The Value of a Financial Advisor

While financial advisors are prevalent in the investment industry, the main question behind their success revolves around whether or not they are adding substantial value to their clients' investments. Although advisors are supposed to suit a client's specific investment needs, they often shift this responsibility to their clients, letting them choose their portfolio allocations from a pool of funds and constructing their own portfolio allocation. In essence, the client undertakes what should be key role and aim of an advisor, which is to create a globally diversified asset allocation that matches a client's risk threshold.

To add value is to develop a portfolio allocation that reflects sound investment knowledge and understanding of a client's needs. This additional value is exactly what IFA investment advisors provide in maximizing the portfolio performance of 401 (k) participants.

Research shows that plan participants would be well-served by receiving the services of a fee-only independent advisor that will quantify their risk capacity scores and guide them through the investing process that will enable them to invest in and rebalance a risk-appropriate, globally diversified index portfolio.

A Charles Schwab study released November 2007 revealed that 401(k) participants who received professional assistance or advice in allocating their 401(k) assets earned a significantly greater rate of return than those who did not receive assistance.

The study showed that individuals who received financial advice or plan-sponsored asset allocation models earned a substantially greater rate of return than those who were on their own. The release, "New Schwab Data indicates Use of Advice and Professionally-Managed Portfolios Results in Higher Rate of Return for 401(k) Participants" quantifies the value that professional financial advice added to the returns of investors for the previous year, 2006. Broken down by age group, the data is set forth in the table below.

Participant Segment	Non-Target, Non-Advice Participant Rate of Return	Advice Participants (> 1 year) Rate of Return	Advisor Premium
Ages 25 or under	9.33%	14.06%	4.73%
Ages 26-35	11.08%	14.45%	3.37%
Ages 36-45	11.40%	14.32%	2.92%
Ages 46-55	11.27%	14.01%	2.74%
Ages 56-65	10.75%	13.29%	2.54%

*Past performance is no guarantee of future results. Source: Schwab press release dated Nov. 28, 2007, titled "New Schwab Data indicates Use of Advice and Professionally-Managed Portfolios Results in Higher Rate of Return for 401(k) Participants"

“It’s not surprising that people using advice are more likely to earn higher returns, but it is remarkable to see how much better they are doing,” said Jim McCool, executive vice president of Schwab Corporate & Retirement Services.

This study reveals the significant value-added benefits that 401(k) plan participants receive when they are educated regarding the significant impact of risk, return, time and diversification. This is the very education IFA 401(k) provides plan sponsors and participants alike.

A knowledgeable and independent financial advisor will educate and inform plan participants. Doing so will significantly increase their investment knowledge, enabling them to invest in the portfolio that matches their ability to take on the right amount of stock market risk and optimize their returns. Five Dimensions of Risk Capacity are analyzed and quantified in order to arrive at an individual’s Risk Capacity Score; they are time