

The Value of Investment Professionals

By Raymond M. Mullaney – April 11, 2024

The permanent value of an investment advisor is their ability to build their clients' net worth.

But most advisors lack competence and proficiency in protecting clients' capital from significant losses, even in good times. Very few provide any evidence that they can actually provide meaningful capital growth over the S&P 500 index over a full market cycle of ups and downs. To outperform the S&P 500, an advisor must employ highly reliable methods of investing.

The investment advisory industry has over 700,000 registered advisors and brokers, i.e. "salespeople". They all sell just about the same "Buy & Hold" strategy. The vast majority of these experts base their investment strategies on online research platforms that cost \$400 per month. Would you go to a doctor whose best ideas came from websites that you too could subscribe to for \$500 per month? How would you react if your doctor told you to take 50 different drugs because he couldn't tell you which drugs would be beneficial and which ones would not? This is what many advisors call investment diversification!

Astute investors want an advisor to build their wealth. However, for most advisors, outperforming the major indexes is simply impossible. They will tell you, "The foundation of good advisor-client relationships is not the results they attain, but the comfort and support they provide in bad times." They actually tell their clients, "We've never beat the market. We can't. And don't bother trying to find an advisor that can, because they don't exist."

In time, keen investors will wise up and search for advisors who can provide strong evidence that the state-of-the-art advanced technology they employ can not only beat the market, but can do so frequently.

1) Is it feasible for any advisor to consistently outperform the market?

While many professionals argue that beating the market is a pipe dream, the existence of funds and hedge funds that have outstripped the market for decades suggests otherwise. It's worth engaging these professionals in a conversation about the strategies employed by such successful funds.

2) Should investors pay a premium for advisory services if the returns are no better than what one might achieve with the S&P 500 index?

With evidence suggesting that the average investor pays about 1% of assets under management (AUM) in fees annually, a shift to an S&P ETF with a significantly lower fee structure could enhance returns and reduce expenses. This consideration is a strong driving force for performance-focused investors.

The stock market is not efficient, but the market for investment advisors will certainly become more efficient. There will be mounting pressure on advisors to either elevate their performance or adjust their fees to reflect the actual value they provide.

Fortunately, there is a cadre of advisors who distinguish themselves by outperforming their peers and growing their AUM at an accelerated rate. Wealthier clients, in pursuit of exceptional service, are increasingly entrusting their assets to these top-tier advisors, leading to a market in which the strong may absorb the less adept.

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