

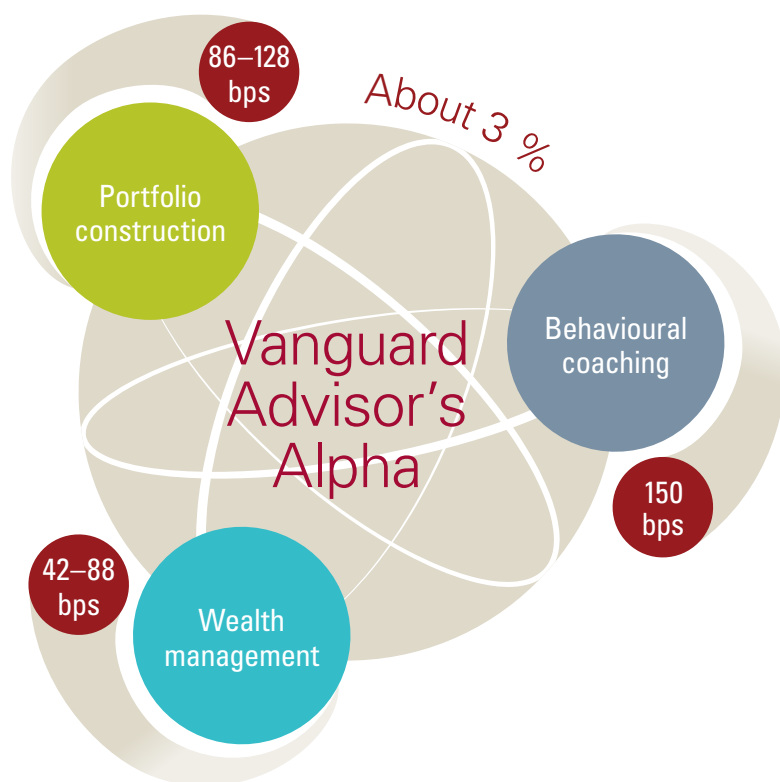
Vanguard®

Vanguard Advisor's Alpha™:

Quantifying your value to your clients

Advisor brief

October 2018



bps = basis points

Advisors add "about 3%"

The Vanguard Advisor's Alpha framework has outlined how you can add value through relationship-oriented services such as wealth management and behavioural coaching.

Vanguard now has attempted to quantify your potential worth to your clients' net returns. We believe you can add "about 3%" for your clients and distinguish your skills and practice if you implement Vanguard Advisor's Alpha.

For some clients, you may offer much more than 3 percentage points of increased returns. For others, less. The 3 percentage points come after taxes and fees. This return is not added over a specific time frame but varies each year and according to client circumstances. It can be added quickly and dramatically, especially during periods of market decline or euphoria. It may be provided slowly. It will not appear on a client's quarterly statement but is real nonetheless. Remember, providing services such as estate and succession planning, or offering advice on long-term care insurance and charitable giving, have value as well, even if they are not quantifiable.

Using Vanguard Advisor's Alpha to quantify your value

Vanguard Advisor's Alpha strategy		Potential value relative to "average" client experience (in basis points of return)
 Portfolio construction		
Suitable asset allocation using broadly diversified mutual funds/ETFs*		>0
Cost-effective implementation (expense ratios)		86
Asset location		0–42
Total-return versus income investing*		>0
 Wealth management		
Rebalancing		42
Spending strategy (withdrawal order)		0–46
 Behavioural coaching		
Advisor guidance		150
Potential value added		"About 3%"

* Value is deemed significant but too unique to each investor to quantify.

Source: Todd Schlanger, Colleen M. Jaconetti, Francis M. Kinniry Jr., Donald G. Bennyhoff, and Yan Zilbering, 2018. Putting a value on your value: Quantifying Vanguard Advisor's Alpha in Canada. Valley Forge, Pa: The Vanguard Group, Inc.

Notes: For "Potential value added," we did not sum the values because there can be interactions between the strategies. bps = basis points.

"About 3%" defined

Vanguard has quantified the potential benefit of best practices in professional financial advisory services. The chart above is a high-level summary of the practices and the approximate range of value we believe advisors can add by incorporating them, relative to others who are not using these strategies.



Portfolio construction

These portfolio construction techniques allow you to focus on what you can control—costs, diversification and tax efficiency.

Cost-effective implementation means you save your clients money annually through choosing low-cost mutual funds and ETFs. You minimize taxes through *asset location*, picking the right investment products for taxable and tax-advantaged accounts, respectively.

The values of *asset allocation* and *total-return investing* are difficult to estimate, but they are significant and help reduce risk. Diversified portfolios usually experience less volatility and may do better, at times, than more aggressively positioned portfolios. A conservative portfolio focused on income faces risks as well, especially during periods of rising interest rates when bonds may lose value.



Wealth management

You can distinguish yourself and your practice through wealth management, which puts you in the centre of your clients' financial lives and gives you the ability to view their finances and future plans by taking a 360-degree view of their financial needs.

Two of the tools that you may consider using are *spending strategy* and *rebalancing*. An effective *spending strategy* helps retired clients withdraw from their portfolios in the most tax-efficient manner. *Rebalancing* can improve a portfolio's risk-adjusted returns compared with those of a portfolio that is not rebalanced over time.



Behavioural coaching

Arguably one of the most challenging roles of an advisor is to help clients stick to their financial plans when their emotions run high.

How can you determine how much you saved clients by persuading them to stick with a stock allocation after the market drops or by keeping them from piling into equities after the market hits new highs? One common method of analyzing investor behaviour is to compare investor returns with fund returns over time. History suggests that investors commonly receive returns that are much lower than the returns of their funds. That's because cash flows tend to follow—rather than precede—higher returns due to performance chasing. Through behavioural coaching, Vanguard believes advisors can add 150 basis points, if not more, over time.

Beyond the numbers

Your value proposition has always been easier to describe than define. Some aspects of investment advice lend themselves to the quantification of the extra value you bring to your clients. Because we have done the research, we believe you can comfortably tell your clients that you can add value to their portfolios. But you should adjust their expectations so they understand that they will not see this value on top of market returns or every year. Your guidance will prove itself over the long term.

Advisor's alpha is a win-win

A win for your clients

Your clients get to keep more of their returns while getting better financial planning and potentially better tax efficiency. They will have greater peace of mind knowing that their portfolio risks have been reduced and that they can always turn to you for guidance.

A win for your business

For advisors, the biggest benefits of the advisor's alpha framework are, over time, increased client balances and loyalty. Client loyalty typically leads to more referrals and new clients, as well as to a larger asset base on which to charge your fees. By taking care of all your clients and their needs, you can potentially build a more profitable business.

Take action

Better value proposition for clients:

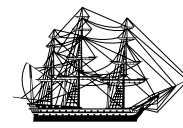
- Will you emphasize your ability to guide and manage clients' financial lives?
- Have you considered core, broadly diversified index funds, which can help lower investment costs?
- Will you review portfolios to determine whether they can be more tax-efficient?

Spend more time with your clients:

- Have you created a clear communications plan?
- Will you use your time with clients to bolster other areas of your business, such as estate planning?

Leverage your firm:

- Do you fully utilize your firm's technology?
- Are systems in place for asset allocation and rebalancing?
- Do you use low-cost mutual funds and ETFs to help improve performance?



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