

# Putting a value on your value Quantifying Vanguard Advisor's Alpha™

One thing your clients can count on year in and year out is the market's unpredictability. By shifting the value proposition of advisors away from the uncertainties of traditional beat-the-market objectives and toward the best practices of wealth management, Vanguard's Advisor's Alpha is helping to create more sustainable value for you and your clients.

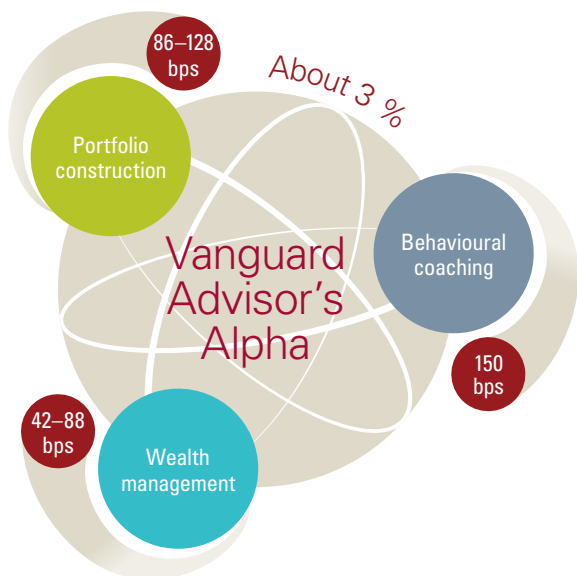
**Vanguard research shows that your advice may add about 3 percentage points of value in net portfolio returns over time.**

## Advisor's alpha: Good for your clients

Through portfolio construction, behavioural coaching and wealth management, advisor's alpha optimizes value that would otherwise be eroded by tax inefficiency, costs, risk management and poor investment behaviour.

### How do you create 3% for your clients?<sup>1</sup>

Figures represent potential added value relative to "average" client experience (in basis points of net return).



Building a plan customized to a client's unique situation	
Suitable asset allocation using broadly diversified funds/ETFs*	> 0 bps
Cost-effective implementation (expense ratios)	86 bps
Asset location between taxable and tax-advantaged accounts	0-42 bps
Total-return versus income investing*	> 0 bps
Deploying strategies to minimize tax impact and risk	
Regular rebalancing	42 bps
Spending strategy for drawdowns	0-46 bps
Helping clients to stay the course	
Behavioural coaching	150 bps

\* Value is deemed significant but too unique to each investor to quantify. Source: Schlanger, et al., 2018. Putting a value on your value: Quantifying Vanguard Advisor's Alpha in Canada.: The Vanguard Group, Inc.

<sup>1</sup> Return value-added for the asset allocation and total-return investing modules was deemed significant but too unique for each investor to quantify. See the Quantifying Advisor's Alpha research paper for a detailed description of each module. Also, for the "about 3%" potential value-added figure, we did not sum the values because there can be interactions between the strategies. bps = basis points.

## Advisor's alpha: Good for your clients *(continued)*

### Keep in mind that this return:

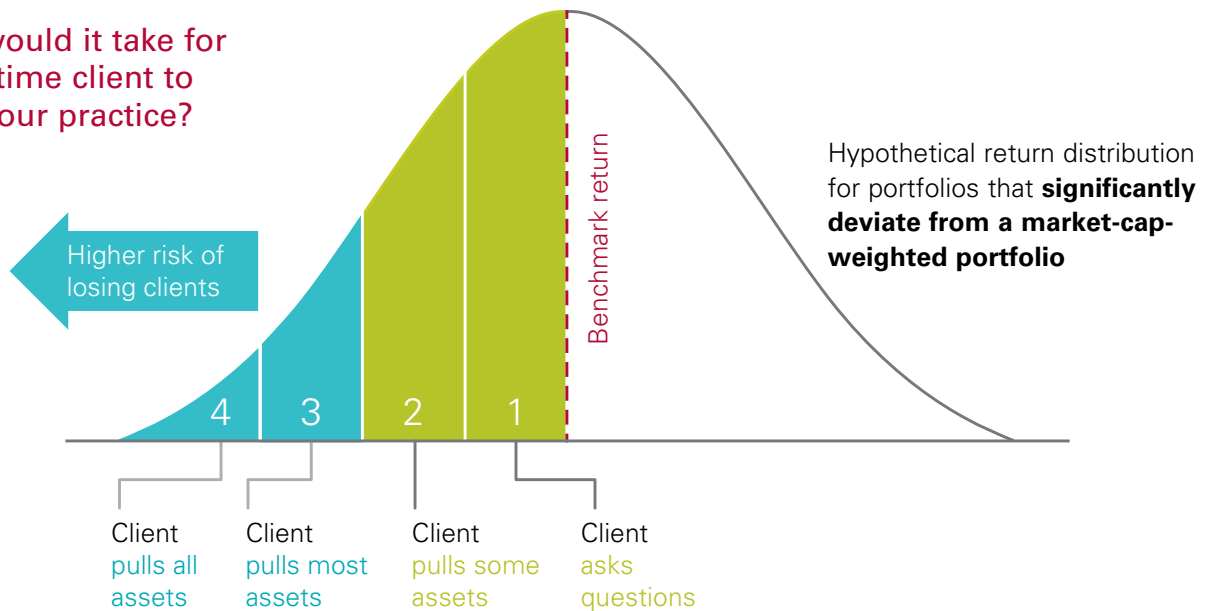
- ✓ Is in comparison with **advisors who are not practicing** the principles mentioned on previous page.
- ✓ Is **not uniform**; some advisors may offer much more added value and others less.
- ✓ Does not specify a time frame and **can vary each year**.
- ✓ Represents a **value after taxes and fees**.
- ✓ Can be **added quickly or slowly**, depending on changing markets and client circumstances.
- ✓ Does **not appear on a quarterly statement** but is real nonetheless.

