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Q:

Is there a simple method for evaluating an advisor's performance?

BY JAMES L. DINARDO

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PIONEER FINANCIAL AT NORTHWESTERN MUTUAL

▶ **As in any profession, all financial advisors**, as the saying goes, are not created equal. Which brings us to the question posed here: *Is* there a simple method for evaluating an advisor's performance?

Three studies have actually calculated a mathematical value for evaluating financial advice. The Vanguard Group's 2014 study put an annual value of 3 percent on implementing its advisors counsel. A Morningstar Research study done in 2017 put the annual value of financial advice between 1.5 and 3 percent. And another 2017 study of advisor services, by Russell Investments, put their value to clients at 4.08 percent annually.

Now, to help you determine the value of an advisor to your financial planning, we suggest parsing what an advisor does into three functions:

1. Financial planning
2. Behavioral financial coaching
3. Acting in your best interest

We further delineate these functions by giving each a value in the overall process. For our firm, financial planning counts for 50 percent, behavioral financial coaching represents 25 percent and acting as a fiduciary also counts for 25 percent. Let's start with financial planning, which, again, we calculate as representing 50 percent of our value as an advisor.

FINANCIAL PLANNING

Financial planning takes discipline, including sometimes asking clients difficult questions and sometimes giving clients difficult answers. Highly valued advisors are dedicated to goals-based wealth management and make certain to discuss all aspects of their clients' financial life. They provide personalized advice based on a formal and focused financial life plan. And finally, a valued firm employs a qualified team with experience coupled with cutting-edge collaborative technology.

Top advisors also do a constant review of their clients' plans; we do at least two reviews annually. For an advisor, being transparent and forthcoming around the success or failure of a client's financial plan can be a challenge. While it may give rise to an uncomfortable discussion, it is one that must happen frequently. And it is the advisor who must schedule them to make certain "unemotional rebalances," as we call them, get implemented. At the heart of this rebalancing is function number two, which we discuss below.

BEHAVIORAL FINANCIAL COACHING

"Be fearful when others are greedy and greedy when others are fearful."

That is probably one of the most famous Warren Buffett quotes of all time. And it gives true meaning to the old saying "Easier said than done."

Remember that unemotional rebalancing mentioned earlier? Firms must act as a client's behavioral financial coach, and that requires developing an unemotional rebalancing strategy. And let me tell you, based on my many years of experience, this may be one of the hardest parts of a financial advisor's tasks.

The truth is that, yes, even the best-laid plans can go awry, not to mention the effects of forces out of everyone's control (see Great Recession). This is when we become behavioral financial advisors, when we must convince a client to not let an irrational reaction dictate a course of action. It may mean advising a client not to change anything—or, to put it another way, not allowing a client to chase performance, which can lead to *under*performance.

ACTING IN YOUR BEST INTEREST

"Acting in your best interest" means *always* putting the client's needs and goals first and foremost. That means that an advisor's investment process operates on an open-architecture investment platform. Open architecture simply means an advisor is not working with a set list of proprietary financial products and services, but instead satisfies a client's financial needs by researching many products and services and recommending only those that best meet a client's needs.

> "Highly valued advisors are dedicated to goals-based wealth management."

I will end with DALBAR's 24th Annual Quantitative Analysis of Investor Behavior Study, which showed that the average equity investor underperformed the S&P by 2.89 percent from 1997-2017 by chasing performance and not rebalancing unemotionally. ●

PHOTO: KEVIN R. LUCHETTA, STEPHEN A. SCHWARTZ, JAMES L. DINARDO, PAUL D. TORTORELLA

ABOUT PIONEER FINANCIAL AT NORTHWESTERN MUTUAL

Pioneer Financial at Northwestern Mutual provides financial services to high net worth and emerging high net worth individuals, families and business enterprises. Pioneer Financial's team of 17 associates and staff serves clients nationwide from their Park Avenue office in New York City. Kevin R. Luchetta, Stephen A. Schwartz and James L DiNardo are wealth management advisors and Certified Financial Planner™ practitioners. The practice is focused on assisting clients through comprehensive financial planning that includes asset management, retirement funding, risk management, and estate preservation and distribution.

EXPERTISE

Financial Services Experience	Professional Services Provided	Assets Under Management
19 YEARS	Financial-planning, investment-advisory, risk-management and money-management services	Confidential

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