



Delivering alpha: The value of professional advice

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A company of Allianz 

Agenda

- The disconnect
- The evolution of advice
- Fee trends
- The benefits of professional advice
- Communicating your value
- Next steps
- Resources
- Appendix

The disconnect

What advisors do for their clients



The disconnect

What clients think their advisors do for them

Security selection
Asset allocation
Market timing

The disconnect

What investors focus on:

- Market timing
- Security selection

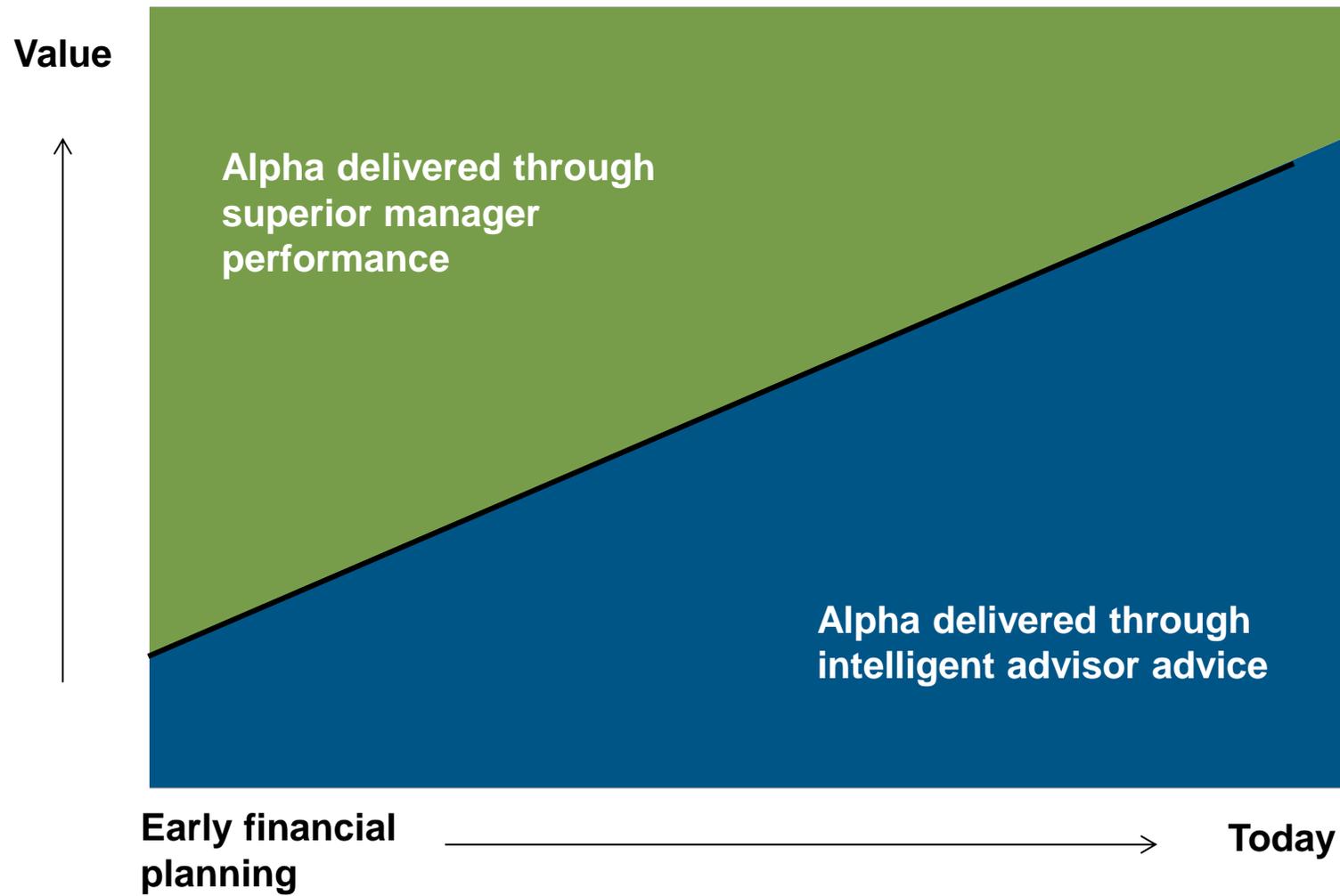
What investors should focus on:

- Clarifying personal goals
- Developing strategy
- Allocations that achieve goals and fit client risk profiles/preferences
- Risk Management
- Minimizing costs
- Managing behaviors
- Reducing taxes
- Defining and establishing legacy
- Preparing the next generations
- Maximizing employee benefits
- Accumulation (saving) and distribution (withdrawal) strategies

PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns.

