APPRECIATING THE TRUE VALUE OF FINANCIAL ADVICE
Every day we rely on professionals with the experience and knowledge to accomplish tasks we’re less qualified for or too busy to do. Think of the barista who foams your milk, the tailor who alters your suits, or the accountant who files your taxes. We may not stop to consider the rationale behind our daily decisions to hire outside experts, but these partnerships may enable us to achieve more and focus on matters we deem most important. However, there are some services we keep “in-house.” For instance, you may be more likely to mow your own lawn, tile your own back splash or cater your own party. This gives rise to a conundrum we all face from time to time:

**How do I know when it’s time to partner with a professional or go it alone?**

And from this one question others quickly arise:

*Do I have the time?*
*Do I have the expertise?*
Even if I’m setting the goals, can I execute the plan?

When it comes to personal finances and investments you need not only the time, but also the expertise to do it well. And, the financial world unquestionably grows more complex with each day that passes. For many individual investors, the question is not whether a financial advisor is needed, but how to find the right one.

A qualified advisor can understand the intricacies of the financial and investment industries and has the experience to help you navigate a unique path that is customized to your financial goals, be they wealth accumulation, preservation or transfer. The right advisor can build a relationship with you that goes beyond traditional financial planning or attaining short-term gains. Instead, a good advisor can work with you to build a long-term partnership that focuses squarely on putting your lifetime financial goals within your reach.
TAKING INVENTORY OF YOUR WANTS & NEEDS

If you’re considering a partnership with an advisor, you’ve already taken the first step in acknowledging the importance of managing your finances and investments properly. Your next step should be to assess your current financial state and ask yourself these three questions:

Have you identified your financial goals?
What level of risk are you willing to take?
How involved do you want to be in decision-making?

The answers to these questions will give you insight into what you are looking for in an advisor.

It’s Your Financial Life

Consider the findings from a 2014 State Street Global Advisors study, Financial Advisors’ Value Proposition and Compensation, that explores how advisors and investors think and feel about financial advice. As it turns out, the study shows that both parties agree on what’s most important when choosing an advisor, and it’s not cost. Unlike most industries, where price plays a significant role when consumers choose a product or service, our research shows that the fees an advisor charges are less important than other qualities like solid communication skills, a focus on personalized goals and a strong sense of partnership. Investors want an advisor who understands their needs, is upfront, has integrity and follows through.
When it comes to your financial life, somebody has to do the work of planning ahead. If it’s not you, then hiring someone is the smart move.

A Proper Partnership

The development of a personalized, long-term, disciplined investment strategy should include the following four items:

- Your financial goals and comfort level when it comes to risk;
- The ability to help you make rational — rather than emotional — financial decisions;
- The ability to navigate complex, ever-changing market conditions and economic trends, as well as the ability to handle life events that may affect the performance of your investment plan; and
- The ability to deliver a portfolio that is updated over time and keeps in step with your life stages.

Successful financial plans are disciplined, follow a well thought-out process and are objective. When done well, they typically reduce behavioral biases and emotions.

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Figure 1: Most Important Characteristics When Selecting a Financial Advisor

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is upfront with me and represents situations truthfully</td>
<td>97%</td>
</tr>
<tr>
<td>Understands my financial needs and goals</td>
<td>96%</td>
</tr>
<tr>
<td>Acts and performs consistently</td>
<td>95%</td>
</tr>
<tr>
<td>Has a high level of integrity</td>
<td>95%</td>
</tr>
<tr>
<td>Has my best interests at heart</td>
<td>95%</td>
</tr>
<tr>
<td>Welcomes open and honest communication</td>
<td>95%</td>
</tr>
<tr>
<td>Follows through on goals and promises</td>
<td>91%</td>
</tr>
<tr>
<td>Works for a reputable firm</td>
<td>90%</td>
</tr>
<tr>
<td>Keeps me informed on a regular basis about investment products</td>
<td>89%</td>
</tr>
<tr>
<td>Is knowledgeable about new, innovative investment products</td>
<td>89%</td>
</tr>
<tr>
<td>Is a top performer</td>
<td>84%</td>
</tr>
<tr>
<td>Charges low fees and/or commissions</td>
<td>76%</td>
</tr>
<tr>
<td>Is highly recommended by a family member, friend or colleague</td>
<td>61%</td>
</tr>
</tbody>
</table>

Q: How important is each of the following to you when selecting an advisor?


