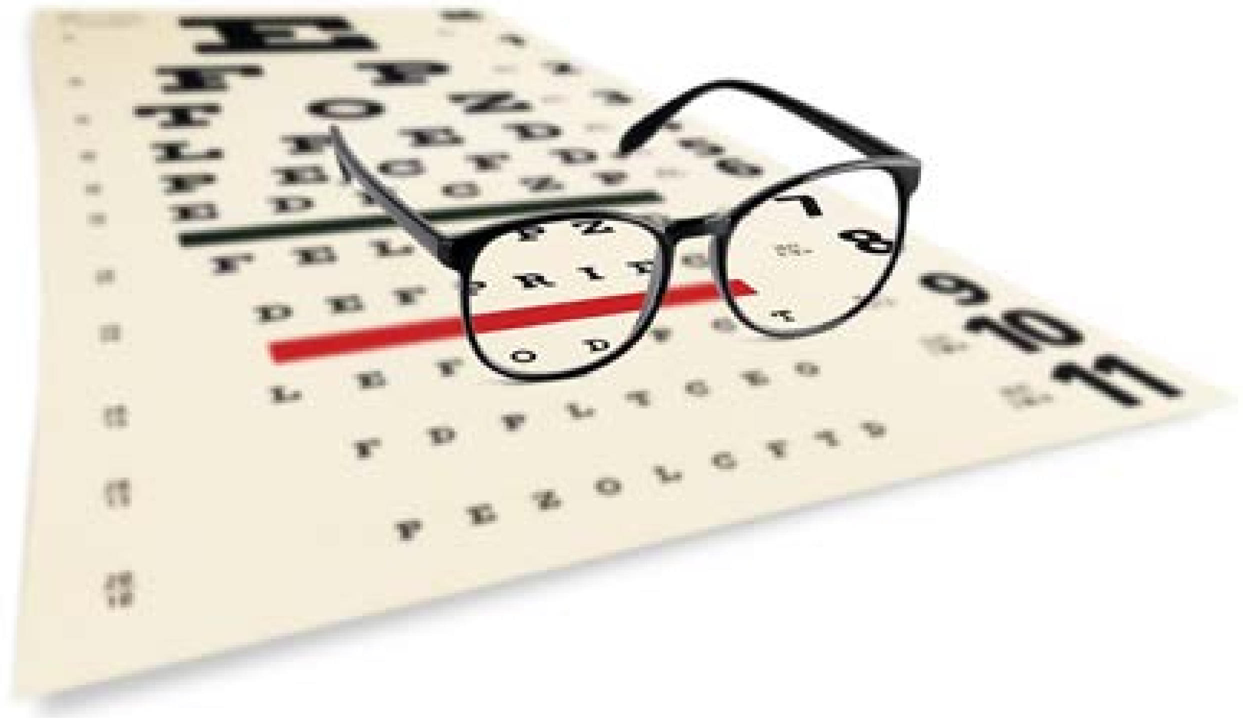
VALUE

Why work with a financial advisor?

Because that relationship may be one of your best investments.



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What can a financial advisor do for me?

