

# The Value of Advice

The best athletes in the world tend to use coaches to help them keep on track, maintain focus, monitor progress and achieve their goals. Despite being incredibly talented, athletes realize the value a coach brings to them.

We like to say that we are like your personal **Chief Financial Officer (CFO)** reviewing aspects of your wealth, providing personalized advice to help you what truly matters to you. There have been several studies showing that working with a trusted financial advisor can help build wealth faster.

CIRANO's 2020 report "More on the Value of Financial Advisors" showed investors receiving advice accumulate 2.3 times more wealth after 15 years than non- advised investors.

Another study by Vanguard Investments in 2022 showed that advisors may add 3% of value in returns over time. These returns were net of both fees and taxes. The Vanguard study mentions a range of around 3.0% because some advisors do not offer all these services. Vanguard suggested advisors can help improve results in the following:

Area of Expertise	Potential Added-Value
Portfolio Construction	1.50%
Behavioural Coaching	2.00%
Wealth & Tax Planning	1.34%

*Source: Vanguard Investments*

The actual amount of value can vary significantly depending on client circumstances and time horizon. This includes risk tolerance, financial goals, portfolio composition and tax bracket, among other factors.

**1. Portfolio Construction:** Includes suitable asset allocation: mix of stocks, bonds and alternatives. For example, we employ eight layers of diversification (asset class, geography, factor, currency, style, size, sectors and alternatives). This should also entail using cost- effective solutions and placing each investment in the most tax efficient account (RSP, TFSA, etc.).

**2. Wealth Management:** Includes regular portfolio rebalancing (trimming at highs and adding near lows). Creating a draw down or cash flow strategy. To help keep clients on track, advisors should be revisiting client's objectives before major life events such as: having a child, marriage, divorce, retirement, disability, illness, or death.

**3. Behavioural Coaching:** One of the biggest risks to investing is doing the wrong thing at the wrong time: selling when markets are down or chasing performance. Advisors

should help through challenging times by acting like an emotional circuit breaker to avoid hindering your wealth.

The study concluded the most important skill an advisor can bring is behavioural coaching. This coincides with several studies that have shown that the average investor underperforms due to emotional behavior working against them. J.P Morgan's 2022 Guide to the Markets report showed that over a 20-year period, a portfolio of 60% stocks and 40% bonds in the US returned an average of 7.4% whereas the average investor only earned 3.6%.

According to FP Canada's report on the Value of Financial Planning, investors working with advisors feel twice as prepared for retirement as those without. These investors also reported higher levels of emotional, financial, and contentment.

Financial concepts are complex and continually changing along with stock markets and demographics needs. Some key areas not covered in any of the research were the benefits of pension selection, charitable giving, income splitting and estate planning strategies. Savings in these areas could magnify the results but are likely harder to quantify.

The studies concluded that provided the advisor charged a reasonable fee, the benefits from the guidance of a full- service professional wealth manager should outweigh the costs and could add up to 3.0% a year.

Written By Keith

Until next time... **Invest Well. Live Well.**



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The views expressed are those of Eric Davis, Senior Portfolio Manager and Senior Investment Advisor, and Keith Davis, Associate Investment Advisor, Heidi Bradley, Associate Investment Advisor, TD Wealth Private Investment Advice, as of February 7, 2025 and are subject to change based on market and other conditions. Davis Wealth Management Team is part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc. which is a subsidiary of The Toronto-Dominion Bank.

