SUMMARY OF VANGUARD'S RESEARCH ON "ADVISOR'S ALPHA" FOR CLIENTS

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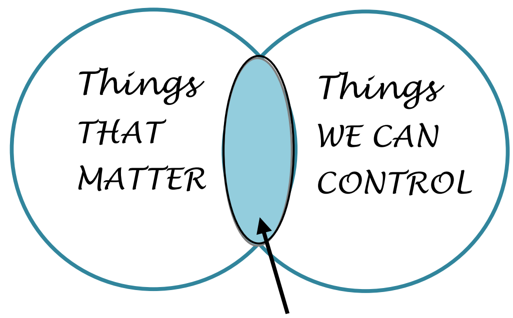
VANGUARD'S ADVISOR'S ALPHA STRATEGY	❶	TYPICAL VALUE ADDED FOR CLIENT (Basis Points 100 = 1.0%)
Suitable asset allocation using diversified funds/ETFs	❷	> 0
Cost-effective implementation (expense ratios)	❸	30
Rebalancing	❹	14
Behavioral coaching	❺	0-200
Asset Allocation	❻	0-60
Spending strategy (asset location for tax benefits)	❼	0-120
Total Return versus income investing	❽	> 0
RANGE OF POTENTIAL VALUE ADDED (BASIS POINTS)		**3.0% NET**

Note: We believe implementing the Vanguard Advisor's Alpha framework can add up to, or even exceed, 3.0% in net returns for your clients and also allow Advisors to differentiate their skills and practice. The actual amount of value added may vary significantly depending on client circumstances and time horizon. Source: VANGUARD

SUMMARY

Wealth Management services can provide quantifiable benefits to clients by transforming objectives into bottom line results. **Vanguard's study found that Advisors can add 3.0% or greater value-added to clients more than offsetting their fee by helping clients make better financial decisions and adhering to an investment plan[1]**.



WHAT YOU SHOULD FOCUS ON

To reach this conclusion Vanguard compared the projected results of advisors using "best practices" for wealth management with those who don't in their study. They looked only at what they call "*universal advisory alpha levers*" or the most common tools for adding value, encompassing both investment-oriented and relationship-oriented services and strategies. These factors making up the Vanguard Framework are *asset allocation, costs, rebalancing, behavioral coaching, location spending, and investment strategy*. They admit benefits such as improved investment performance and lower costs are more readily measurable than intermittent ones such as behavioral coaching to stay the course, tax savings, and peace of mind. They did not consider factors such as charitable giving, estate planning, tax loss harvesting, risk management, business consulting, etc., that may add significant additional value.

With this point of departure, Vanguard advocates the importance of focusing on things that are relevant and things that matter for client investment success. They urge advisors to write an *Investment Policy Statement* that will become the "blueprint" for how the client will invest that outlines their financial objectives and sets guidelines on asset allocation, annual contributions, time horizon, and planned expenditures. They argue the IPS then forms the basis for future behavioral coaching to stay the course and prevent clients from reacting badly to media headline noise and making changes that are emotionally driven.

Concluding, Vanguard then details the merits of their 8 '*alpha factors*' illustrating a broad asset class diversified portfolio with low-cost investments while warning about position weights different from the index on long term performance. Interestingly, the Vanguard authors do not disclaim the use of Actively managed funds, instead simply advocating managing investment costs. They do advocate use of a rebalancing component to maintain risk exposure consistent with the client's risk tolerance preferences to prevent stocks with greater risk from becoming overweighted relative to lower risk holdings. Vanguard argues doing so helps clients stay on plan and increases the probability of them meeting their financial goals.

Kinniry, Jr., Francis M., CFA, Jaconetti, Colleen M., CPA, CFA, DiJoseph Michael A., Walker, David J., CFA, and Quin Maria C., "*Putting a value on value: Quantifying Vanguard's Advisor Alpha*" Vanguard Investment Advisory Research Center. July 2022