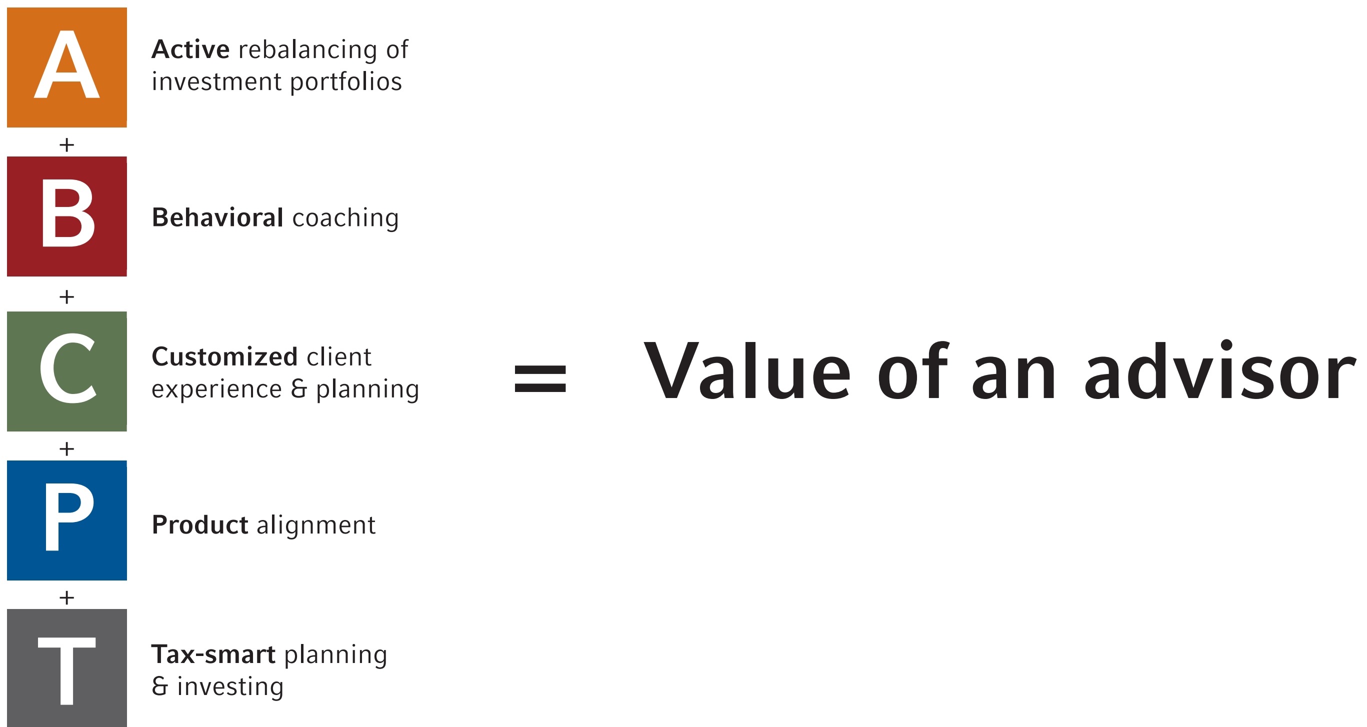
There is no doubt that 2020 tested all of us in many ways. For one thing, it was a volatile year in the markets. First, U.S. stocks touched new highs, then fell sharply in March when the global spread of the COVID-19 virus forced lockdowns and a halt to most economic sectors. The markets recovered strongly in the final months on positive vaccine news. For another, our lifestyles changed. Many of us had to switch to a virtual environment seemingly overnight, affecting a wide array of activities: work, school, shopping, celebrations.

Through it all, many of us may have found our priorities and outlooks have changed.

That's why we think it is the perfect time for you to consider the value you receive when you work with an advisor.

Given the volatility seen in 2020, we believe that even if all your advisor did was help you stick to your investment plan, you likely received more value that the fee you paid. But most advisors do so much more—they may actively rebalance your portfolio, provide customized service, make sure your portfolio aligns with your desired outcomes, and help you maximize your after-tax returns.

All of those elements are captured in our simple and handy formula that can help you understand the value of working with an advisor.



