Russell Investments

Your advisor... worth nearly 3%?

A RELATIONSHIP WITH YOUR ADVISOR, THAT PROVIDES YOU WITH IN-DEPTH UNDERSTANDING OF YOUR FINANCIAL AND PERSONAL SITUATION AND ONGOING GUIDANCE AND ADVICE FOR LIFE'S MAJOR MOMENTS, CAN BE ONE OF YOUR BEST INVESTMENTS.

Wealth planning is one of the most important services an advisor can provide, and it requires an in-depth understanding of an individual's entire personal and financial situation to help ensure you get it right. Professional guidance to uncover and comprehend what's most important to you takes time and knowledge.

WHY WORK WITH AN ADVISOR?

With the wealth of information at our fingertips, you may think you understand the markets enough to invest for yourself or that getting a financial professional to manage your assets is expensive. However, investing is challenging to say the least, and emotional responses in period of volatility can undo years of past or future success. The worth in having an advisor to filter capital market news or your own emotions can create significant value when it is needed most. We would like to demonstrate that the services an advisor provides exceed simply selecting investment products for you. Investment advisors can assist you in a full 360-degree spectrum of wealth planning, from investments, to retirement and estate planning, as well as guidance on taxation in order to help you work toward your goals.

Reason #1:
Advisors can help you avoid common mistakes caused by human behavior.

Investors are human. Humans make mistakes. People tend to let emotions and other human tendencies get in the way of their financial goals. Ultimately, investing like an emotional human may actually cost you money. What about being human can get in the way of achieving your goals?

› **Your tendency to buy high and sell low** *(Emotional investing)*

Typically, when the market is going up we want to buy. When the market is going down we want to sell. This happens because a positive perception of an investment or market can lead investors to feel they have a higher return and lower risk than they actually do, while a negative feeling can lead to predictions of lower returns and higher risk. Put another way, when scared, we run away and when we're not scared, we may become too confident.

1936
Founded in Tacoma, WA

350+
Investment professionals

2,900+
Research meetings held each year with money managers around the world

C$355.2 billion
Global assets under management

350+
Russell Investments funds and multi-asset investment solutions globally

20+
Offices worldwide

Principal Offices: Seattle, Toronto, New York, London, Tokyo, Paris, Singapore, Sydney, Auckland

Data and AUM are as of March 31, 2017.

INVESTED. TOGETHER.™

› Taking your investment cues based on others' fears and goals *(Social investing)*

Family, friends, co-workers, social media and the news can influence an investor to make decisions based on the emotions and situations of others, not their own goals.

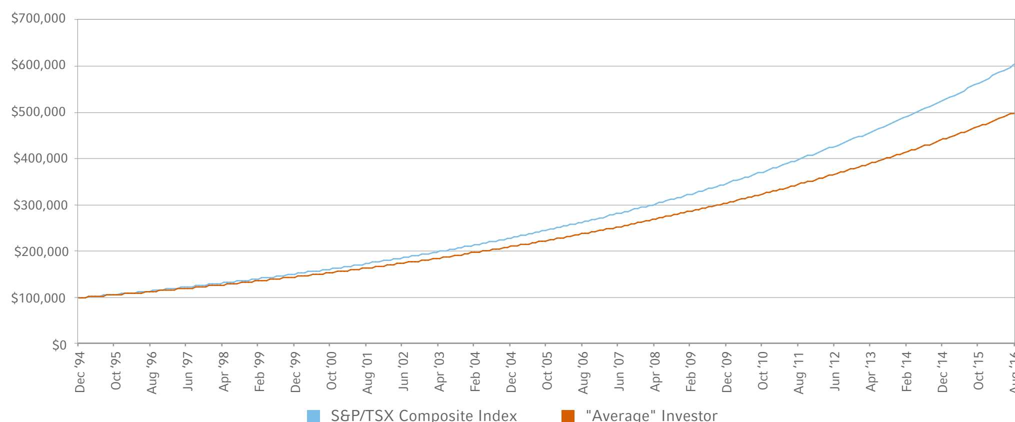
› Allowing behavior patterns make you lose sight of your goals *(Ego investing)*

Many investors don't heed their own advice. An investment professional can help you discover how much cash you need on hand to provide for your lifestyle and the lifestyle of your dependents against potential market downturns over the next few years. At the same time, an advisor can help you take advantage of investment opportunities with the rest of your wealth. Having professional advice allows you to maximize the potential return of your wealth rather than investing it with fear. Knowing what an investor needs to do and doing it can be very different.

DO THE MATH: Common behaviors can cost you!

Based on an analysis of how the average individual equity investor's portfolio performed over the past 30 years relative to stocks, bonds, gold, inflation and other investment options, the data (below) showed that the "average equity investor[1]" would have underperformed the S&P/TSX Composite Index.

Figure 1: High Cost of Investor Behavior (1995-2016)



	S&P/TSX Composite Index (%)	"Avg." Investor
Annualized Return	8.5%	7.6%

Source: BNY Mellon Analytical Services, IFIC, Russell Investments. Based on annualized returns from January 1, 1995 to December 31, 2016. Return was calculated by deriving the internal rate of return (IRR) based on IFIC monthly fund flow data which was compared to the rate of return if invested in the S&P/TSX Composite Index and held without alteration from January 1, 1995 to December 31, 2016. This seeks to illustrate how regularly increasing or decreasing equity exposure based on the current market trends can sacrifice even market-like returns. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

[1] "Average" equity investor is based on general cash-flow trends as measured by the Investment Fund Institute of Canada (IFIC) compared to the market's overall performance.