The evolution of advice

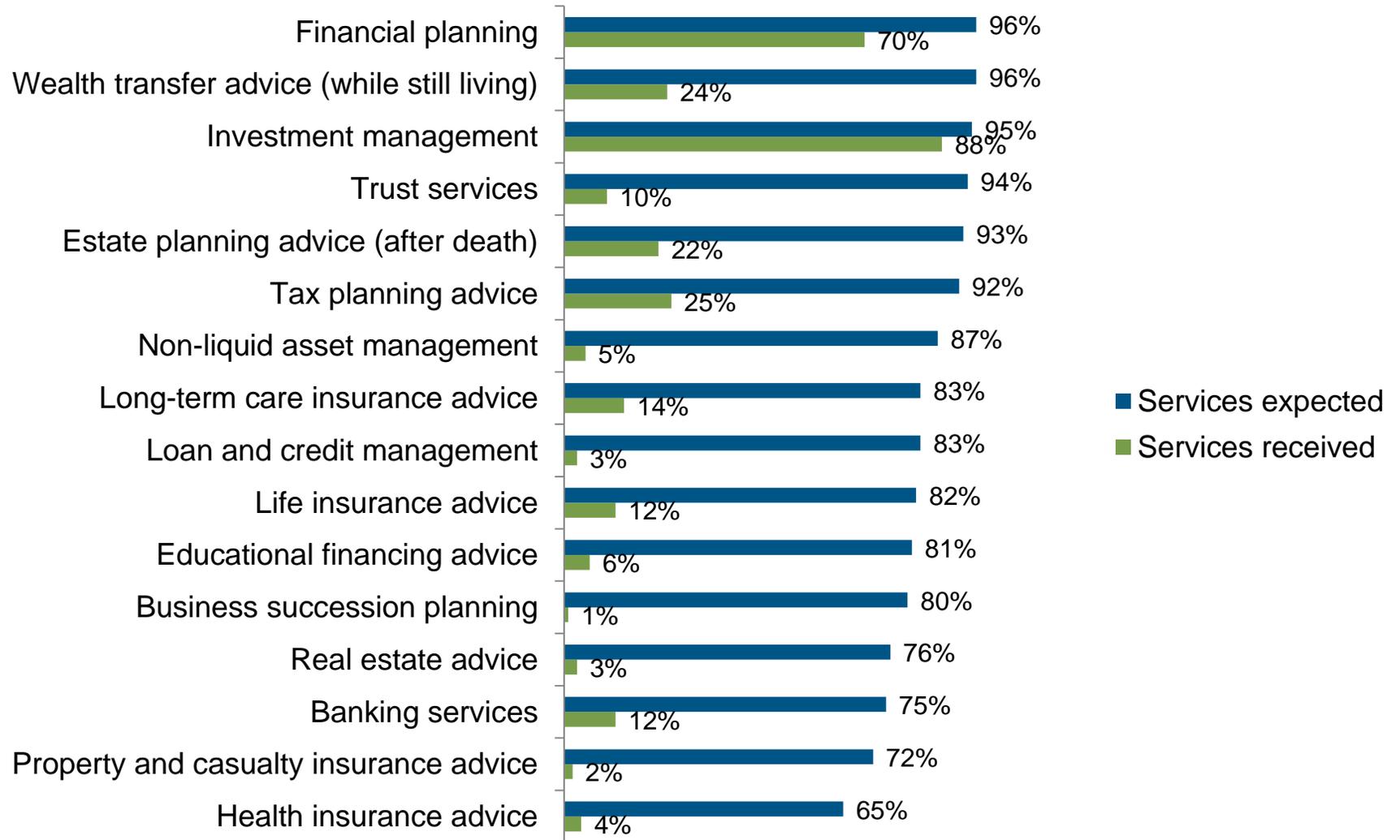
Sourcing alpha



For illustrative purposes only

The evolution of advice

The gap: Services expected vs. services received

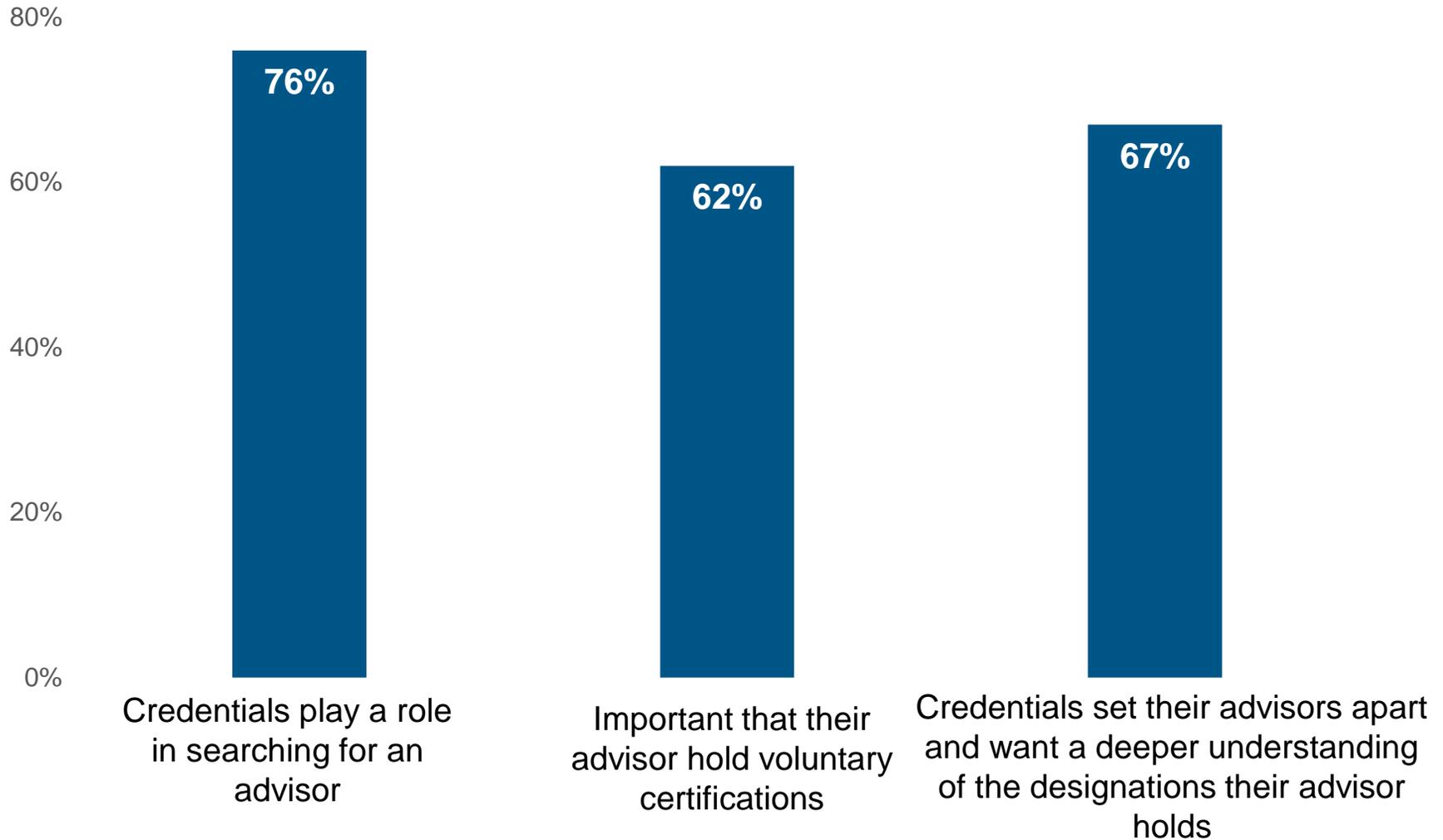


Source: *Defining Wealth Management*, Spectrem Group 2018

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The evolution of advice

Building competency with professional designations – investor responses



Source: AbsoluteEngagement.com Investments & Wealth Client Research, 2018

The evolution of advice

Building competency with professional designations

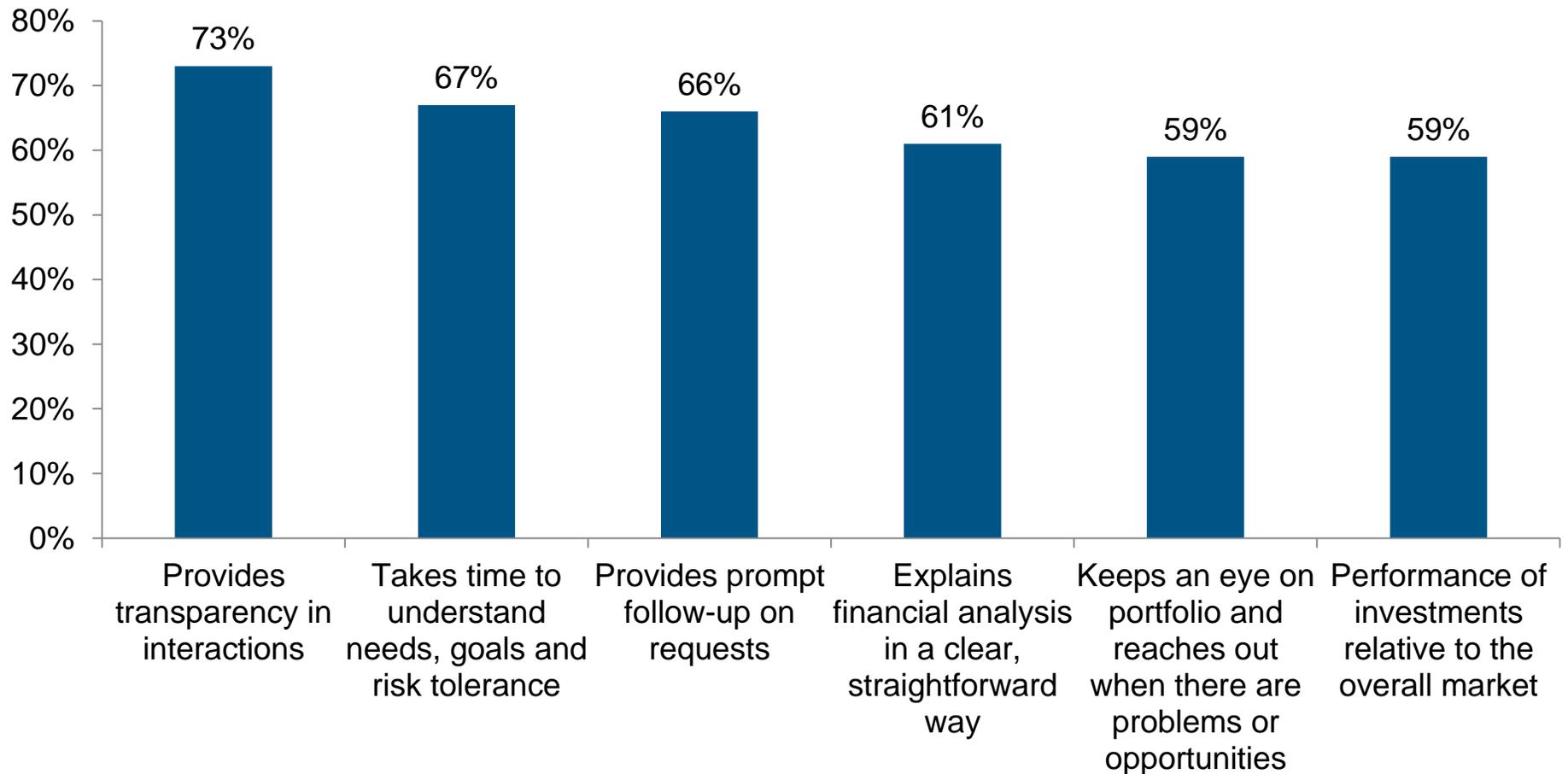
	CIMA	CPWA	CFP	CFA
Focus	Investment Consulting	HNW Wealth Management	Financial Planning	Investment Analysis
Time Required	1 year	1 year	2 years	3 years
Key Topics	Portfolio construction, performance metrics, risk management,	Family wealth, advanced tax and estate, exec comp, CHB, charitable	Investments, Insurance, retirement, estate planning, tax fundamentals	Security analysis, asset valuation, portfolio management
Designees	8,500	1,500	78,000	145,000

86% of clients agree that their advisor should meet a rigorous set of requirements to be certified

Source: Investments & Wealth Institute, July 2018

The evolution of advice

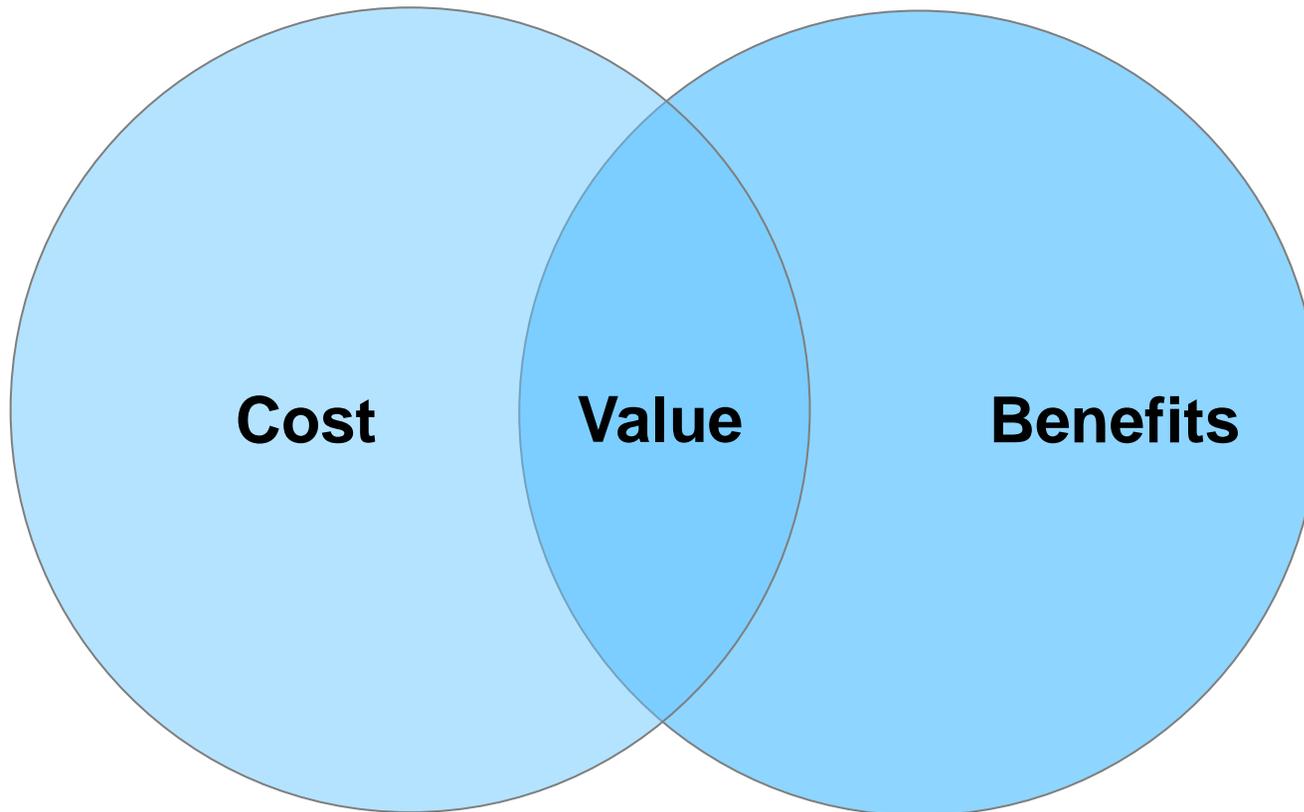
Top factors when choosing an advisor, Q2 2018