A is for Active rebalancing of investment portfolios

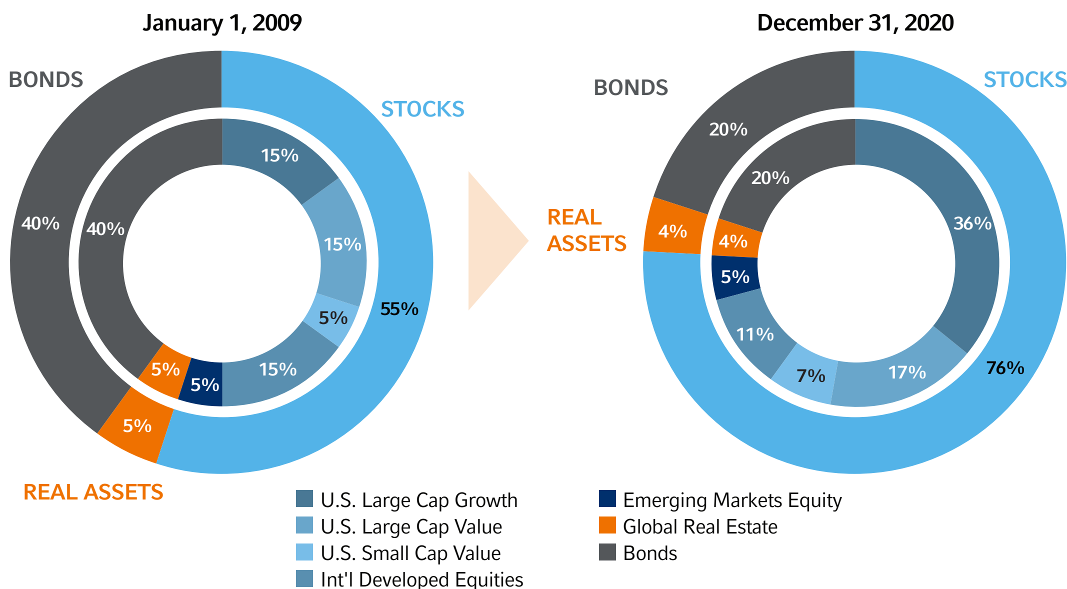
Why is rebalancing important? Because it essentially works to keep the mix of investments in your portfolio in line with your desired risk and return profile. Through rebalancing, investments that have risen in price are sold while assets that are lagging are added. But not only does rebalancing fulfill that basic investing tenet of "buy low and sell high," it can also smooth out your returns—potentially helping you sleep better at night even when markets are volatile.

We believe many investors do not rebalance on their own, mainly because:

1. It's easy to forget to do it. Just like we know how important it is to change the batteries in our smoke alarms twice a year, sometimes what we have to do day to day takes priority over the other things we need to do, like rebalancing.
2. It goes against our human nature to buy low and sell high. When it comes to your portfolio, it means buying more of what's been underperforming and selling what's been doing well. That runs counter to our instinct to do more of what brings us pleasure and avoid what creates pain. Rebalancing not only takes time and effort to do, it also takes discipline. Your advisor can help deliver that discipline and help position your portfolio for potential long-term success.

For example, if you had started out with a balanced portfolio of 60% stocks and 40% bonds in January 2009 and it had not been actively rebalanced since then, by the end of 2020 the risk profile of the portfolio would have looked very different. That original balanced portfolio would have become a growth portfolio, with 80% invested in stocks and only 20% in bonds. That would have made your portfolio far more vulnerable if equity markets suddenly reversed, as we saw in early 2020.

When balanced becomes the new growth
The potential result of an un-rebalanced portfolio



Source: Hypothetical analysis provided in the chart & table above is for illustrative purposes only. Not intended to represent any actual investment. Source for both chart & table: U.S. Large Cap Growth: Russell 1000 Growth Index, U.S. Large Cap Value: Russell 1000 Value Index, U.S. Small Cap: Russell 2000® Index, International Developed Equities: MSCI World ex USA Index, Emerging Markets Equity: MSCI Emerging Markets Index; Global Real Estate: FTSE EPRA NAREIT Developed Index, and Fixed Income: Bloomberg Barclays U.S. Aggregate Bond Index.

Active rebalancing can not only ensure you are selling positions that have outperformed (sell high!) and reallocating cash to underperformers (buy low!), it can help reduce the volatility in your portfolio. And let's face it—it's a lot easier to stick to your plan when your investments aren't fluctuating wildly.

