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## Here's the Prescription

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As much as I value the unfettered access to information the internet provides, I recognize the potential harm that too much information can cause.

Take, for example, a friend of mine, who was experiencing some troubling medical symptoms. Typing her symptoms into a search engine led to an evening of research and mounting consternation. By the end of the night, the vast quantity of unfiltered information led her to conclude that something was seriously wrong.

One of the key characteristics that distinguishes an expert is their ability to filter information and make increasingly refined distinctions about the situation at hand. For example, you might describe your troubling symptoms to a doctor simply as a pain in the chest, but a trained physician will be able to ask questions and test several hypotheses before reaching the conclusion that rather than having the cardiac arrest you suspected, you have something completely different. While many of us may have the capacity to elevate our understanding to a high level within a chosen field, reaching this point takes time, dedication, and experience.

My friend, having convinced herself that something was seriously wrong, booked an appointment with a physician. The doctor asked several pertinent questions, performed some straightforward tests, and recommended the following treatment plan: reassurance and education.

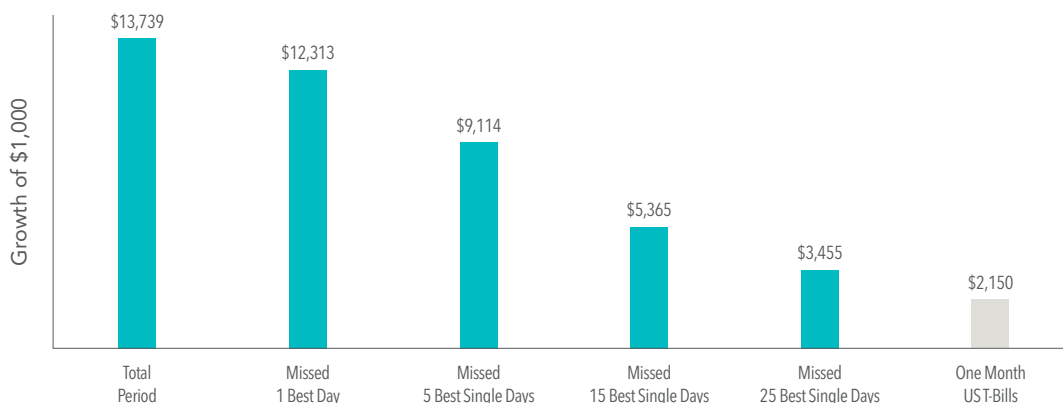
Not surgery. Not drugs. But an understanding of why and how she had experienced her condition. The consultative nature of a relationship with a trusted professional—both when a situation arises and as we progress through life—is one of the key benefits that an expert can provide.

There are striking parallels with the work of a professional financial advisor. The first responsibility of the doctor or advisor is to understand the person they're serving so that they can fully assess their situation. Once the plan is underway, the role of the professional is to monitor the person's situation, evaluate if the course of action remains appropriate, and help to maintain the discipline required for the plan to work as intended.

Like my friend's doctor, advisors may have experienced conversations with clients that are triggered by news reports or informed by unqualified sources. In some cases, all that is required to help put the client's mind at ease is a reminder to focus on what is in their control as well as providing reassurance and (re)education that they have a financial plan in place that is helping them move toward their objectives. The benefits of working with the right advisor are demonstrated through the ability

**Exhibit 1: Reacting Can Hurt Performance**

Performance of the S&P 500 Index, 1990–2017



Annualized Compound Return	9.81%	9.38%	8.21%	6.18%	4.53%	2.77%
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*In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero.*

*S&P data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. “One-Month US T-Bills” is the IA SBB1 US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.*

to both help clients pursue their financial goals and to help them have a positive experience along the way.

Trouble might arise when we confuse simple and complex conditions. Probably no harm is done when a person, recognizing the onset of a common cold, takes cold medicine, drinks plenty of fluids, and rests. But had my self-diagnosing friend not made an appointment with a specialist, and instead moved from self-diagnosis to self-medication, she may have caused herself real harm. Similarly, thinking that all aspects of your own financial situation can be handled through a basic internet search or casual conversation with a friend might result in a less than optimal financial outcome.

Without the guidance of an advisor, the self-medicating investor might overreact to short-term market volatility by selling some of their investments. In doing so, they risk missing out on some of the best days since there is no reliable way to predict when positive returns in equity markets will occur.<sup>1</sup> One might think that missing a few

days of strong returns would not make much difference over the long term. But, as illustrated in **Exhibit 1**, had an investor missed the 25 single best days in the world’s biggest equity market, the US, between 1990 and the end of 2017, their annualized return would have dropped from 9.81% to 4.53%. Such an outcome can have a major impact on an investor’s financial “treatment” plan.

Improving someone’s financial health is a lot like improving their physical health. The challenges associated with pursuing a better financial outcome include diagnosis of the current situation, development of the appropriate course of action, and sticking with the treatment plan. Many advisors are trained on the intricacies of complex financial situations and work to understand how their clients feel about money and how their clients might react to future events. By providing the prescription of reassurance and education over time, we believe the right advisor can play a vital and irreplaceable role in investors’ lives.

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1. The 2018 Mutual Fund Landscape report compiled by Dimensional showed that for the 15-year period through 2017, only 14% of US equity mutual funds and 13% of US fixed income mutual funds survived and outperformed their benchmark after costs. The sample includes funds at the beginning of the 15-year period ending December 31, 2017. Each fund is evaluated relative to the Morningstar index assigned to the fund's category at the start of the evaluation period. So, if, for example, a fund changes from Large Value to Large Growth during the evaluation period, then its return will still be compared to the Large Value category index. Surviving funds are those with return observations for every month of the sample period. Winner funds are those that survived and whose cumulative net return over the period exceeded that of their respective Morningstar category index. US-domiciled open-end mutual fund data used in the study is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. Additional detail, including Morningstar Categories included in the analysis, is available upon request.

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