Source: Phoenix Marketing International, Cerulli Associates, 2018

Fee trends

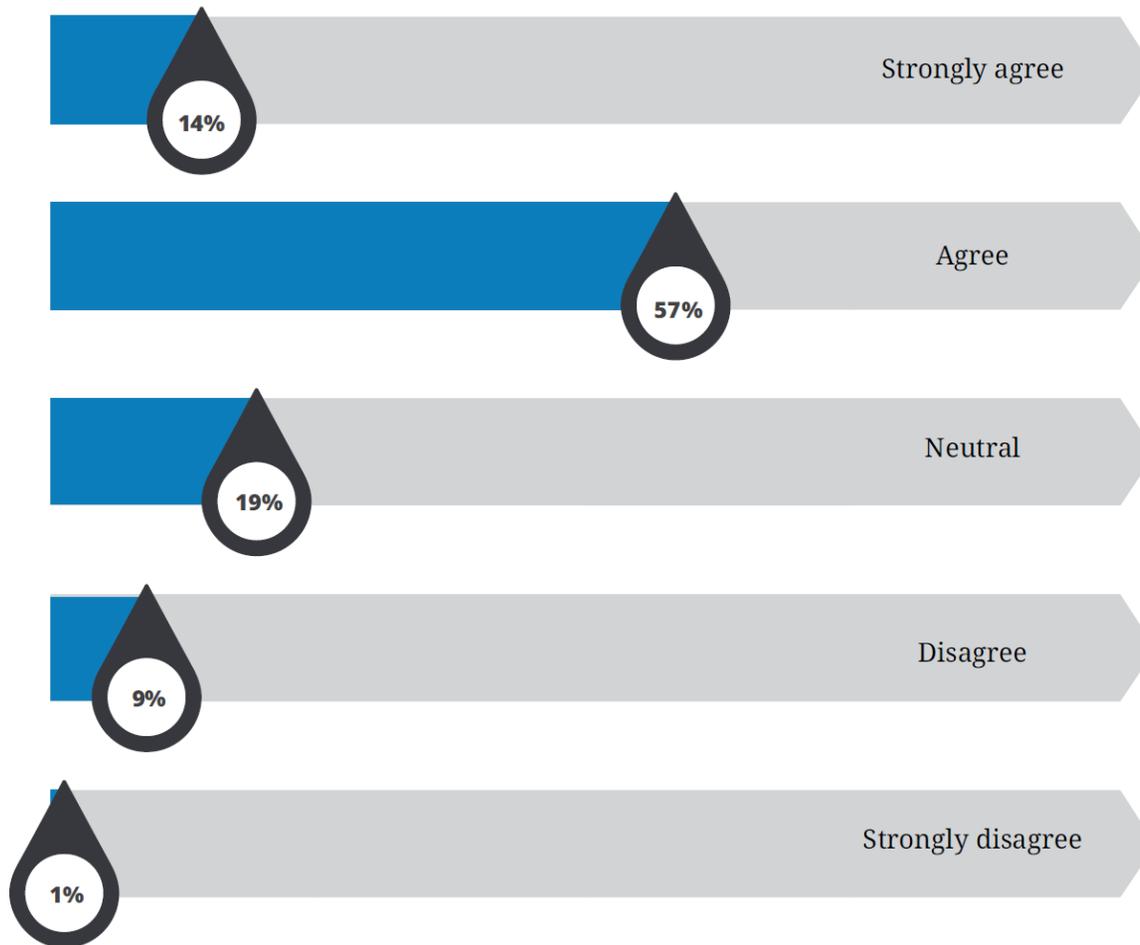
“Nowadays, people know the price of everything and the value of nothing.”
—Adapted from Oscar Wilde



Fee trends

Advisors: Investor fee sensitivity, 2018

Compared to five years ago, prospective clients are now more sensitive about fee levels

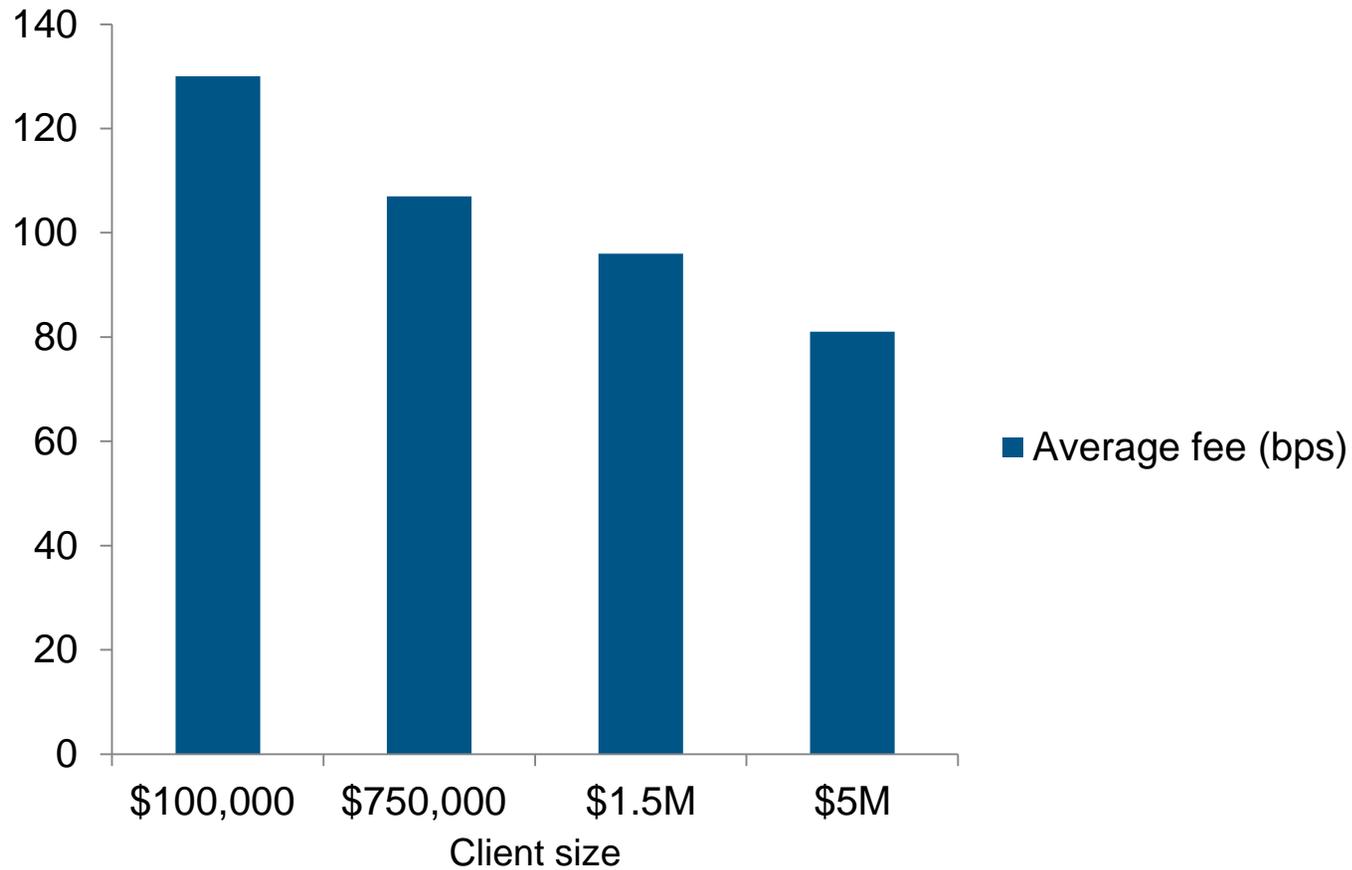


Source: Cerulli Associates in partnership with Investments & Wealth Institute and the Financial Planning Association