In summary, active rebalancing can help you capture gains, reduce volatility and keep your asset allocation within the range you initially determined would give you the outcome you desire based on your goals, circumstances and preferences.

B is for Behavioral coaching

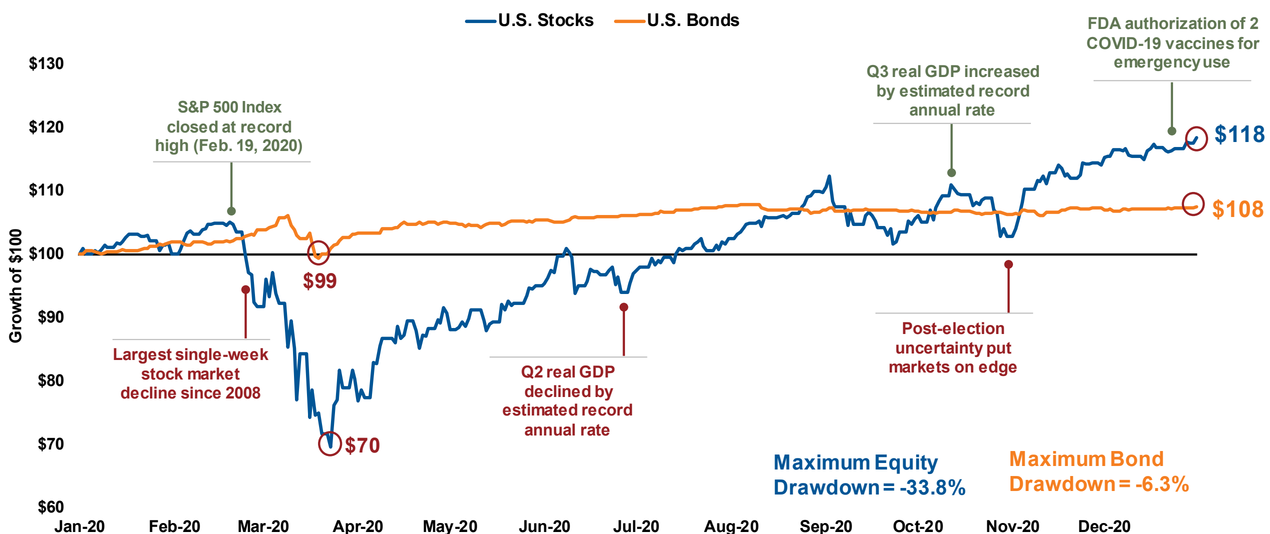
There is no question that 2020 was a wild ride. Many investors fled for the exit in mid-March when the S&P 500® Index registered the largest weekly decline since 2008. That's not surprising. After all, we're only human.

As humans, we often let our emotions influence our decision-making. While that is perfectly reasonable in most aspects of life, it can be detrimental to our financial well-being when we succumb to our "fight or flight" responses in the face of market volatility.

To be a successful investor, it's important to be objective and disciplined when making investment decisions. This means making sure decisions align with your long-term goals. This is where working with an advisor can be helpful. Their role is to keep you on track with your chosen plan so that you have the best chance to reach your financial goals.

Investors who stuck to their plans in March 2020 would have likely recovered all the ground lost—and potentially even reported a gain—by the end of the year.

