will help you establish an effective spending plan, while positioning your portfolio for sustained growth. This will ensure you enjoy a comfortable retirement.

Establishing the right spending plan

By implementing an efficient, tax-advantaged retirement spending strategy, your adviser can provide significant value by increasing your wealth and extending the life of your portfolio.

Choosing the appropriate retirement allocation

As you near retirement, it's natural to become a more conservative investor with a desire to preserve your investment.

Your adviser can help you understand the difference between income and total-return investing strategies, and why maintaining a balanced approach to generating income and capital appreciation is key to preserving your portfolio through your retirement.

What does this mean for you?

The right plan, properly executed using a holistic approach may translate into as much as a 3 percent increase in net portfolio return.² Your adviser has the expertise and time to evaluate your investments, meet with you to discuss objectives, and help get you through tough markets. All of these factored together could add value to your net returns (returns after taxes and fees) over time.

A financial adviser offers the discipline, strategic planning and continuous monitoring that can help you meet your investment goals.

² Source: *Putting a value on your value: Quantifying Vanguard Adviser's Alpha™*, September 2016.



For more information

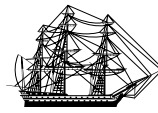
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