Fee trends

Assets under management-based advisory fees, 2018

The average advisory fee steadily decreases in correlation to clients' wealth



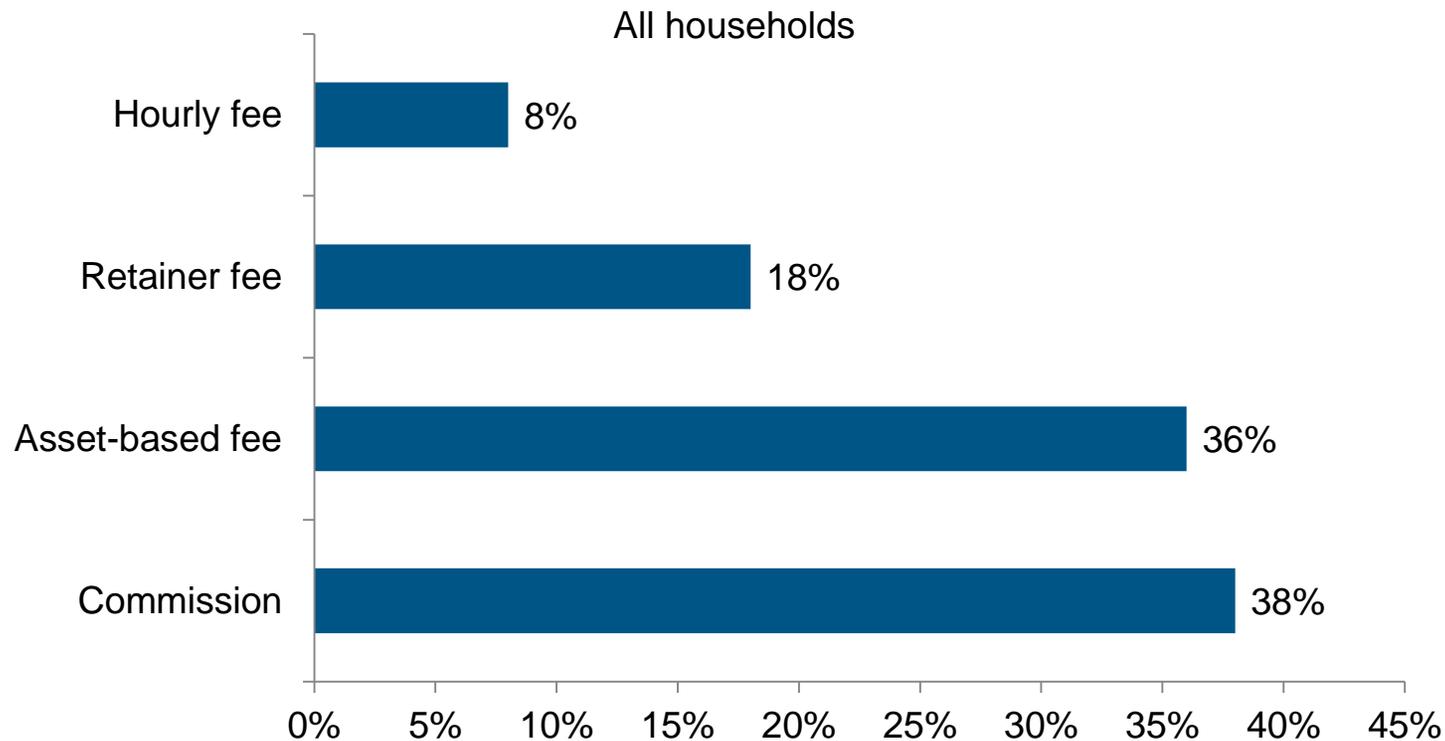
Source: Cerulli Associates in partnership with Investments & Wealth Institute and the Financial Planning Association

Analyst note: Advisory fees exclude asset manager fees and are self-reported by advisors.

Fee trends

Clients' preferred fee structure by advice orientation, Q2 2018

Advisors should be able to enumerate the breadth of their service set and be able to explain how each contributes to improved investor outcomes

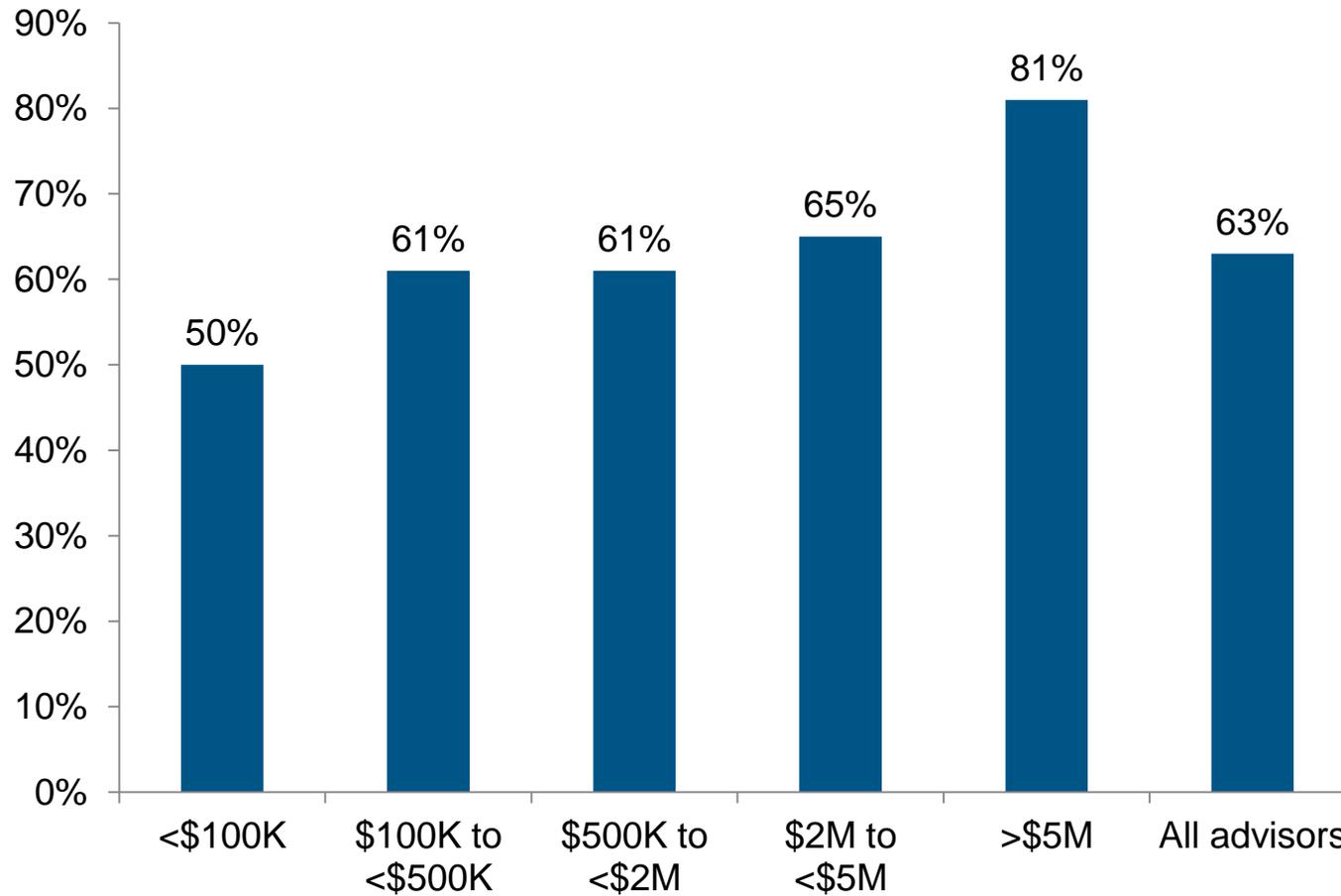


Source: Phoenix Marketing International, Cerulli Associates

Fee trends

Use of nontraditional fees by core market, 2018

Nearly two-thirds (63%) of advisors use some type of nontraditional fee structure



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) and The Financial Planning Association® (FPA®)

The benefits of professional advice

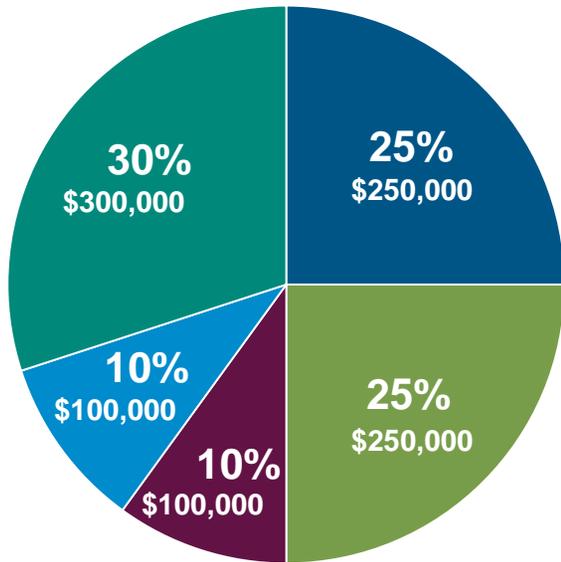
Advice beyond investing



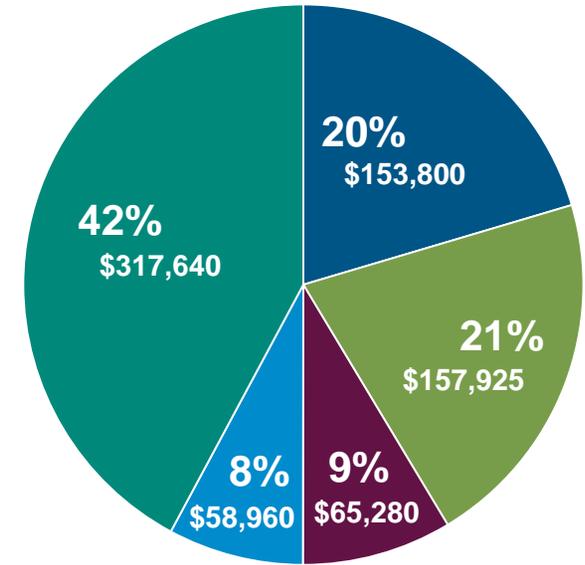
The benefits of professional advice

Portfolio rebalancing illustration

Initial allocation January 2008 → Performance 2008 → Allocation January 2009



Asset Class	Performance 2008
Large growth	-38.48%
Large value	-36.83%
Small cap	-34.80%
International	-41.04%
Fixed income	+5.88%



\$1 million portfolio	Target allocation	Required change
Large growth	\$188,381	+\$34,581
Large value	\$188,381	+\$30,456
Small cap	\$75,353	+\$10,153
International	\$75,353	+\$16,393
Fixed income	\$226,057	-\$91,583