Growth of $100 in 2020: U.S. Stock & Bonds



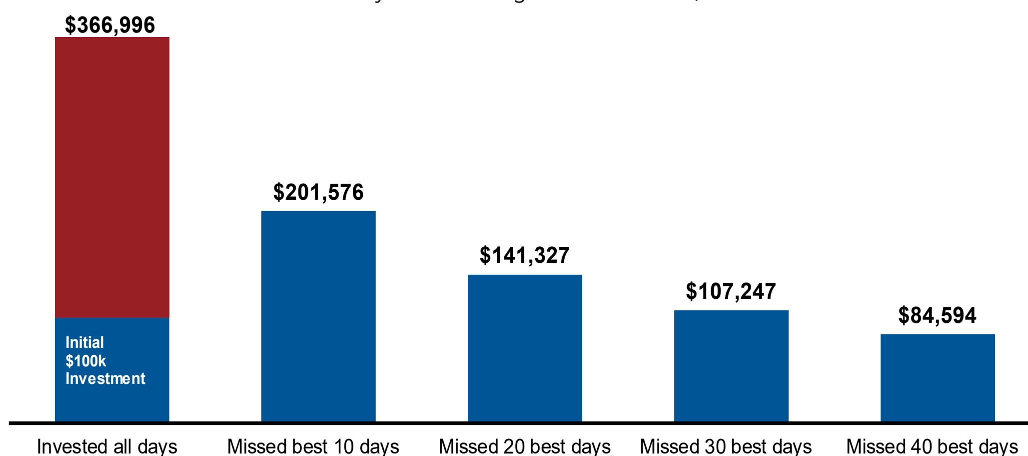
Despite a global pandemic and economic shutdowns, stocks delivered double digit returns (+18.4%)
Bonds ultimately provided the protection investors expected (+7.5%)

Source: Timeline of Events Related to the COVID-19 Pandemic: https://fraser.stlouisfed.org/timeline/covid-19-pandemic. Morningstar Direct. US Stocks = 500 Index; U.S. Bonds = Bloomberg Barclays U.S. Aggregate Bond Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanagedand cannot be invested in directly.

Without an advisor's guidance, many investors could have sold low in March—in fact, $335.6 billion was pulled out of U.S. stocks in that month[1]—and perhaps have had to buy high as the markets steadily recovered throughout the end of the year. Or they would have been forced to remain in cash until a better entry point appeared—which is risky and quite difficult to do without a crystal ball. Sticking to the original investment plan can often be the better choice.

As the following graph shows, missing out on even a few days of good performance can eat into your portfolio's returns. And how do you know which days those will be? That's the catch—you don't. Markets can be unpredictable. But their long-term trend has been up. In fact, the S&P 500 Index has finished the year in positive territory 74% of the time since its inception in 1926[2]. Those are pretty good odds.

The investment impact of missing best market days
10 years ending December 31, 2020



Source: Morningstar. In USD. Returns based on S&P 500 Index, for 10-year period ending December 31, 2020. For illustrative purposes only. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

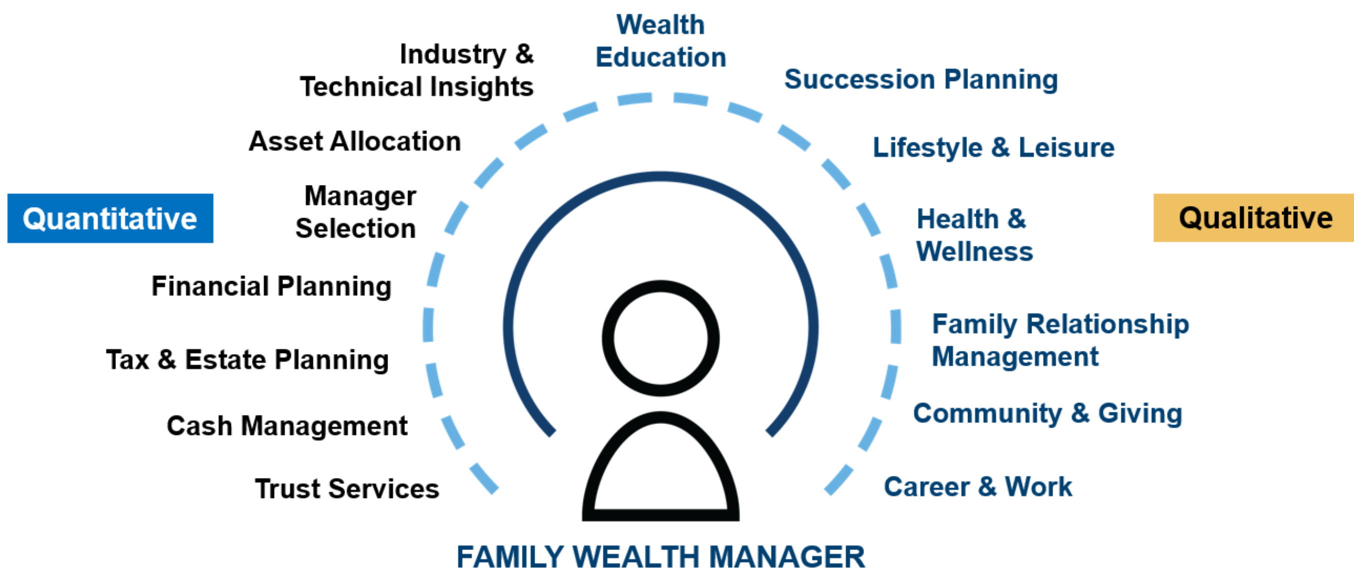
C is for Customized client experience & planning

