

Why Having a Financial Professional Matters

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

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 uncounseled investor may make self-defeating decisions.

Some investors never turn to a financial professional. They concede that there might be some value in maintaining such a relationship, but they ultimately decide to go it alone. That may be a mistake.

No investor is infallible. Investors can feel that way during a great market year, when every decision seems to work out well. In long bull markets, investors risk becoming overconfident. The big-picture narrative of Wall Street can be forgotten, along with the reality that the market has occasional bad years.

This is when irrational exuberance creeps in. A sudden market shock may lead an investor into other irrational behaviors. Perhaps stocks sink rapidly, and an investor realizes (too late) that a portfolio is overweighted in equities. Or, perhaps an investor panics during a correction, selling low only to buy high after the market rebounds.

Often, investors grow impatient and try to time the market. Poor market timing may explain this divergence: according to investment research firm DALBAR, the S&P 500 returned an average of 8.91 percent annually across the 20 years ending on December 31, 2015, while the average equity investor's portfolio returned just 4.67 percent per year.¹

The other risk is that of financial nearsightedness. When an investor flies solo, chasing yield and "making money" too often become the top pursuits. The thinking is short term.

A good financial professional helps a committed investor and retirement saver stay on track. He or she helps the investor set a course for the long term, 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.

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 - zacksim.com/heres-investors-underperform-market/ [5/22/17]