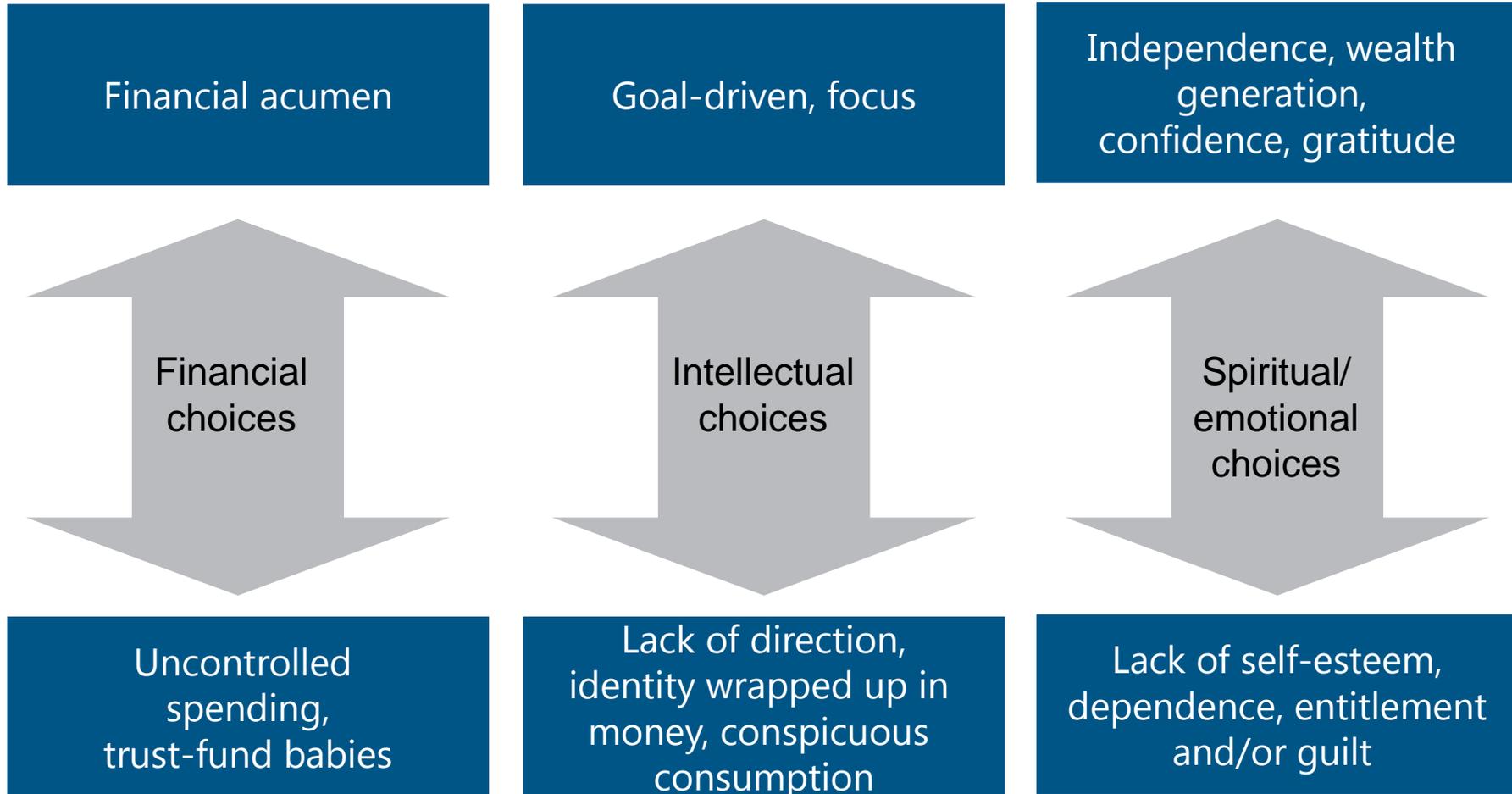
Source: PIMCO; Large growth = Russell 1000 Growth Index, Large value = Russell 1000 Value Index, Small Cap = Russell 2000 Index; International = MSCI EAFE; Fixed Income = Bloomberg Barclays US Aggregate Bond Index.

Hypothetical example for illustrative purposes only. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

Refer to Appendix for additional hypothetical example, index and risk information.

The benefits of professional advice

Family governance—choices and the effect on children

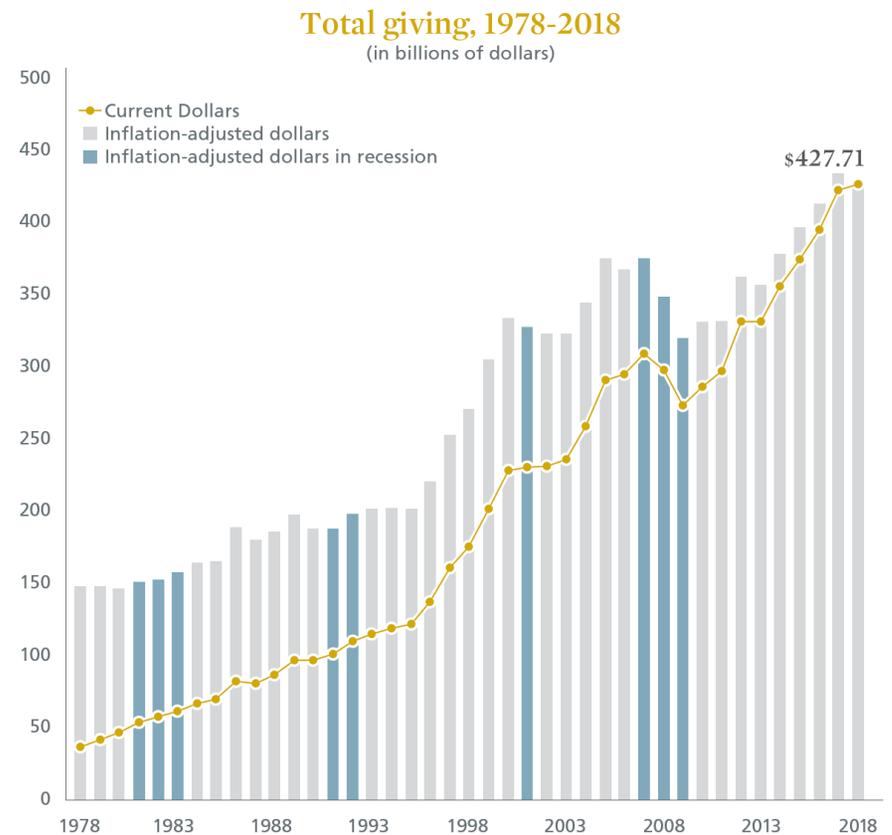


Source: Richard A Morris and Jayne A. Pearl, *Kids, Wealth, and Consequences*, 2010

The benefits of professional advice

Catalysts for increased charitable giving

- 2018 total giving: \$427.71 billion
- Wealth effect of rising portfolio values
- Significant unrealized capital gains exposure
- Net Investment Income Tax @ \$250,000 AGI
- Charitable gifts still deductible subject to AGI limit
- Direct charitable IRA contribution made permanent
- Interest in giving back, creating a legacy



Source: GivingUSA 2019: The Annual Report on Philanthropy for the Year 2018.

The benefits of professional advice

Tax benefits through asset location

- Strategic allocation by asset class in taxable, tax-deferred or tax-exempt accounts may enhance after-tax results – discuss with your tax advisor and/or financial planner
- Allows for portfolio rebalancing while considering the tax impact of earning dividend income or capital appreciation

Taxable accounts	Situational	Tax-advantaged accounts
Passively managed investments	REITs	Actively managed investments
Qualified dividend positions	Partnership interests	Non-qualified dividend positions
Long-term holdings	Precious metals	Short-term holdings
Tax-exempt bond funds/ETFs	Cryptocurrency	Taxable bond funds/ETFs
Investments subject to foreign tax		

Source: PIMCO

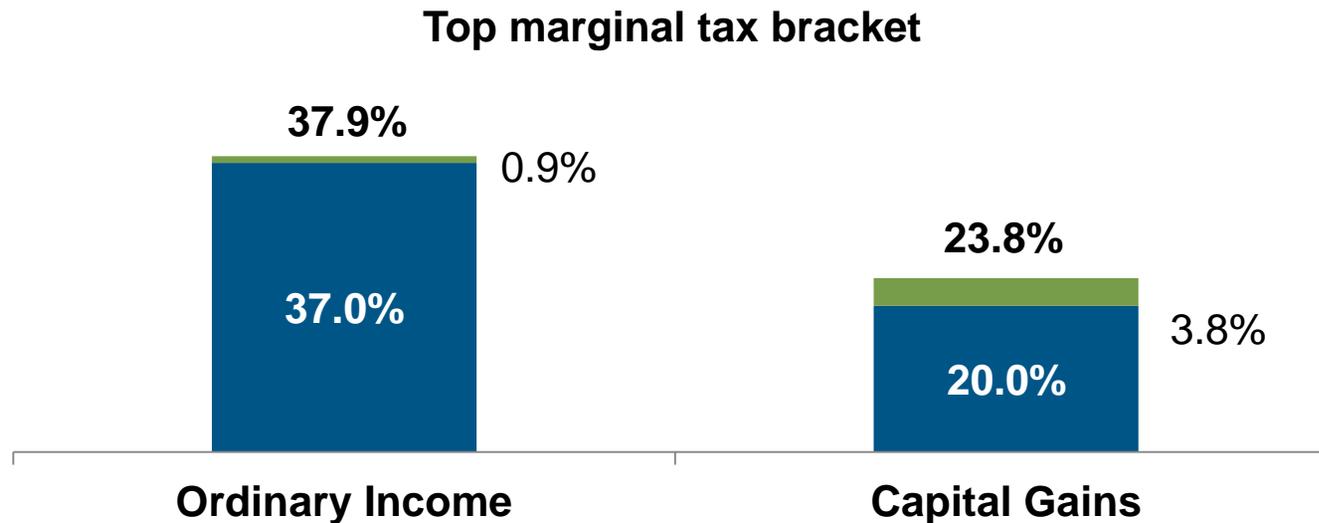
For illustrative purposes only

This list does not take into account all tax considerations and is not intended to be a recommendation for any investor's particular needs. PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns.

Refer to Appendix for additional investment strategy and tax information.