Robo-advisors are automated platforms that provide basic investment management. They generally don't provide a financial plan, ongoing service, or the guidance that you could get from a trusted advisor. Although their fees are quite low, in most cases you just have the option of choosing from a pre-selected list of funds, an annual statement, and a phone number to call in case of questions. We all know what it's like to call into an automated phone system that gives us a choice of which button to push depending on the question we have. Think about being in that seemingly endless cycle of telephone tag when you have concerns about the markets and what could be happening to your hard-earned money.

Your advisor, on the other hand, has discussed your goals, circumstances, and preferences with you. They consider those elements when they determine your investment plan, and they can use them as a framework to respond to your specific concerns when markets are volatile. We believe there is great value in that.

[1] Source: Russell Investments, Morningstar Direct. Based on monthly mutual fund, passive ETF flows, Russell 3000 Index

[2] Source: Russell Investments, represented by the S&P 500 Index from 1926-2020



Recent research[3] has shown that investors are more willing to work with advisors who have a deep understanding of their individual circumstances and financial goals. We believe this is where human advisors have the edge over robo-advisors. Like most investors, your life is likely to become more complex over time. You may get married, buy a home, raise children, save for your children's educations, care for elderly parents, and prepare for retirement or manage your finances during retirement.

Families are reassessing priorities now more than ever, prompting questions every day that require a deeper discussion of options, potential outcomes, and financial impact.

- Who would care for and make decisions about my family and my wellbeing if I couldn't?
- Am I prepared if I find myself unemployed later in life—ahead of when I expected?
- How have my views about my lifestyle changed because of events over the past year?
- What are the things that are most important to me and my family and what should I share with my advisor to receive the best advice that I can?

Having a wise, human advisor guide you through these life-defining moments can bring tremendous value.

P is for Product alignment with goals

Since you have a unique set of goals, circumstances, and preferences, it stands to reason you will require a distinct mix of investment products. Some investors choose to go it alone, and that's okay, but it takes commitment, a commitment of time and commitment to gain the required knowledge and expertise to choose the right investments for you.

[3]Survey "How can advisors better communicate with their clients", December 2019 by YCharts. Total sample size represented 650 individuals across the U.S. https://go.ycharts.com/hubfs/YCharts_Client_Communications_Survey.pdf, Accessed Feb 3, 2021.

GOALS	CIRCUMSTANCES			PREFERENCES	
GROWTH	Taxable	Tax-exempt	Married	Conservative	Moderate
	Single	Divorced	Widowed	Aggressive	Fee sensitive
INCOME	Young	Not Young	Working	Return driven	Preservation
	Retired	Short Horizon	Long Horizon	Yield oriented	ESG

Hypothetical scenario for illustrative purposes only.

