INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Professional Advice improves long-term returns

Does professional advice improve investment returns? Investor research says the answer is yes. Research shows that families with financial advisors generally have better investment returns than those that do not. Advised households generally save more than non-advised households, have better after-tax returns, and invest in securities with a greater opportunity for investment growth – in all income ranges and age groups. The result for investors is a higher long-term savings rate and increased net worth.

Common sense tells us that seeking advice from experienced experts will yield better results for most people compared to managing investment portfolios on our own. We go to doctors for health advice, accountants for tax advice, and lawyers for legal advice. The same degree of experience and professional advice with our investments is critical for most people. Highly-skilled and trained investment advisors help people analyze, plan and manage their investment portfolios using a combination of education, experience, and resources from their firms including analytical and planning tools.

What the research says:

i. **Advised households earn more, net of fees, across all age groups:** Research[1] indicates that advised households earn approximately 3% higher returns than non-advised households. Two separate U.S. studies of American workers who receive some form of investment advice across eight large pension plans earned 2.5% - 3.4% higher returns than those who received no advice. The research concluded this is because advice helps people avoid common problems experienced by do-it-yourself investors such as choosing an inappropriate level of investment risk; selling equity-based investments when stock markets fall (selling low); complacency (not actively managing the portfolio); and investing too much money in an employer's company stock (insufficient diversification). A Canadian research guide[2] supports the value of investment advisors in helping Canadians accumulate wealth. The guide answers the question: Is having a financial advisor really worth the cost? The guide says that the positive effect of advice on wealth accumulation does not depend on asset performance alone – the greater savings discipline acquired through advice plays an important role.

ii. **Advised Canadians use tax-efficient savings vehicles more effectively:** Finance Canada estimates an after-tax yield improvement of about 1.5% on assets held in registered form as compared to holding the same asset in non-registered form[3]. Further, households with a financial advisor are twice as likely to hold assets in tax-advantaged (registered) plans compared to non-advised households.[2]

iii. **Advised Canadians are less likely to be fraud victims:** An Ipsos Reid survey[4] notes that the degree to which investors work with their advisor negatively correlates with the likelihood of susceptibility to fraudulent schemes – in other words, advised Canadians are less likely to be subject to fraud. Investment firms actively monitor their advisors – they must pass thorough background checks, have their activities regularly reviewed by their firms' compliance professionals and, for firms registered with the Investment Industry Regulatory Organization of Canada (IIROC), investor accounts receive protection under the Canadian Investor Protection Fund.

1. Aon Hewitt and Financial Engines, *Help in Defined Contribution Plans: 2006 Through 2010*, September 2011

2. *New Evidence on the Value of Financial Advice: A Guide to the Research Paper, "Econometric Models on the Value of Advice of a Financial Advisor"* by the Center for Interuniversity Research and Analysis on Organizations, Dr. Jon Cockerline, The Investment Funds Institute of Canada, November 2012.

3. Department of Finance Canada, *Statistics on RPP/RRSP Participation and Savings*, March 31, 2010 (footnote 23)

4. Ipsos Reid, *Value of Financial Advice*, 2011 prepared for the Investment Funds Institute of Canada