

Adding Value With a Professional Advisor

With the proliferation of web-based trading platforms and investment information via the Internet, some people have questioned the value of professional financial advice. There is definitely a number of people that buy their investments through the Internet and make decisions based on the information they get from the media. These investors do not employ the services of a financial advisor – is that really a cost saving? Recent research suggests otherwise. For example, Vanguard released a study earlier this year showing that professional investment advisors can increase their client's net investment returns by 3 percent.

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This improvement in investment performance is not the result of better stock picking, as many active managers would have you believe. Research by the investor David Dreman based on 78,695 forecasts of investment returns found that from 1973 to 1993 there was just a 1 in 170 chance (0.59%) that forecasts would fall within plus or minus 5% of the actual number! As JP Morgan famously said only one thing is certain about the market's future performance: “It will fluctuate.”

Instead, the research shows that the advisor adds value by keeping emotional clients from acting on their impulse in times of volatility and helping them put aside their behavioural biases. These clients are more successful by (for example) not selling low (something no web-based algorithm can achieve) by creating effective asset allocation strategies and by gradually unwinding their portfolio to fund their retirement.

The role of the financial advisor goes well beyond the value they can add to the management of your investment portfolio. An advisor should be providing advice and practical help with major life decisions and goals, such as securing a mortgage, insuring against risks, restructuring debts and estate planning. Not many people have the time or actually want to handle record keeping for investments, tax reporting or other financial chores – again this is where the services of a financial advisor can provide the peace of mind that comes from the knowledge that a dedicated professional is there to help you achieve your life goals.

The very top financial advisors provide “best of both worlds” services that leverage the power of technology (such as sophisticated investment returns simulation systems and online 24x7 access to useful information) in offering the personal customised services for their clients. If all you are getting from your advisor is the occasional “tip” to buy what is “hot” and “trending”, think again and consider hiring a financial professional that can provide measurable long-term value that will always exceed the cost of their fee.

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