But there are so many choices. With over 7,200 distinct open-ended mutual funds, over 3,400 stocks, tens of thousands of active bonds and many other investment choices, it becomes nearly impossible to manage it all effectively, by yourself.

Understanding what decisions must be made in good markets and bad can become daunting, much less trying to manage personal behavioral reactions and biases toward investing. All of this is a lot to consider while at the same time, trying to create the right asset allocation and the right balance of risk for you and your future.

Your advisor helps to distill all that information and narrow it down to the things that work for you. With maturity comes complexity and having someone to work through the decisions with you along your life's journey is incredibly valuable.

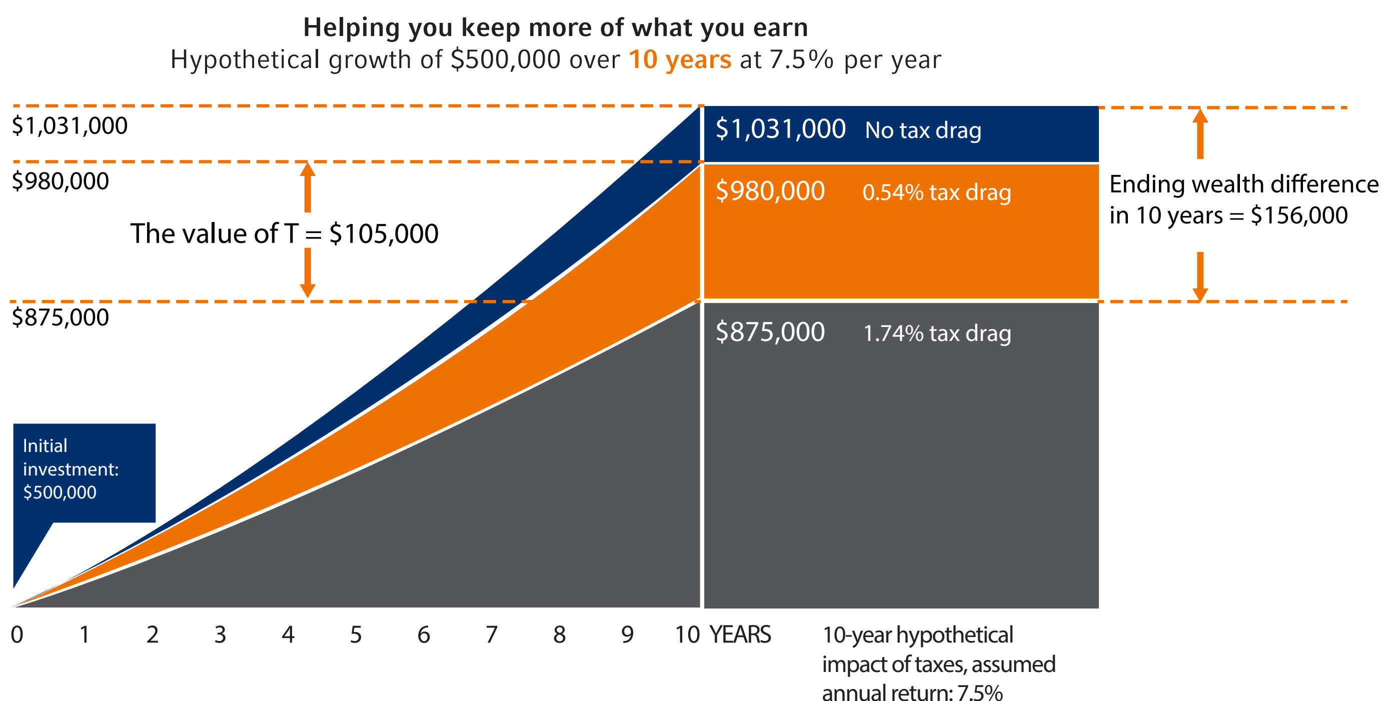
T is for Tax-smart planning & investing

Paying taxes on hard-earned income—including investment income—is never a pleasant task. Especially if that tax bill could have been minimized by selecting investments that actively optimize to maximize your *after-tax* return. Because what matters most is not what you make; it's what you get to keep.

