

# Answering Tough Questions

Tough questions from clients should be encouraged. Dealing with any uncertainties can only strengthen the advisor-client relationship.

Recently, Canadian discount investment service Questrade, which offers both an online brokerage and ETF investment portfolios, has based a television campaign on “tough questions” about fees. While we’re sure advisors have better answers than the ones portrayed in these commercials, we thought it might be useful to gather up the evidence and arguments about the value of advice.

## The Value of Advice

### HOW DOES WORKING WITH A FINANCIAL ADVISOR AFFECT CLIENT OUTCOMES?

- A study by CIRANO found that a household that worked with an advisor for one to four years had almost twice as many assets as a household without an advisor. After 15 years or more, it had almost four times as many.<sup>1</sup> Claiming that investors can retire “30%” richer without an advisor is not necessarily accurate.

### HOW DO ADVISORS ADD VALUE DURING MARKET CYCLES?

- Advisors can provide investment education and discipline. They may also promote regular investment, help bring balance to their clients’ portfolios and work to shield them from emotional investing.

### HOW DOES ACCESS TO ACTIVE MANAGEMENT AFFECT YOUR CLIENTS?

- **Potential for better returns:** While it’s sometimes questioned whether active managers deliver better returns, recent research indicates that those with a genuinely active style do.<sup>2</sup>
- **Control and choice:** Active managers can access a large universe of investments and may be able to respond swiftly to market changes. For example, there are 19,000 active stocks in emerging markets, but only 887 active stocks in the MSCI EM Index.<sup>3</sup>
- **Research:** Active manager often have access to research resources which can potentially aid in achieving superior risk-adjusted returns.

- **Downside protection:** Because they have more choice, control and access to information, active managers can potentially manage risk better.

### HOW DO ADVISORS PROVIDE HOLISTIC FINANCIAL ADVICE?

- Advisors can design services and solutions for a wide variety of clients, from the beginning investor to the young family to retirees. Advisors can survey and select products to create a portfolio that is tailored to all of an investor’s needs, from tax and income issues to time horizons to socially responsible investing.

### HOW ELSE DO FINANCIAL ADVISORS ADD VALUE?

- Good financial habits and planning contribute to financial success. Advisors can help to provide the discipline and expertise. They can help clients
  - save effectively
  - take advantage of company plans and government savings instruments
  - factor in tax issues
  - avoid bad financial habits
  - understand the implications of their financial situation and set goals
  - think through estate issues
  - make decisions and avoid procrastinating

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Questrade's claim to superior performance seems to rest on its lower fees: If you spend 30% less on fees, you will get results that are 30% better. Of course, it's not that simple.

Certainly, fees are an important part of the equation when clients are considering where to put their money. And for disciplined, knowledgeable do-it-yourselfers, discount services can be attractive – but just because you can doesn't mean that you should.

Do-it-yourself investors can often face a number of emotional and technical challenges when it comes to selecting and managing their investments. And unless they can be certain to overcome these obstacles, most would be better off working with a professional who provides unbiased advice for a reasonable fee.

For more information, contact your Fidelity representative or visit [fidelity.ca](https://www.fidelity.ca)



<sup>1</sup> *The Gamma Factor and the Value of Financial Advice*, CIRANO, 2016.

The 2016 Cirano study attributes the difference in assets between participants using financial advice vs. those who do not use financial advice to higher savings rates and a greater allocation of non-cash investments – disciplined behaviors acquired through financial advice. After adjusting for nearly 50 socio-economic and attitudinal differences, investors with advice were found to accumulate 290% or 3.9 times more assets after 15 years than comparable non-advised investors.

<sup>2</sup> *Challenging the Conventional Wisdom on Active Management: A Review of the Past 20 Years of Academic Literature on Actively Managed Mutual Funds*, Cremers, Fulkerson, Riley, 2019, and *How Active is Your Fund Manager? A New Measure That Predicts Performance*, Cremers, Petajisto.

<sup>3</sup> Active stocks: stocks that have traded in the past 30 days. Sources: MSCI and Factset, as at 8/10/18.

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