(A nationally representative sample of 300 financial advisors and 300 individual investors participated in an online survey undertaken by State Street Global Advisors Practice Management and a2b planning in August 2014.)
Appreciating the True Value of Financial Advice

THE ADVANTAGE OF A FINANCIAL PROFESSIONAL

Advisors often become coaches who enhance the financial literacy of their clients and promote better investment practices that serve their clients well throughout their lifetime.

Investors who use a financial professional to manage their finances can potentially see better returns: A Morningstar study has shown that the use of a financial advisor has the potential to boost financial returns.¹

And, research suggests that adults who are more likely to work with a financial professional on a comprehensive financial plan are significantly more likely to feel more confident when it comes to managing personal finances.²

Avoiding Costly Mistakes

Even if you feel competent enough to develop a plan on your own, a qualified financial advisor can act as a sounding board for your ideas and help you focus on your goals by using his or her broad knowledge of retirement, estate and tax planning. Glenn Frank, director of investment tax strategy at Lexington Wealth Management, suggests that, smart tax strategies can often offset a financial advisor’s fee entirely.³

Investors who manage their money without the help of a financial advisor can sometimes run into problems. Most investors managing their own assets gain financial literacy by trial and error, according to Dr. Brigitte Madrian of Harvard’s Kennedy School of Government. But money mistakes, especially repetitive ones, can be very costly.³ “If you make a mistake learning to bake, it might result in a few burnt brownies. If you make mistakes in investing and managing your money, it can result in major financial losses,” she said.³
FINDING THE RIGHT ADVISOR

To get the most value from hiring an advisor, find one who is not only qualified, but who also listens and works collaboratively with you to develop a customized plan. Provided you choose well, your advisor can potentially become a valuable ally to help you look beyond your investment plan to create a holistic, lifelong wealth management approach.

So where to begin? Industry experts suggest using the following five criteria when evaluating a financial advisor:³

1. Find an advisor who is qualified and certified.
2. Ensure your advisor is upfront about fees.
3. Ensure your advisor is focused on your definition of personalized performance.
4. Ensure your advisor embraces a holistic approach.
5. Build a partnership that is based on trust.
Find an Advisor Who Is Qualified and Certified

When choosing an advisor, look at his or her professional credentials and depth of experience. Financial advisors are not required to earn academic degrees in their field. But a certification tells you that your financial advisor has completed the necessary training for such certification and is required to adhere to certain industry standards.

There are a number of different industry certifications. The Financial Industry Regulation Authority (FINRA) has detailed information that can help you understand these on its website.

Ensure Your Advisor Is Upfront About Fees

An advisor should communicate clearly about fees and investment decisions. Despite the fact that most advisors assume their clients understand what they charge, only one third of individual investors say they are completely clear about the fees and commissions their advisor collects.³

When it comes to fee structure, advisors typically fall into four categories: flat fee, commission-based, fee-based or a hybrid model. Ask which model your advisor uses and how fees are assessed. A trustworthy advisor will want you to understand your investments and the value of the services you are getting.

Figure 2: How Well Investors Understand Their Advisors’ Fees and Commissions

- Do not understand at all: 3%
- Do not really understand: 17%
- Understand fairly well: 47%
- Completely understand: 33%

Q: How well do you understand the fees and/or commissions being charged?
Ensure Your Advisor Is Focused on Your Definition of Personalized Performance

When selecting an advisor, it’s important to choose one who is attentive to your personal goals and will work with you to achieve them. Your advisor should tailor your investment plan to your unique circumstances and create customized solutions. Success should be measured by sustainable returns, defined in terms of meaningful value to you as the client, and communicated to you with full transparency.

Ensure Your Advisor Embraces a Holistic Approach

You want an advisor who takes a holistic approach toward your finances. He or she should look at the big picture, focusing on today, tomorrow and the future. Your goal should be to integrate all of your financial assets into a complete wealth management plan. An advisor is also a valuable resource for critical life decisions. What’s the best way to finance a large purchase? Is it a good idea to pay down your mortgage? Should I consider developing an estate plan? A comprehensive approach considers all of your financial circumstances, goals and needs.