The bottom line...

We believe advisors who build diversified asset allocation plans and have the skills to help investors avoid common behavioral tendencies can help their clients achieve better portfolio returns than those investors making decisions without professional guidance.

Reason #2:
An advisor's portfolio review and rebalancing may boost your returns and help manage risk.

What is rebalancing? Technically, it is the periodic buying and selling of assets in your portfolio to maintain your originally desired asset allocation. For example, let's assume you have selected a balanced portfolio of 60% stocks and 40% bonds. Assuming a year of positive stock performance, your portfolio could now have 70% of your money in stocks and 30% in bonds. Rebalancing is a strategy most financial advisors employ to keep the investor's portfolio near its target allocation. In this case, rebalancing would involve selling some stocks and buying some bonds so you get back to the original target allocation of 60/40.

This seems like a simple enough strategy that is available to investors, but common knowledge is not always common practice. The evidence strongly points to regular rebalancing not being implemented.

Russell Investments conducted a rebalancing comparison looking back at December 1979 to December 2016. This comparison showed that advisors who work with investors to establish a consistent rebalancing policy have the potential to add incremental returns to portfolios while reducing volatility (a measure of risk) of the return pattern.

DO THE MATH: Establishing a rebalancing policy can potentially add incremental return while managing risk.

The rebalancing comparison below reflects a period from December 1979 to December 2016 and highlights the impact the corresponding rebalancing plan would have had on the portfolio. In each of these instances, you are looking for the annualized return to be higher than the "buy and hold" strategy. For annualized standard deviation (measure of risk in the portfolio) you are looking for the percentage to be lower than the "buy and hold." When looking at the example below, you can see that rebalancing can be a valuable practice.

The difference may seem small, but the simple act of rebalancing may help ensure that your gains are captured and that you never have all your eggs in one basket.

Figure 2: A Comparison of Rebalancing Strategies (Dec 1979 - Dec 2016)

REBALANCING TYPE	BUY AND HOLD	SYSTEMATIC REBALANCING*
Annualized Return	9.9%	10.1%
Annualized Risk	10.4%	9.7%

Source: Russell Investments Canada Limited. Original Portfolio Asset Mix: 40% Fixed Income (FTSE TMX Canada Universe Bond Index), 20% Canadian Equity (S&P/TSX Composite Index), 20% US Equity (S&P 500 Index), 20% Foreign Equity (MSCI EAFE Index). Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

* Based on assumption that hypothetical portfolio was rebalanced whenever one of the indexes varied by more than 2.5% from the original asset mix.

The bottom line...

An advisor can help you create a robust plan that includes provisions and expectations on how and when to rebalance your investment portfolio. By implementing a consistent rebalancing policy into your plan, the advisor can work with you to clearly define rules to help you potentially take advantage of additional return potential that may be lost when trying to chase performance.

Reason #3:
Your time is valuable. Don't underestimate how much time disciplined investing may take.

A financial plan is a key element in helping investors reach their goals and a robust financial plan may incorporate coordination of your multiple financial goals, considerations for investing at different stages in your life, and implementation with a variety of financial professionals dedicated to looking out for your financial health.

For most investors, every stage of their life is a first. The value of an advisor is that they may have insights into what your life may be like in five or 10 years because they likely have had clients that have gone through the stages of life that you have not yet experienced.

What does developing a financial plan require in terms of time, resources and expertise?

According to a recent analysis in personal finance website *MoneySense*, a financial plan costs about $5,000 for an investor with a $1 million portfolio. To create, constantly update, and manage your financial plan can take up 20, 50, or 100 hours each year.

In addition, you may need to consider that an advisor might offer the following services as part of the relationship which are not included in the estimates above:

- Annual updates
- Ongoing goal and risk-tolerance monitoring
- Potentially coordinating annual tax preparation
- Retirement planning and setting up distributions in retirement

Reason #4:
An advisor works to minimize your taxes.

One thing most investors can agree on is the disdain for paying taxes. The average Canadian family now spends more of its income on taxes (42.4%) than it does on necessities like food, shelter and clothing combined.[2] Keeping abreast of tax changes in the federal budget is a huge value contributor to small business owners and wealthy investors. By simply investing in tax-efficient solutions and taking advantage of a tax-efficient structure, your advisor can add tremendous value to your overall portfolio.

[2] Taxes versus the Necessities of Life: The Canadian Consumer Tax Index, 2016 edition, Fraser Institute

The bottom line...

A financial advisor may provide value in creating a financial plan in less time (and with more expertise) than most investors could do on their own. Beyond the creation of a plan, think about the time you may save by working with an experienced professional to help you monitor and make recommended adjustments to your investments.

CONCLUSION:

The value of working with a financial advisor is worth nearly 3%.

A financial advisor can be important in helping you manage your money and can bring value to you in four key ways:

1. **Steering you away from making behavioral mistakes like chasing performance**
2. **Establishing objective rebalancing strategies for your portfolio**
3. **Building complete financial plans that save you time**
4. **Reducing your tax burden**

Our analysis shows that the value an advisor can bring to a client could be close to 3%. When you consider the value of implementing a regular rebalancing policy, helping you avoid common behavioral mistakes, the cost of producing and maintaining a financial plan, and the benefits of investing in a manner that could reduce your tax burden, we estimate an advisor's services could be worth nearly 3% to you.

Finding an advisor that can help you build and maintain a strategy for long-term investing has the potential to provide more than just financial returns and may pay off in more ways than you thought of.

Important Information

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns. Rebalancing your portfolio may create tax consequences on the taxable portion.

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