The benefits of professional advice

Executive compensation—Strategies to maximize benefit of LTCG treatment



- **Section 83(b)** election on restricted stock
- **Qualified disposition of incentive stock options (ISOs)** by meeting holding-period requirements: 2 years from date of grant and 1 year from date of exercise. Consider AMT modeling prior to exercise.
- **Net unrealized appreciation (NUA)** Election for qualified retirement assets

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The benefits of professional advice

Behavioral guidance—Providing discipline in an emotionally charged world

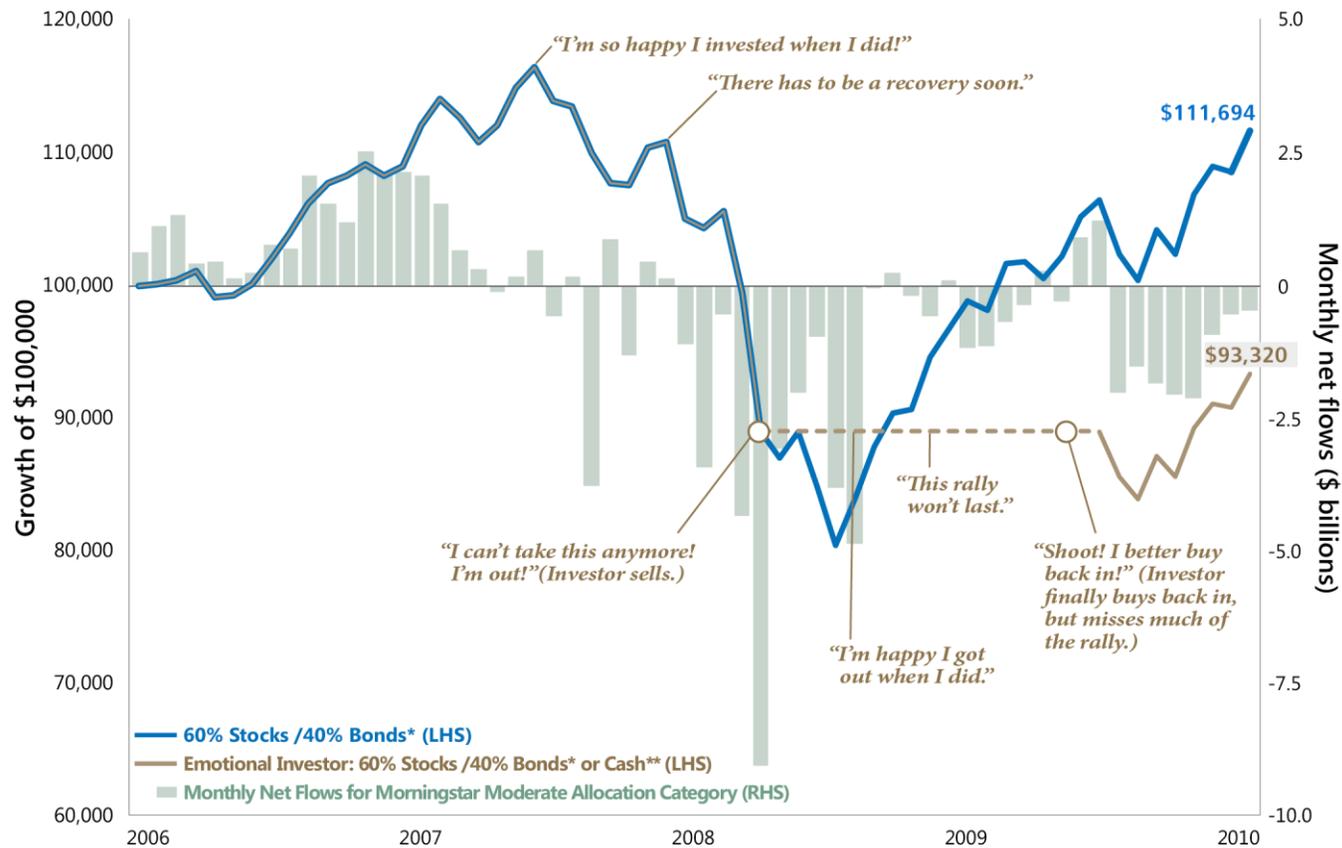
“Success in investing doesn't correlate with I.Q...once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing”

– Warren Buffett

- **Overconfidence** - By overestimating our abilities and knowledge, we ascribe talent for our successful decisions and ignore or rationalize our mistakes.
- **Recency bias** - Investors place more importance in recent events, making us susceptible to chasing trends and underperforming.
- **Herd bias** - Following the popular investment trends can be emotionally comforting as we seek confirmation based on the actions of others
- **Information overload** - Increased choices often result in greater indecision
- **Familiarity bias** - Tendency to invest in what is familiar instead of appropriate, leading to imbalanced portfolio structures.

The benefits of professional advice

- Investors often look at recent returns when making important financial decisions
- It's easier to emotionally validate a choice when we follow a trend
- Causes investors to chase performance, buy high, sell low



January 2006 to December 2010. Source: Morningstar, Bloomberg, PIMCO

Hypothetical example for illustrative purposes only. Not indicative of the past or future performance of any PIMCO product.

* Stocks are represented by S&P 500 Index. Bonds are represented by Bloomberg Barclays U.S. Aggregate Index. It is not possible to invest in an unmanaged index.

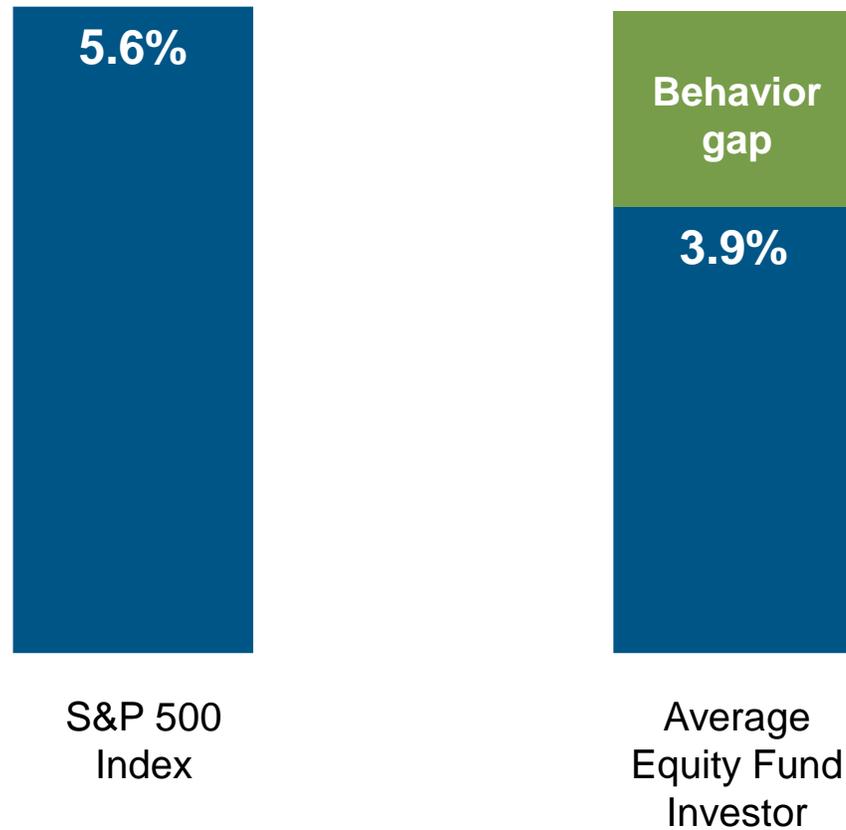
** These results are based on hypothetical modeling and are intended for illustrative purposes only. Emotional Investor is assumed to move to cash on 10/31/2008 and back to 60% Stocks / 40% Bonds on 04/30/2010.

The benefits of professional advice

The cost of bad behavior

- Investment results are more dependent on investor behavior than on fund performance
- Investors are generally their own worst enemy

