The Tortoise and the hare

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The Seven Roles of an Adviser

What is a financial adviser for? One view is that advisers have unique insights into market direction that give their clients an advantage. But of the many roles a professional adviser should have, soothsayer is not one of them.

The truth is that no one knows what will happen next in investment markets. And if anyone really did have a working crystal ball, it is unlikely they would be plying their trade as an adviser, broker, analyst, or financial journalist.

Some people may still think an adviser's role is to deliver market-beating returns year after year. They will probably be those that also believe good advice equates to making accurate forecasts.

But in reality, the value a professional adviser brings is not dependent on the state of markets. Indeed, their value can be even more evident when volatility and emotions are running high.

The best provide multiple and nuanced roles for their clients, beginning with the needs, risk appetites, and circumstances of each individual and irrespective of what is going on in the world.

None of these roles involve making forecasts about markets or economies. Instead, they combine technical expertise with an understanding of how money issues intersect with the rest of people's complex lives.

Indeed, there are at least seven hats an adviser can wear to help clients without ever once having to look into a crystal ball:

1. The Expert: Now, more than ever, investors need advisers who can provide client-centric expertise in assessing the state of their finances and developing risk-aware strategies to help them meet their goals.

2. The Obective Voice: The global financial turmoil of recent years demonstrated the value of an objective voice in a world full of product pushers and salespeople

3. The Listener: The emotions triggered by financial uncertainty are real. A good adviser will listen to clients' fears, tease out the issues driving those feelings, and provide practical, long-term answers.

4. The Teacher: Getting beyond the fear-and-flight phase often is just a matter of teaching investors about risk and return, diversification, the role of asset allocation, and the virtue of discipline.

5. The Architect: Once these lessons are understood, the adviser becomes an architect, building a long-term wealth management strategy that matches each person's risk appetites and lifetime goals.

6. The Coach: Even when the strategy is in place, doubts and fears inevitably arise. At this point, the adviser becomes a coach, reinforcing first principles and keeping the client on track.

7. The Guardian: Beyond these experiences is a long- term role for the adviser as a kind of lighthouse keeper, scanning the horizon for issues that may affect the client and keeping them informed.

These are just seven valuable roles an adviser can play in understanding and responding to clients' whole-of-life needs, which are a world away from the old notions of selling product off the shelf or making forecasts.

For instance, a person may first seek out an adviser purely because of their role as an expert. But once those credentials are established, the main value of the adviser, in the client's eyes, may be as an objective voice.

Knowing the adviser is not plugging product—can lead the client to trust the adviser as a listener or sounding board, someone with whom they can share their greatest hopes and fears.

From this point, the listener can become the teacher, architect, coach, and, ultimately, the guardian. Just as people's needs and circumstances change over time, the nature of the advice service evolves.

These are all valuable roles in their own right and are not dependent on outside forces such as the state of the investment markets or the point of the economic cycle.

However you characterize these various roles, sound financial advice ultimately is defined by the patient building of a long-term relationship founded on the values of trust and knowledge of each individual.

Now, how can you put a price on that?

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Neither asset allocation nor diversification assures a profit or protects against a loss in declining financial markets. Currency fluctuations may increase or decrease the returns of any investment.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

The prices of real assets (for example, precious metals) tend to fluctuate widely and unpredictably, and have historically experienced periods of flat or declining prices. Prices are affected by global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations.

REITs investing risks are similar to those associated with direct investments in real estate: lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

The indices are unmanaged, are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include expenses, fees or sales charges, which would lower performance.

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Investing in smaller companies involves risks not associated with more established companies, such as business risk, significant stock price fluctuations and illiquidity.

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The initial interest rate on an inflation-linked security may be lower than that of a fixed rate security of the same maturity because investors expect to receive additional income due to future increases in CPI. However, there can be no assurance that these increases in CPI will occur.

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