Episode #199: What Are The Risks of Not Using A Financial Advisor?

Video Transcription

Hi, my name is Tim Delvin and I want to welcome you to this week's episode on "Money Script Monday". Today, I want to talk to you about the risks that can arise when you don't have a financial advisor, on your team. Now, when you're doing it yourself and you don't have that support system from a financial advisor, there's really three core risks that arise.

Managing your own money can be a very emotional task. Seeing the ups and downs from the daily swings in the market can cause us to really make rash decisions. This can be summed up in what's called the behavioral gap. The behavioral gap is the difference between what an investment returns, and what an investor actually realizes. We see this play out consistently over time. This past year, the DALBAR Study updated their numbers, and the average equity investor underperformed the S&P500 by -5.4% over one year. Over a three year time period, that was a -3.8% annualized. That means, each year they underperformed by -3.8% on average. We see this play out year in year out, and this adds up tremendously over time. The same way that your investments compound growth, this underperformance compounds as well, and this is lost dollars in your pocket.

Now a financial advisor can be there as your support system. When there's turmoil on the market and you're thinking about making an emotional decision, you can turn to that advisor and say, "Hey, what is the data telling us? What is the balance of evidence suggesting that we should do?" They can help you close this behavioral gap.

Now, the second thing we often see with the do-it-yourself investor or planner, is they'll end up using the wrong tools for the job. As a do-it-yourself investor or planner, you want to consider three major things. First, what is the goal that you're trying to achieve? Are you trying to produce growth, are you trying to produce income? Second, what is the circumstances that are unique to you, such as, are you retired? Are you still working? Is the money you're looking to invest qualified or non-qualified? All of these are variables that play into your decisions. Lastly, what is the time horizon that you have for this money? As you consider what your goal is in these circumstances around your unique situation, you need to consider your time horizon. Will that amount of time allow you to really reach those goals?

A financial advisor is going to be there to help you with that decision process, they have experience with a plethora of client situations and unique to your situation, they can help you choose the right tool. This often is just a case of you don't know what you don't know. A do-it-yourself investor will often try to put a square peg in a round hole, and an advisor is going to be there to help you choose the right tool for the job. Secondly, choose the best available tool for the job.

Now lastly, the third main risk that arises is time constraints. So, the average person spends about nine hours at work, eight hours sleeping, call it four hours with your family, and then three hours for personal time or hobbies, whatever makes you happy outside of your family. The reality is, keeping up with the market's tax law changes, and the day-to-day changes in the financial industry is a full-time job. So having an advisor in your corner can help you alleviate a lot of that time. If you do it yourself, well, those hours have to come from somewhere. Oftentimes that means taking time away from your family or from those personal hobbies that make you happy.

So, I encourage you, reach out to a financial professional, one local to you, sit down with them, and discuss your situation, and find out if there are a right fit for your team. They can help you mitigate a lot of these risks and add a lot of value to the planning process.

My name is Tim Devlin and I want to thank you for joining us this week for "Money Script Monday".