

5 REASONS WHY FEES CAN BE JUSTIFIED WHEN CLIENT PORTFOLIOS SHRINK

Nobody likes seeing their investment portfolio decline in value. And nothing rubs salt into the wound like your financial advisers having the audacity to charge you for their services. In such circumstances, how can advisers justify their fees?

1. Advisers help tilt the sails – not control the winds.

Like other professional service providers such as doctors, lawyers and accountants, some financial advisers charge for the advice they provide, rather than the short term performance of your investment. Could you imagine an accountant waiving his fees for tax return management in years when your earnings were low? Or doctors only charging patients who made fast and complete recoveries? Just as those professionals have no control of the circumstances affecting your business or health, financial advisers have no control over global asset values. They can only advise on how to make the best of the circumstances you encounter.

2. Managing the structure of investments is necessary and costs money – in bad times as well as good

Just as you can't defy gravity, your investments cannot rise when the value of the assets in which they are invested fall. No one can predict the rise or fall of asset values. Your financial adviser can, however, help structure your portfolio to minimize the impact of losses and maximize that of gains, according to your personal circumstances and risk tolerance. Management of this process must continue in bad times as well as good, and is part of what you are paying for. Sure your portfolio has declined, but how much worse off could you have been without the correct structuring?

3. Fees, like performance, cannot be judged in twelve month installments

Investment performance cannot be judged in twelve month installments – and neither can fees. If you compared the fees you paid between 2003 – 2007 in relation to investment performance, with the same ratio for the years 2007 – 2011 you'd come up with wildly different scenarios. Even though it's the same financial adviser doing the charging. Looking in isolation at fee levels for a single, twelve month period, especially for one of the relatively few twelve month periods which deliver negative returns, is unrepresentative, misleading and just plain wrong.

4. With advice, like other things, you get what you pay for

If fees look expensive, what are you comparing them with? Is a pair of surgical scissors expensive compared to a pair of scissors you buy at the supermarket? Or are you getting what you pay for? The amount of money you pay for financial advice is only one consideration. Others must be how well the advice served you, what would have happened if you hadn't had the advice, and whether you could have accessed the same advice for less money elsewhere. In other words, what benchmarks are you using?

5. Being a coach and mentor cannot be expressed dollar terms

An important service of the financial adviser is to be a coach and mentor to clients, helping you not be distracted by the noise of media headlines and keeping you focused on your long term investment strategy. Clients who sell out at the bottom and crystallize losses will probably never recover the value of their portfolios. But by staying invested, science and experience show that long term performance easily out-performs staying in cash.

If you have an financial adviser who is a financial coach, this means they'll also work closely with your other professionals to ensure you achieve your long term goals, have the right personal and risk management strategies in place, ensure your estate planning is up to date and you have the correct ownership structures in place, help you with your cash management, retirement planning and share different financial outcomes with you dependent upon your investment choices. The 'opportunity cost' of not benefiting from advice is very real – and priceless.

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