The case for professional financial advice

Professional financial advisors provide several services that may help the performance of a long-term financial program, and offer value to investors who might otherwise "go it alone."

A professional financial advisor can help you develop a roadmap for a lifetime of financial goals.

Even experienced investors can benefit from the skills offered by a financial advisor, including portfolio construction, comprehensive tax strategies, and behavioral guidance to help keep you on track through challenging market conditions. Advisors help investors pursue asset growth while providing ongoing assessment of goals and objectives.

While there is no guarantee that using an advisor will provide positive investment outcomes, a variety of studies have shown where advisors have historically been most helpful. These studies can provide useful information to investors as they consider whether to pay the fees and expenses advisors charge for their services.

Three ways advisors seek to make the biggest impact

Research on the value of advice has examined a range of variables. Of the factors analyzed, there is general agreement that there are three key areas in which an advisor can make a significant positive impact.

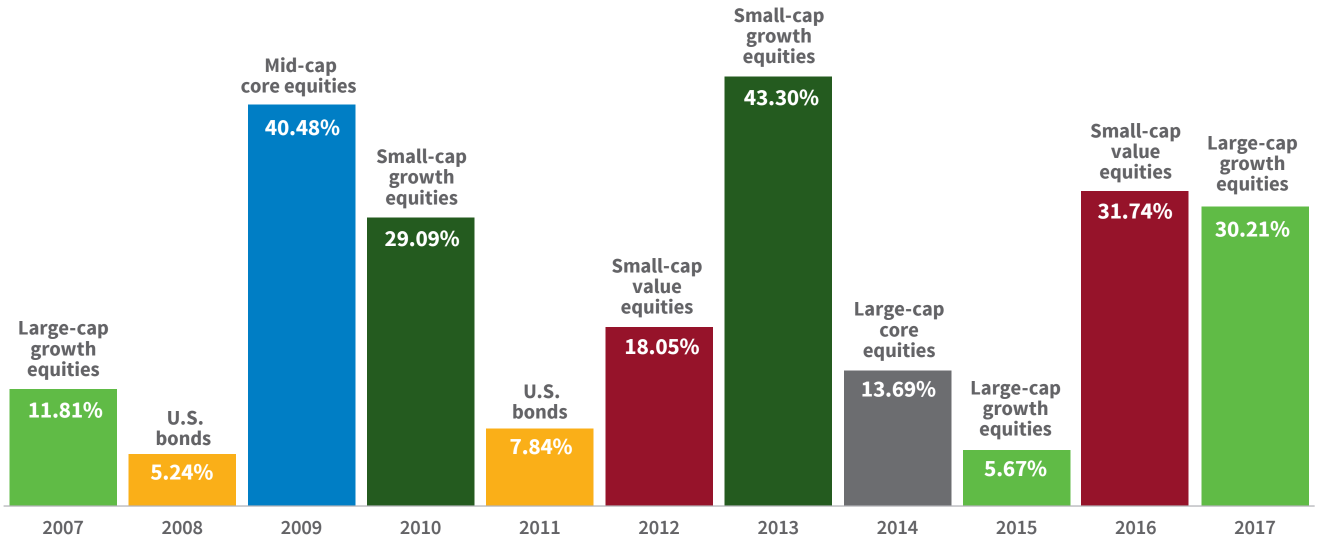
1. Portfolio construction: Asset allocation and rebalancing

Which types of investments should you include in your financial plan, and how should they be weighted and shifted over time? This is a complex undertaking, and the solution may be different for every individual and household. Many do-it-yourself investors turn to online tools and calculators to identify how much and how often to save. Investments designed with automatic diversification features can help, but many people can still benefit from paying for advice on how to properly use such products.

For the advisor, the allocation task entails leveraging knowledge of the markets, looking across a range of investable assets, and selecting those that best fit with an individual's risk tolerance, time horizon, personal goals, and financial situation. An advisor's expertise can make a considerable difference in keeping an investment portfolio on a disciplined course. This may include maintaining appropriate diversification, acting on opportunities, and monitoring financial markets to adjust portfolios in response to changing conditions or variables such as correlations and valuations.

Alternating market leadership is a challenge for investors: Leaders in one year could be losers the next year

An advisor can help explain the importance of diversifying investments across different types of assets, rather than trying to pick winners.



The winning asset classes, and their annual returns, can change considerably from year to year.

Source: **Large-cap growth equities** are represented by the Russell 1000 Growth Index, which is an unmanaged index of capitalization-weighted stocks chosen for their growth orientation. **Small-cap growth equities** are represented by the Russell 2000 Growth Index, which is an unmanaged index of those companies in the Russell 2000 Index chosen for their growth orientation. **Small-cap value equities** are represented by the Russell 2000 Value Index, which is an unmanaged index of those companies in the Russell 2000 Index chosen for their value orientation. **Large-cap core equities** are represented by the S&P 500 Index, which is an unmanaged index of common stock performance. **Mid-cap core equities** are represented by the Russell Midcap Index, an unmanaged index that measures the performance of the 800 smallest companies in the Russell 1000 Index. **International equities** are represented by the MSCI EAFE Index (ND), which is an unmanaged index of international stocks from Europe, Australasia, and the Far East. **U.S. bonds** are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, which is an unmanaged index used as a general measure of fixed-income securities.

