Financial advisor costs and the value of their investment strategies determine your return on investment from these investment advisor services

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Summary: A previous financial article, “The Solution - ONLY follow financial strategies that are scientific, passive, diversified, savings focused, risk controlled, low cost, and tax efficient,” suggested that investors are much better off with a well-considered financial plan. A stable set of financial beliefs can help you to keep focused and on track throughout your life. This follow-up article discusses the value of financial advisors from the perspectives of both advisor fees and the return on investment from their advice. Whether good or bad, financial advisors are expensive. If you need a financial advisor's help and you carefully select a good financial advisor, the value of the personal finance and investment advice that you receive might easily repay the advisor cost. However, bad financial advisors can cost you dearly, though both high financial expenses and poor investment strategies.You should manage your financial advisors proactively and ensure that they add financial value overall. If a financial advisor consistently delivers value in excess of his cost, you should be very happy to pay a fair price for competent financial advisor services. Knowledgeable and competent financial advisors with efficient services can help you to formulate comprehensive financial plans, keep you on track toward your financial goals, and gently steer you away from foolish financial decisions. They can deliver passive investment strategies that are low-cost, can align your asset allocation with your investment risk tolerance, and can rebalance your investment portfolio in a cost- and tax-efficient manner. Good financial advisors deserve reasonable pay for their advisor services. (See these articles on Selecting an Advisor and Regulation of Advisors)On the other hand, some financial advisors are overly costly, and they drain rather than add net present value to your finances. It is very easy to overpay for financial advisory services. You can pay too much for your financial advisor via your direct fee payments and/or through the higher investment costs that you pay, which compensate your advisor indirectly. (See these articles on Payment of Advisors)Many financial advisory fees and other investment advisor costs are charged annually as a percentage of your portfolio assets, rather than as a percentage of your investment returns. However, your assets are already “your” assets. If you pay a percentage of your portfolio assets to an investment advisor, then reasonably you might presume that this advisory cost will be recouped through increased return on investment. Sadly, the opposite is often true.Furthermore, you can over-pay repeatedly on a percent of assets basis. When measured on a percent of assets rather than percent of returns basis, advisory costs may appear to be quite modest. As a result, many investors never understand the true long-term impact of excess fees. However, when calculated on a percentage of returns basis, advisory costs simply can be huge, and you keep paying these excessive costs year after year. (See: Excessive investment costs are a huge problem for individual investors)Furthermore, unless advisory percentage charges decline over time, you will pay much more as your assets grow. Without these charges, your assets likely would have grown much more rapidly. Individuals need to evaluate dispassionately whether an advisor really contributes enough to justify the percentage of assets that they pay to the advisor. Some advisors may justify these costs and others may not.In addition, you can overpay very substantially for advice, because the strategy advocated by your advisor is itself excessively costly and thus more likely to be suboptimal. Through ignorance or self-interest, many advisors lead investors into excessively costly and unnecessarily risky active investments, instead of counseling them to adopt low-cost, passive, index investment strategies. (See: Passive individual investors are “free riders” who benefit from the higher costs of active traders)In general, advisors receive much more compensation from the industry to put individual investors into more active investments with higher costs. Some advisors’ planning services are just superficial facades designed to sell high fee active strategy products. If you do not pay your advisor directly, then the financial services industry will pay him to put you into investments that are more profitable to your advisor and to the industry, but not necessarily to you. Many investors do this unwittingly, because they are told that active strategies are better. Most often, they will pay the bill through poorer performance and higher visible and hidden costs over their lives. (See these articles on Controlling Investment Costs)

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