## Advisor's alpha: Good for your practice



A well-thought-out plan can not only ensure that clients are on target and in the best position to meet their long-term financial goals but also help them when the market hits a rough patch.

### What would it take for a long-time client to leave your practice?



With advisor's alpha, you can reduce the odds of the big swings in the standard deviation of returns, which can cause clients to flee when they're likely to need your guidance the most.

Source: Schlanger, et al., 2018. Putting a value on your value: Quantifying Vanguard Advisor's Alpha in Canada.: The Vanguard Group, Inc.

2 Broad global equity is represented by MSCI All Country World Index, Global value equity is represented by the MSCI All Country World Value Index. Performance is for periods ending on December 31, 2017 Returns are in Canadian dollars.

Periods of significant underperformance can undermine your clients' trust in you

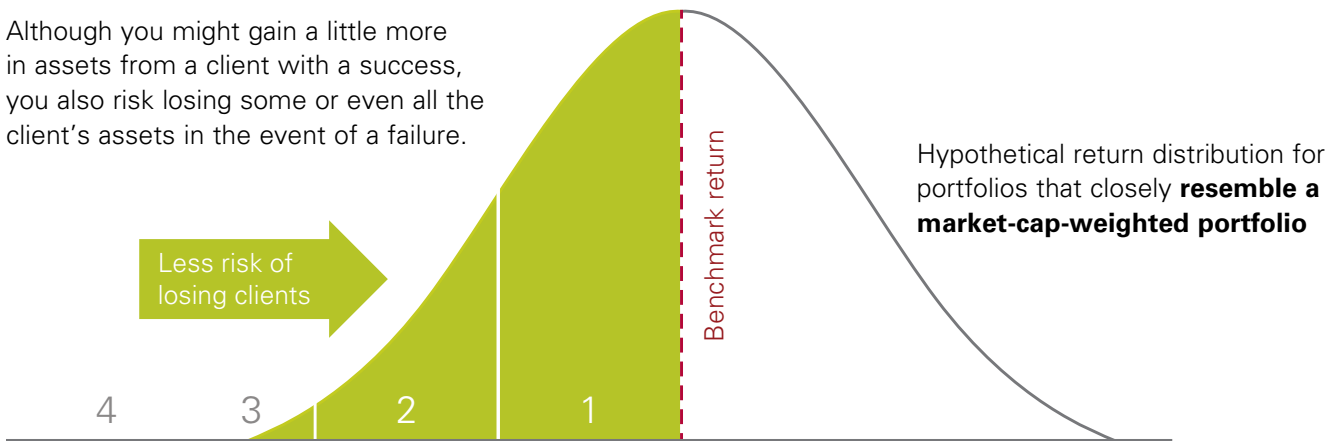
Relative performance of value versus the broad market<sup>2</sup>



Source: The Vanguard Group, Inc., calculations, based in data from FactSet.

Less to gain than lose

Although you might gain a little more in assets from a client with a success, you also risk losing some or even all the client's assets in the event of a failure.



Source: Schlanger, et al., 2018. Putting a value on your value: Quantifying Vanguard Advisor's Alpha in Canada.: The Vanguard Group, Inc.

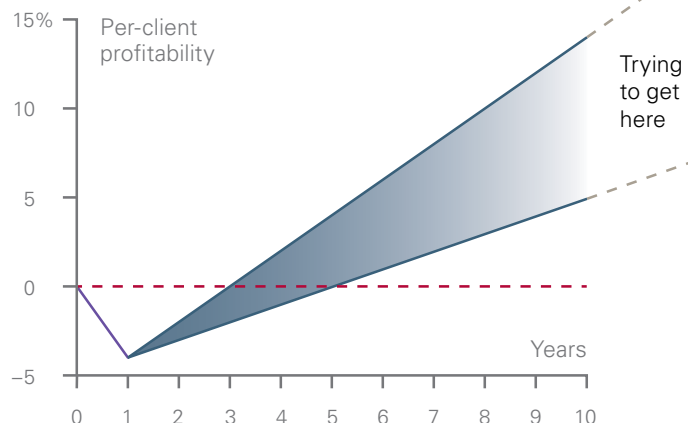
## Your clients' success is your success

### Acquiring clients is expensive, requiring time, energy and money

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 build a more profitable business.

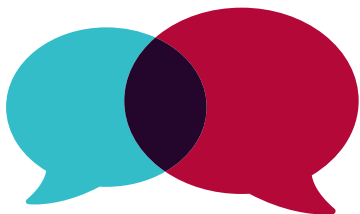
Client costs tend to be concentrated **at the beginning of the relationship.**

Advisor's alpha "J" curve



Source: Schlanger, et al., 2018. Putting a value on your value: Quantifying Vanguard Advisor's Alpha in Canada.: The Vanguard Group, Inc.

## The bottom line



Successful communication of your value proposition is critical to client satisfaction and the stability of your practice. We believe advisor's alpha not only helps your clients reach their goals but also helps you focus your resources on what matters the most: strengthening the client relationships that are the foundation of a growing practice.

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WE'RE IN IT TOGETHER

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