Our research has shown that many investors unnecessarily lost an average of 1.74% of their return from non-tax managed U.S. equity products in each of the five years ending December 31, 2020—*because of taxes*.[4] That was the difference in return between non-tax managed U.S. equity funds and *tax-managed* U.S. equity funds in that time period. For many investors, that return difference is larger than the total fee their advisor charges them. For those investors, working with an advisor who can help them make tax-smart investments can potentially more than pay for itself!

More importantly, over time, that kind of tax drag can add up. For example, a $500,000 investment that lost 1.74% annually to taxes would be worth only $875,000 in 10 years, assuming a 7.5% average annual return. But that same investment with no tax drag would be worth $1.03 million.

Helping you keep more of what you earn
Hypothetical growth of $500,000 over **10 years** at 7.5% per year



This example does not reflect the deduction of state or federal income taxes. If it had, returns would have been lower.

This is a hypothetical illustration and not meant to represent an actual investment strategy. Taxes may be due at some point in the future and tax rates may be different when they are. Investing involves risk and you may incur a profit or loss regardless of strategy selected.

Investing in tax-managed solutions can reduce the tax drag to an average of 0.54% annually. That could add another $105,000 to the portfolio noted above. How would you feel about accumulating an additional $105,000 in your investments?

As we emerge from the global pandemic, the next issue we may have to face is how to pay for the historic government stimulus packages that kept the economy afloat in 2020. That stimulus added more than $3 trillion to our country's total debt. With that in mind, it seems likely that taxes are only going to go up over time.

Your advisor can help you structure your investments so that you manage your taxes in the same way you manage your household budget—carefully and smartly.

[4] Methodology for Universe Construction on Tax Drag chart: From Morningstar, extract U.S. equity and fixed income mutual fund and ETF's for reported period. Averages calculated on a given category. For example, average after-tax return for the large cap category reflects a simple arithmetic average of the returns for all funds that were assigned to the large cap category as of the end date run. For funds with multiple share classes, each share class is counted as a separate "fund" for the purpose of creating category averages. Morningstar category averages include every type of share class available in Morningstar's database. Large Cap/Small Cap/Municipal Bond determines based upon Morningstar Category. If fund is indicated Morningstar as passive or an ETF, the fund is considered to be passively managed. Otherwise, the fund is considered to be actively managed. Tax Drag: Pre-tax return less after-tax return (pre-liquidation).

The bottom line

This post-pandemic world could be the perfect time for you to consider the value of working with an advisor. Because that relationship may be one of your best investments.

Maybe you were lucky enough to work with an advisor who helped keep you invested throughout the market volatility in 2020. If so, then you probably already have received value above and beyond the fee you pay.

Then consider the value embedded in active rebalancing, a customized client experience, keeping your portfolio aligned with your specific goals, and the savings from a tax-managed approach, and it seems clear that there is substantial value in working with an advisor.

Notes

Notes

Russell Investments

To learn more, speak with your financial advisor.

IMPORTANT INFORMATION AND DISCLOSURES

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Bloomberg Barclays U.S. Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities (specifically: Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

FTSE EPRA/NAREIT Developed Index: A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

MSCI Emerging Markets Index: A float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

S&P 500® Index: a free-float, weighted measurement stock market index of the 500 large companies listed on stock exchanges in the United States.

The MSCI World ex U.S. Index tracks global stock market performance that includes developed and emerging markets but excludes the U.S.

The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 3000® Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

Indexes 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.

Past performance does not guarantee future performance.

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