Where Self-Serve Investments Fall Short

Studies have shown that the value added as a percentage of return by a professional investment advisor over time can range from 3-4%, so why wouldn't everyone want an advisor versus self-managing their portfolios?

Individual circumstances are often too unique to make blanket statements that one method is more advantageous than another. Investors have to decide what is right for

them based on personal financial goals, time horizon and tolerance for risk, which are in flux over time. An even easier yardstick: Do you honestly have the time, desire and knowledge to manage your own investments?

"Even if you are a long-time do-it-yourselfer, we think it's smart to get a second opinion with a portfolio evaluation," said Commerce Trust Senior Financial Planner David Stubblefield, CFP®, CDFA®. "You might simply confirm you are doing a great job in meeting your goals, or you may discover an advisor might have added value over time. You gain valuable insight either way, just like getting a second opinion."

With the proliferation of low-cost robo-advisors to make investment decisions on what to buy and sell, and low-cost passive investments like exchange traded funds (ETFs), some argue that do-it-yourself investors have enough credible tools to manage their assets if they put in the time and effort.

The issue for most do-it-yourself investors is whether they

have the inclination over time to diligently apply five core staples of investment management:

1. Ongoing oversight and rebalancing of investment portfolio allocations
2. Getting sound "coaching" to avoid mistakes individual investors typically make
3. Evaluating the options and costs for basic investment-only management
4. Developing an overall financial plan at reasonable cost
5. Factoring tax-aware planning/investing into your mix

ANNUAL REBALANCING – Advisors own a competitive advantage in that they can efficiently rebalance your portfolio holdings through their electronic trading platforms. For instance, if you haven't readjusted your holdings since the Great Recession, your current asset allocation may skew toward a "growth" portfolio, exposing you to more downside risk than you might have first requested when you filled out your risk tolerance preferences in your investment policy statement. You may have selected

a conservative strategy then, but you could now be more susceptible to big market swings if your holdings migrated toward highly aggressive growth stocks. It is also important to determine if your original asset allocation is still in line with your current situation and goals.

BEHAVIORAL COACHING – Mistakes cost money and the stock market is a rough place to learn strategies with your retirement assets. For example, an advisor might wisely convince a novice investor to "stay the course" and not "chase performance" during a market pullback.[1] You may not recognize the value that brings when reviewing your

monthly statement, but you know it's there when a recovery soon follows a decline, and your urge to panic has gone by the boards because of your advisor's savvy.

COST OF BASIC INVESTMENT-ONLY SERVICE – What is the dollar value of advisors who deliver investment-only management? The market place for robo-advisors currently establishes this price at about 0.33% of assets.[2] Remember, that includes no financial plan, ongoing service, or telephone access to professional guidance. You get a financial statement, and that's about it. So you are depending upon your own expertise, online access and a phone number to call in case of questions. Do you feel confident enough to do this?

COST OF PROVIDING A FINANCIAL PLAN – Developing a financial plan for retirement is the initial building block for anyone serious about setting a financial course for their future years. The cost of creating the plan, not to mention updating it from year to year, can be expensive. A recent Financial Planning Association study says an average fee for a plan is around $2,600. Financial Planners charge an

average hourly rate of about $200 for monitoring and updating plans.

TAX-AWARE PLANNING/INVESTING – Are you comfortable enough to choose tax-managed investments from non-tax-managed investments where needed? Not many investors are. Morningstar recently calculated that investors in non-tax-managed U.S. equity products (active, passive, ETFs) lost on average 1.53% of their return to taxes over a five-year period, while investors in tax-managed U.S. equity funds lost only 0.73% by comparison over the same time period.

So it comes down to a simple premise. Are you adding an incremental 3%-4% of value to your portfolio as a do-it-yourselfer? If you are, you should be proud of your performance and maintain the pace. If you've discovered you are falling behind this pace, then seeking a portfolio review is a prudent step to maximizing your investments. If you choose the advisor route, your advisor's worth should offset your other expenses. If you perceive that the

value an advisor delivers exceeds the 1% fee they typically charge for their services, then for your circumstances and peace of mind, the added fees may be worth it given the ancillary services you receive in the total package. If you are evaluating whether you have the time, desire and knowledge to manage your own investments, you can call a Commerce Trust representative at 1-800-292-1601. Follow the prompts to Ext. 1-3974.

1 Vanguard Research, "Putting a Value on Your Value," September 2016

2 www.helpingadvisors.com Based on the average fee charged for investment-only management by 10 robo advice offerings for a client portfolio of $500,000 as accessed on the companies' websites on 3/7/2017.

*Always consult with your CPA and professional advisor on matters involving income taxes.

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