Wealth Enhancement®

# Should You Hire a Financial Advisor or Do It Yourself?

Once you have accumulated a significant amount of capital, or you have a pressing financial question you can't answer, it's natural to ask yourself whether you should hire a financial advisor or do it yourself. In this blog we'll talk about the major decision factors to consider.

## Do You Have the Time?

When considering whether or not it makes sense to work with a financial advisor, your time is one of the biggest factors impacting the decision. It may not seem like it at face value, but the time required to take care of your own finances is enormous, if you want to do it correctly.

Here are just a few examples of tasks that would consume your time.

Investments

- Researching possible investments
- Monitoring investments
- Assessing risk and return potential of an investment
- Designing the optimal mix of different asset classes – stocks, bonds, cash, etc.
- Assessing your own personal risk tolerance

Financial planning

- Modeling out Social Security – when to take it, what your benefit amount would be, how your spouse's benefits may impact yours, how your income may impact what amount of benefits you get, etc.
- Designing a retirement income plan
- Strategically selling investments with an eye towards tax sensitivity to avoid excess taxes
- Avoiding a Medicare Income-Related Monthly Adjustment Amount

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Overwhelmed yet? We're just getting started.

As you can see, the technical knowledge required is high. If you don't have a background in these areas or a certain level of experience, it would require quite a bit of time to gain the necessary skill and knowledge to be able to counsel yourself to make proper financial decisions.

It's not just a matter of having the time. There is mental energy that goes with that. You can't be half paying attention to these important matters. If you are going to be taking responsibility for you and someone else's finances, you should make sure that in the time you allocate, you are able to provide your undivided attention and that you are mentally up for the task. Otherwise, you may be compromising the quality of the work you are doing.

## What Skills and Knowledge Does a Financial Advisor Have?

And this brings us to the next point – what knowledge does an advisor have that makes him or her worth paying for? The skill set varies from one to the next. Some advisors have specialties that others don't.

Financial advisors, in general, possess these types of knowledge sets:

- Managing investments in accordance with risk tolerance guidelines
- Statistical modeling and simulations
- Interpreting highly complex data sets and time series data
- Understanding the federal, state, and local tax codes and how to comply with them
- Operating portfolio, trading, rebalancing, and financial planning software modules
- Forecasting tax liability
- Trading stocks, bonds, and other market instruments
- Communicating during times of high pressure and stress
- Managing the interests of multiple generations of a family
- Understanding behavioral bias and preventing it from compromising results
- Selling a business
- Buying a house
- Saving for college

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- Analyzing estate and legal documentation
- Opening, closing, and transferring brokerage accounts
- Analyzing company benefits such as 401(k) and company stock options
- Navigating Medicare, Social Security, and other governmental benefit systems

If you are trying to figure out whether or not to hire a financial advisor, it is useful to consider that every financial advisor has his or her own strengths and weaknesses, but this is a list of the basic skills that all of them must possess, to some degree.

## The Mental Challenge and Discipline Required

Even if you feel you have the skills and knowledge to take care of your own finances, you still may need a financial advisor. There is a mental edge that is required to do this the right way.

- Financial advisors must have the discipline to stay grounded in objectivity when the market goes down. People often sell low because they get nervous when the market dips, locking in losses. Resisting this temptation and adhering to a long-term plan is a lot harder than most realize.
- They must make rational and shrewd assessments of investment potential. It's easy to get caught up in the smoke-and-mirrors presentations of those offering the investment.
- There are several behavioral biases that must be overcome to manage finances properly. This article explains several of them, from anchoring bias to overconfidence bias, and more.

All of these are ways that a good financial advisor can provide value to you.

## Is Your Spouse a DIYer? You May Still Need a Financial Advisor

If you've read our blog and choose to remain a do-it-yourselfer, so be it. We wanted to take a moment to discuss how this dynamic plays out for a married couple. We say this because it is very common for the spouse of a DIY-er to have minimal involvement (if any) in the financial processes.

I recently came across a case where the husband had been the primary earner their entire marriage. He went to work and came home. His wife made the budget, paid the

bills, and did everything. By the end of his career, I don't think he could even tell you what his salary was. When she passed away unexpectedly last year, he didn't even know how to log in to his bank account to see how much money was there.

If you are a married DIYer, know this…

The death of a loved one is difficult enough, but then adding on a complex financial plan with little knowledge of the DIYer's process becomes overwhelming and can lead to large, unnecessary expenses. Having a financial advisor can help you rest easy knowing that your significant other is taken care of by a trusted professional who knows the lay of the land. In some cases, the couple will appoint an advisor on a contingent basis so that if and when the DIY spouse were to pass, there is a professional at the ready who can step in and help the surviving spouse.

## Are You Still Going to DIY or Did We Convince You to Hire a Financial Advisor?

Of course, we're biased. As financial advisors in Davis County, Utah, we help our clients with tax planning, financial planning, and saving for retirement.

If you'd like to talk, please set up a time!



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