#### INVESTMENT PLANNING COUNSEL'S

# Intelligent Investor



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## Study Gauges the Value of Financial Advice

On average, Canadian households who receive advice from a financial advisor have, on an overall basis, 4.2 times as much in financial assets as non-advised households, according to a recent study, An Econometric Analysis of Value of Advice in Canada.

The study by Dr. Claude Montmarquette, professor of economics at University of Montreal, interpreted results of a survey conducted by Ipsos Reid in December 2010. The Ipsos Reid survey collected data on Canadians' financial situations and savings, along with their investment behaviour and attitudes towards retirement savings and advice.

A representative sample of 3,610 households responded to the survey, assessed as follows:

- 1,785 (49%) who currently use a financial advisor
- 1,598 (44%), who do not use an advisor, and
- the rest, who self-manage their investments

Study shows "advised" investors have more money, and that this advantage increases over time.

## Quantifying the Value of Advice

Using a simple comparison of "advised" households versus "non-advised" households, Dr. Montmarquette found that households in the first group had on average 4.2 times the level of financial assets of those in the second group. Digging deeper, he found a number of factors had an impact on asset levels, including demographics and economic situation. The key variable, however, was how long the investor had been receiving advice from an advisor, or the "tenure of advice." Focusing on this key variable and eliminating the impact of other factors, the study found that the longer the tenure, the greater the impact on the value of household assets, with the first noticeable effect emerging after at least four years of receiving advice.

	Tenure of Advice		
Median Current Financial Assets	4 – 6 Years	7 – 14 Years	> 15 Years
Advised Households	\$68,000	\$115,000	\$167,000
Non-Advised Households	\$43,000	\$58,000	\$61,000
Difference (as a multiple)	1.58 X	1.99 X	2.73 X

The table above suggests that after 4 to 6 years of working with an advisor, households had accumulated 1.58 times the median level of financial assets held by households without an advisor. After 15 years of advice, the multiple was 2.73 and the median level of financial assets for advised households was \$167,000 compared to \$61,000 for non-advised households.

## "...households are both more likely to save than non-advised households and have a higher savings rate."

## The Impact of Advice

The study also looked at key behaviours that affected wealth, including the household savings rate and the portion of assets allocated to non-cash investment vehicles such as stocks, bonds and mutual funds. It found a significantly higher level of financial assets for those who save versus those who don't, and even higher levels of wealth as the savings rate increases. Not surprisingly, Dr. Montmarquette statistically concludes that advised households are both *more likely to save* than non-advised households and have a *higher savings rate*. What's more, the greater the portion of mutual funds and other non-cash instruments held by the investor, the greater the increase in the value of financial assets.

#### Other Benefits of Advice

Along with quantifiable financial advantages, respondents also reported non-financial benefits of working with an advisor. When asked about the value of advice, households with an advisor were found to feel more confident they will have enough money to retire. Among this group, households that had been actively advised for at least 10 years were more likely to feel confident they will retire comfortably. Advised households also reported being satisfied with the services and advice they received.

### **Bottom Line?**

Following the advice of a trusted advisor is shown to be a significant factor in building wealth and achieving investment success. So keep doing what you're doing.

Our team can provide sound advice and a personal wealth management strategy to guide you at any stage of life. For a review of your strategy, give us a call.



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