20-year average index vs. investor returns

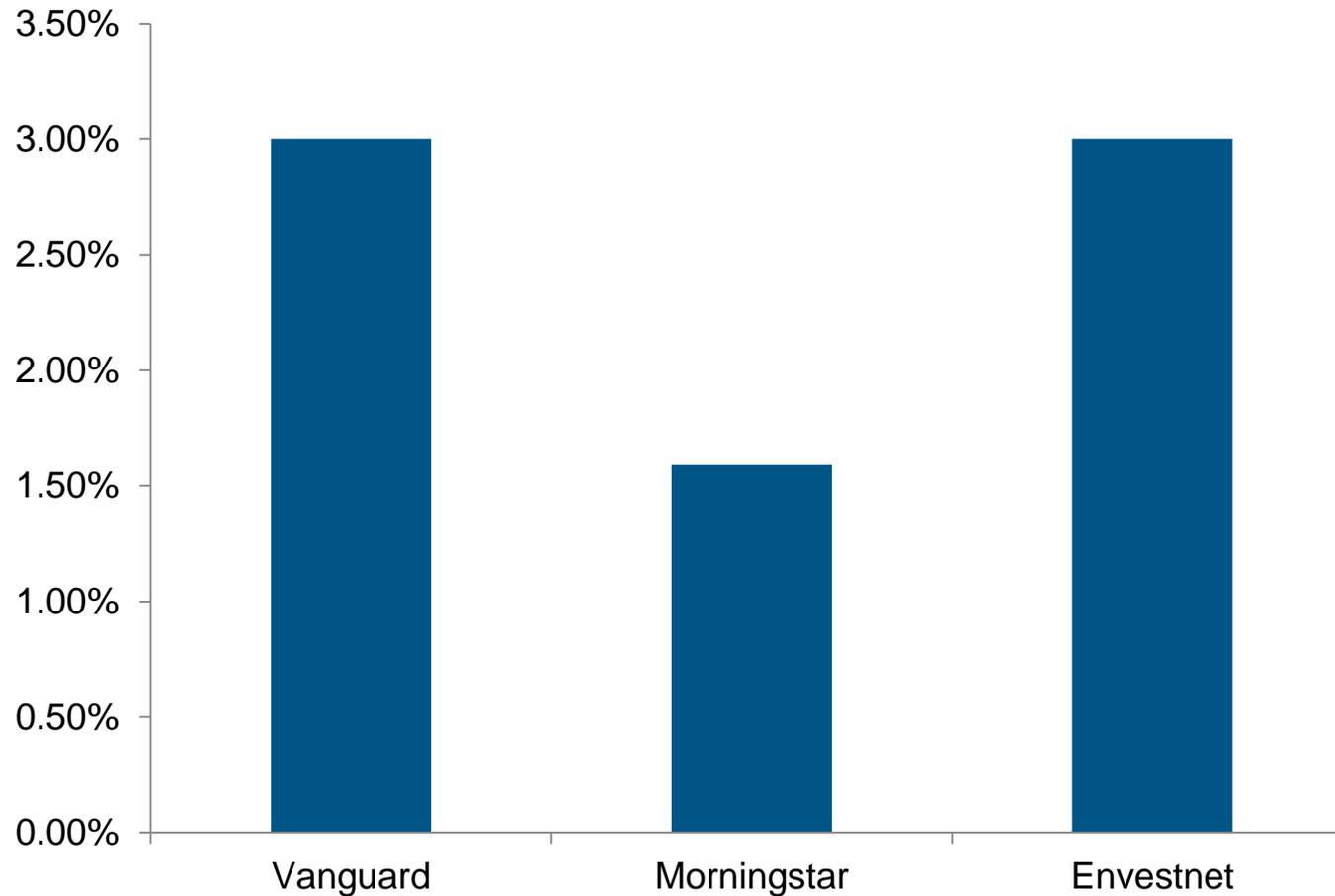


Period ended 12/31/18

Source: Quantitative Analysis of Investor Behavior, 2019, DALBAR, Inc., dalbar.com.

Communicating your value

Quantifying the value of financial advisor advice



For illustrative purposes only

Source: kitces.com; Vanguard Whitepaper September 2016; Alpha, Beta, and Now...Gamma, Morningstar, 2013; Capital Sigma: The Return on Advice, Investnet 2016

Data not intended to be a recommendation for any investor's particular needs.

Communicating your value

Breakdown of estimated value of financial advice per year

	Morningstar	Vanguard	Investnet
Financial planning advice/Dynamic withdrawal strategies	0.70%		0.50%
Asset class selection/Allocation & product selection	0.67%		0.28%
(Lower cost) Investment selection		0.45%	0.82%
Systematic rebalancing		0.35%	0.44%
Tax-efficient withdrawal ordering	0.23%	Up to 0.70%	
Asset location	0.23%	Up to 0.75%	
Behavioral coaching		1.50%	
Tax loss harvesting			1.00%
Total advisor value	1.59%/year	>3.00%/year	>3.00%/year

For illustrative purposes only

Source: kitces.com; Vanguard Whitepaper September 2016; Alpha, Beta, and Now...Gamma, Morningstar, 2013; Capital Sigma: The Return on Advice, Investnet 2016

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Communicating your value

Keys to an effective pitchbook

- Less is more
- Less you, more them
- Client benefits, not features
- Differentiated and compelling
- Use of imagery

Components of an effective pitchbook

- Mission
- Philosophy
- Bios and pictures
- Services provided
- Pricing structure
- Case study
- Firm data



Communicating your value

Phrasing the response

- The role of an advisor is to help identify your most important goals, develop a road map to achieve them, and provide ongoing counsel to increase your chances of success.
- The financial landscape has evolved and increased in complexity. A skilled advisor can help to make better informed choices.
- Emotions play an important role in investing. An experienced advisor can help investors successfully manage these emotions to ensure productive behavior.
- The cost of personal advice can often be less than the cost of the mistakes made without it.
- Investors who work with professional advisors often enjoy a greater probability of success than those who don't.
- Working with an advisor allows clients to spend their time and energies on things that are more enjoyable (family) or more productive (career)

Communicating your value

Demonstrating value through effective client discovery

- Describe your approach to investing. What has worked well and what has not?
- How would you describe your knowledge in investments, tax, estate, charitable?
- Tell me about your relationships with other advisors. What did they do well, and what were the disappointments?
- What are your greatest concerns at this time? What steps have you taken or considered to address them?
- What are your most important goals for you and your family. How do you think I might help you in realizing them?
- How much time do you spend on investment and financial planning? How do you keep current and improve your abilities in these areas?

Next Steps

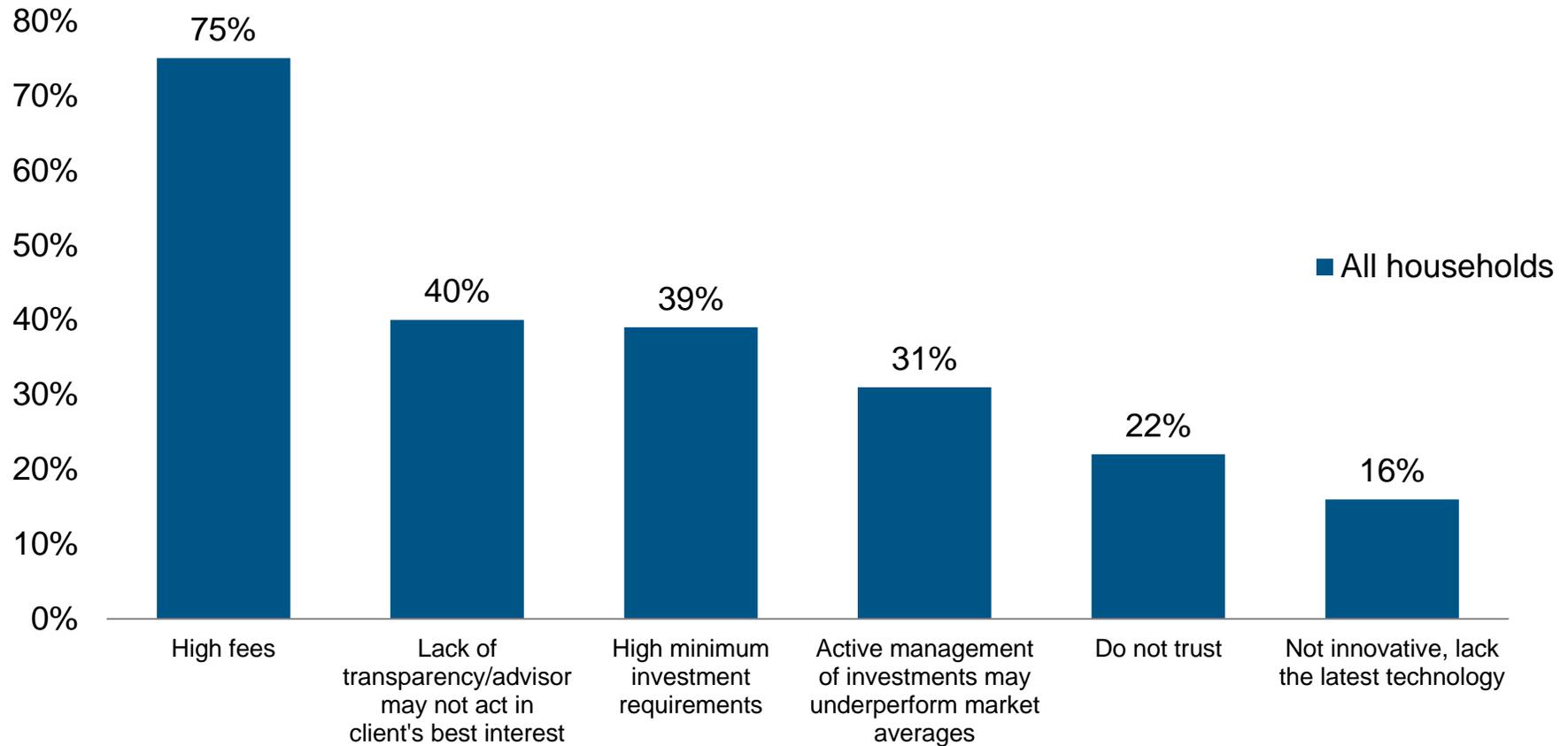
- ✓ **Define and articulate current service** model to see whether improvements may be made
- ✓ **Define and articulate pricing** model being as transparent as possible.
- ✓ **Review marketing materials** and update website/printed collateral.
- ✓ **Add to competency** with professional designations.
- ✓ **Consider forming a client advisory board** to give feedback on potential practice changes.