Build a Partnership That Is Based on Trust

An advisor should be someone you can trust. While most investors trust their advisor to give them the best possible advice, only 39% “strongly agree” that their advisor will give them the best advice without regard for fees or compensation.³

Investors who have a better understanding of the management fees their advisors collect are more satisfied with the fees they pay, more likely to think the fees they pay are fair and, most important, are more likely to feel their advisor provides objective advice.³

Don’t be afraid to ask questions. Gaining a better understanding can help you forge a stronger bond with your advisor and get more value from the relationship.

Figure 3: Investor Understanding Affects Satisfaction with Fees and Thus Advisor

<table>
<thead>
<tr>
<th></th>
<th>Feels fees are fair</th>
<th>Feel advisor is objective</th>
<th>Referred a friend/family member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feels fees are fair</td>
<td>92%</td>
<td>95%</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>74%</td>
<td>84%</td>
<td>42%</td>
</tr>
<tr>
<td>Understands Fees/Commissions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does NOT Understand Fees/Commissions</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q: How well do you think most clients understand the fees and/or commissions being charged?/How well do you understand the fees and/or commissions being charged?
A VITAL PARTNERSHIP

A relationship with an advisor can be about more than just making a return on your investments. It’s also about protecting assets.

“It’s about playing good defense, knowing when to take a profit and when to reduce risk,” said Michael Arone, managing director of State Street Global Advisors and chief investment strategist for the SPDR business. “Some of the most valuable financial advisors are those that preserve client capital in falling markets.”

Ultimately, a strong relationship with the right financial advisor is a partnership you don’t want to be without.
Research Methodology

The Price of Financial Advice:
Advisory Value Proposition and Compensation

A nationally representative sample of 300 financial advisors and 300 individual investors participated in an online survey undertaken by State Street Global Advisors Practice Management and a2bplanning in August 2014.

The advisor sample is representative across different channels: independent broker/dealer, multi-platform/direct, national broker or wirehouse private bank and registered investment advisor, all with average accounts under management of at least $500,000. The investor sample is representative across both net asset bands (below $1 million; $1 million to $5 million; and above $5 million) and age bands (25 to 39; 40 to 49; 50 to 59; 60 to 69; and 70 and older) Quotas were established to ensure the sample reflected the 2014 investment landscape. All statistical significance is reported at 95%.

The surveys explored nearly identical themes, which allowed us to compare financial advisors’ presumptions about their clients against how investors actually feel. The data collected from this survey were segmented and analyzed to extract insightful and actionable opportunities.

Questions were grouped into the following categories:

• How well do investors understand financial advisor compensation?
• What role do fees play when an investor is choosing a financial advisor?
• Does understanding fees help or hurt how an investor views a financial advisor?
• Do investors think that the fees financial advisors charge are fair?

To further contextualize our learning, we also conducted qualitative research with a range of leading industry, business and economic experts to help inform our key findings and practice techniques. They included:

• Phone interviews with 14 subject matter experts.
• In-home interviews with investors with a household portfolio of at least $150,000. If investment decisions were shared with a spouse, the spouse was included in the interview.


Glossary

Flat Fee A fee that is not impacted by the amount of work performed or market fluctuations.
Commission-Based A fee structure that incurs charges when an investor opens an account or sells a financial product.
Fee-Based A fee structure that is based on assets under management.
Hybrid A fee structure that combines the aforementioned structures.
Appreciating the True Value of Financial Advice

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world’s governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world’s third largest asset manager with US $2.51 trillion* under our care.

*AUM reflects approximately $32.45 billion (as of December 31, 2018), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

State Street Global Advisors Worldwide Entities


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About Practice Management

The cornerstone of our business is helping advisors succeed. We are inspired to make a difference by delivering a comprehensive practice management platform offering actionable insights and consultative solutions.

Our programs are grounded in proprietary research and leverage the latest thinking and trends from both industry and academia. We offer a diverse range of capabilities that address forces shaping the investment landscape; best practices to drive results and optimize your business; conversation starters to guide and engage with clients; and continuing education to hone techniques and accentuate your value.

Learn More

For more information on how these industry-leading practice management resources can support advisors’ most important business objectives, contact your **Regional Consultant** or the **SSGA Sales Desk** at +1 866 787 2257.

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