Data is historical. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

An advisor's expertise can help investors stay focused on the long term and keep their investment portfolios on a disciplined course.

Just as important as building your savings, knowing when to withdraw assets, and from where, is critical. An advisor can help develop strategies to address these challenges.

2. Tax efficiency: Asset location and tax efficient withdrawals

Just as important as building your savings, knowing when to withdraw assets, and from where, is critical. The effects of inflation and taxes as well as longevity can complicate the decisions. With increasing life expectancies, our savings need to last longer. An advisor can develop advanced investment strategies to address these challenges.

Asset location refers to the strategy of owning investments within certain accounts to maximize tax efficiency. For example, some taxpayers may consider holding a larger percentage of stock holdings outside of traditional retirement accounts to benefit from lower long-term capital gains and dividend tax rates. Withdrawals from retirement plans are generally taxed as ordinary income. At current tax brackets, a taxpayer in the marginal 28% income tax bracket for ordinary income would only owe 15% tax on long-term capital gains and qualified dividends.

Asset location: Allocating assets by tax position

TAXABLE
Equity investments such as dividend-paying stocks or mutual funds

TAX DEFERRED (e.g., traditional retirement)
Fixed-income investments and other income-producing assets

TAX FREE (e.g., Roth accounts)
Growth stocks and mutual funds

Tax efficiency: Strategic withdrawals

After saving, constructing a portfolio, and rebalancing assets throughout your working years, you are faced with another great challenge — using those savings to generate income in retirement or for another financial goal. Planning for retirement income involves some of the most challenging financial decisions investors will face.

When should I file for Social Security benefits? How much can I safely withdraw from accounts in retirement? What account should I draw income from first? An advisor may help provide perspective on these issues, including guidance on executing a tax-efficient withdrawal strategy in retirement. Retirees in lower tax brackets may want to consider drawing funds from traditional retirement accounts such as 401(k)s or IRAs. As income needs increase, it may make more sense to draw from other accounts, such as a taxable savings or brokerage account. For retirees facing the highest marginal tax brackets in retirement, tapping into Roth accounts may be a good idea to avoid reporting additional income at highest tax rates.

MARGINAL INCOME TAX BRACKETS

Lowest (10%, 15%)	Medium (25%, 28%)	Highest (33%, 35%, 39.6%)
Draw from traditional retirement accounts	Draw from taxable accounts or rely on dividends	Draw from Roth accounts if available

3. Behavioral discipline: Long-term focus, commitment to saving

Considering the many financial challenges we face in life — paying off debt, saving for emergencies and our children's education, funding our retirement, and managing our income in retirement — it is understandable why anyone could feel overwhelmed. With decisions that involve such personal issues as income, spending, wealth, and life goals, emotions and biases have the potential to steer anyone off course. In addition to helping to build an investment portfolio, an advisor provides the professional perspective to help you stay focused on the long term and avoid making decisions based on short-term market fluctuations or alarming headlines.

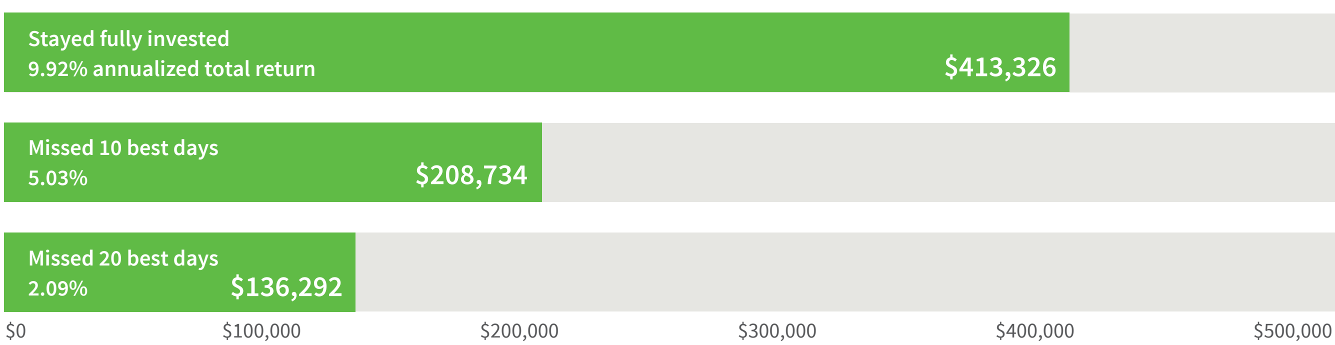
It is estimated that 70% of Americans lack a long-term financial plan. An advisor may help to prevent emotionally driven decision-making, and can be a source of guidance to the investment process. Investors must be engaged in this process and committed to their long-term financial health, particularly because it is easy to be steered off track.