Resources

- *The Essential Advisor*, Bill Crager
- *Becoming a Trusted Advisor*, William Reeb
- *Advisor for Life*, Stephen Gresham
- *The Trusted Advisor*, David Maister
- *The New Financial Advisor*, Nick Murray

Appendix: Wealth management

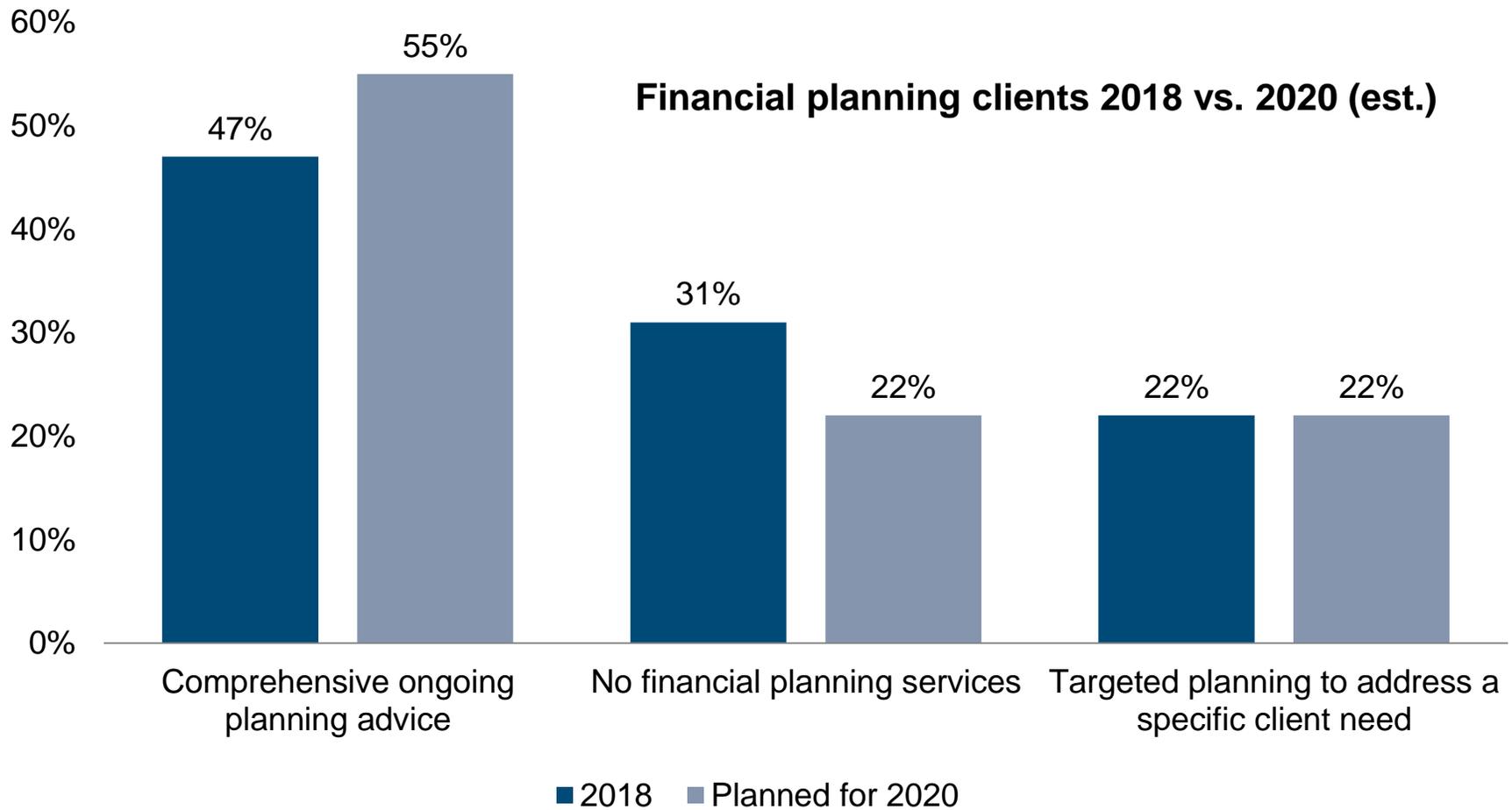
Drawbacks of traditional wealth management, 2Q 2018



Source: Phoenix Marketing International, Cerulli Associates, 2018

Appendix: Financial planning advice

Increasing importance of offering comprehensive financial planning advice

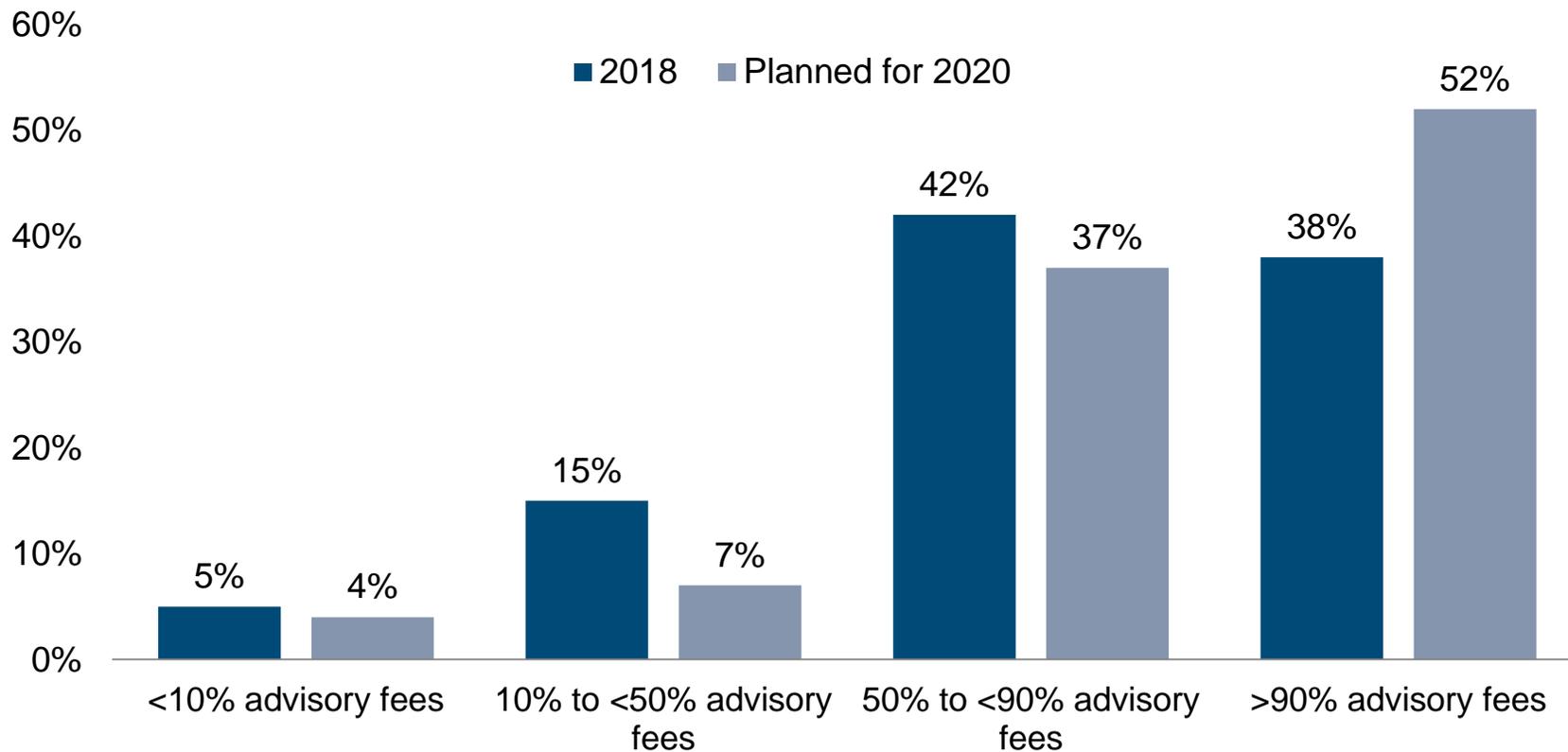


Source: Cerulli Associates, in partnership with Investments & Wealth Institute and Financial Planning Association, 2018

Appendix: Fee trends

Fees vs. commission mix, 2018 vs. 2020E

- More than one-third of advisors generate 90%+ of revenue from asset-based fees
- Practices are increasing their fee-based revenues and graduating to the next tier of use

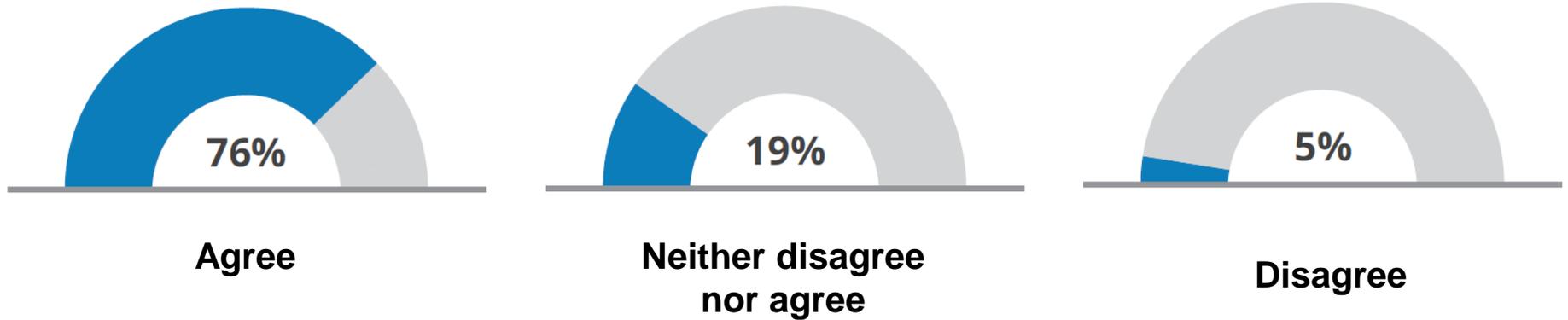


Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) and The Financial Planning Association® (FPA®)

Appendix: Fee trends

Value received from financial advisors is worth the expense

Perceived value vs. expense of advisor by investable assets, 2Q 2018



Sources: Phoenix Marketing International, Cerulli Associates

Appendix: Communicating value

Return on advice pillars – Investnet

Service	Benefit
Financial planning	Identify goals and path to accomplish
Asset allocation	Portfolio strategy to achieve returns while managing risk
Investment selection	Manager evaluation and selection
Monitoring and rebalancing	Adjusting portfolio allocations to ensure compliance with policy
Tax management	Asset location and tax management to reduce tax liability

Appendix

INDEX

It is not possible to invest directly in an unmanaged index.

INVESTMENT STRATEGY

There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

RISK

All investments contain risk and may lose value. References to specific securities are not intended and should not be interpreted as recommendations to purchase, sell or hold such securities. There is no guarantee that any investment strategy or product will achieve its objectives, avoid losses or generate profits.

TAX

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