According to Sarah Newcomb, a Morningstar behavioral economist, financial health entails both economic and emotional stability. She observes that people are more empowered when they have a feeling of control over their financial situation, and a partnership with an advisor may be one way to facilitate this.

Time, not timing, is the best way to capitalize on the stock market's gains

An advisor can help you execute a plan to stay invested rather than making the common mistake of trying to time the market. By staying fully invested over the past 15 years, you would have earned over $200,000 more than someone who missed the market's 10 best days.

$100,000 invested in the S&P 500 (12/31/02–12/31/17)



Source: S&P 500.

Data is historical. Past performance is not a guarantee of future results. The best time to invest assumes shares are bought when market prices are low.

Research explores many aspects of professional advice

Alpha, Beta, and Now…Gamma

David Blanchett, CFA, CFP®, and Paul Kaplan, Ph.D., CFA:
"Alpha, Beta, and Now…Gamma"; Morningstar Investment Management, 2013.

In this 2013 study, through a series of simulations and scenarios, Morningstar researchers sought to define the value that can be achieved from making more intelligent financial planning decisions. The analysis of that value — which Morningstar labeled "advisor gamma" — was based on five elements of financial planning, outlined below.

What contributes most to "advisor gamma"?
Dynamic withdrawal strategy Taking withdrawals based on needs as well as portfolio value to avoid overdrawing from an account.
Total wealth asset allocation Going beyond risk tolerance to also consider risk "capacity," which is based on an investors' total wealth.
Asset location and withdrawal sourcing Utilizing tax-efficient accounts and withdrawing from those accounts strategically.
Liability-relative optimization Hedging risks such as inflation and currency to create a more sustainable and stable retirement income.
Annuity allocation Addressing retirees' growing fear of running out of money.

The Gamma Factor and the Value of Financial Advice

Claude Montmarquette, Nathalie Viennot-Briot:
"The Gamma Factor and the Value of Financial Advice"; Center for Interuniversity Research and Analysis of Organizations (CIRANO) Scientific Series, 2016.

CIRANO found that financial advisors induce greater discipline and savings, based on surveys of households that stopped working with an advisor versus those that continued working with an advisor over time. The study found a decline in assets for households that ended the advisor relationship, and asset gains for those households that continued to work with advisors.

CIRANO also found a common assumption among investors — that financial advice is only necessary for individuals with significant assets. Survey findings also show that a willingness to accept advice is necessary and that financial literacy is a complement to — not a substitute for — investment advice.

Two surveys were conducted on a single set of working-age Canadian households during two time periods — December 2010 and June 2011. The sample totaled 3,610 respondents who were involved in the household's financial decision making. Another Internet-based survey was conducted with Canadian households between July and August 2014.

Putting a value on your value: Quantifying Vanguard Advisor's Alpha®

Francis M. Kinniry Jr., CFA, Colleen M. Jaconetti, CPA, CFP®, Michael A. DiJoseph, CFA, Yan Zilbering, and Donald G. Bennhoff, CFA: "Putting a value on your value: Quantifying Vanguard Advisor's Alpha®"; Vanguard research, 2016.

Vanguard found that paying a fee for financial advice, and looking to a professional with tools and tactics at his or her disposal, can "add meaningful value compared with the average investor experience." The study identified behavioral coaching, spending strategy, and asset location as top areas of contribution. The researchers noted that the values placed on these elements may vary based on individual investor circumstances, such as goals and risk tolerance. Vanguard studied seven value-add modules, outlined below.

Top areas of advisor contribution
Behavioral coaching Acting as an "emotional circuit breaker" for clients prone to market timing. One Vanguard study found that performance of self-guided IRA investments trailed that of target-date funds in tumultuous periods due to exchanging rather than staying the course.
Spending strategy (withdrawal order) Especially important for retirees who need effective withdrawal strategies for multiple retirement accounts and required minimum distributions.
Asset location Strategic decisions to maximize tax efficiency, including estate planning.
Cost-effective implementation (expense ratios) Recognizing the importance of net returns and low-cost investment options.
Rebalancing Annual adjustment of portfolios to maintain adherence to investor objectives, to minimize risk rather than maximize return, and to stay disciplined, especially when there is dispersion between asset classes.
Total-return versus income investing A total-return approach that encompasses income and capital appreciation strategies in pursuit of lower risk and better tax efficiency for longer life spans.
Suitable asset allocation using broadly diversified funds/ETFs Foundational allocations based on individual time horizon, risk tolerance, and financial goals, and maintaining allocations in the face of headline risk.

More on the value of financial advice

Douglas Lennick, CFP: "DALBAR's 22nd Annual Quantitative Analysis of Investor Behavior"; DALBAR, 2015.

Henri-Paul Rousseau: "Is there any value in financial advice?"; Power Corporation of Canada, Remarks to the Canadian Club, 2015.

Since our founding in 1937, Putnam Investments has recognized the importance of professional financial advice. For more than eight decades, we have offered a range of funds, strategies, and services — always in partnership with financial advisors who are committed to helping investors pursue their goals.

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