

Opinion

# Don't Be Seduced by Advisor Rankings

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We live in the age of rankings. Anything that can be compared with something else in the same category is certain to wind up on a list, arranged according to someone's idea of merit or interest. From talk-show host David Letterman's Top Ten list to the exotic WAR (wins above replacement) metric in Major League Baseball, our quest to measure and evaluate work and play has never been so prevalent.

The financial services have plenty of rankings, from the country's "best" advisors to the highest-rated mutual funds. During the turbulent five-year period from 2009 through 2013, an international publication included me in its list of top U.S. advisors and named me the best in the fine state of New Hampshire. While I appreciate this public recognition, I know it reflects most on the team of professionals who surround me.

The fact is that such honors have a brief shelf life. As many different studies have shown, awards and rankings reflect what has happened in the past and have minimal predictive value. Morningstar has established this time and time again with its mutual fund performance research. I'm certain that, if we looked, we could find a list naming Detroit as the best American city to live in.

For advisors, rankings may miss what is really important: the outcome. How do the investors benefit? Are their goals for retirement being reached? Have they provided for their children? Overall, advisors must ask how effectively rankings measure goal attainment or client success.

I found a recent mutual fund study released earlier this year to be eye opening. Looking at three-year performance cycles from 2005 to 2013 of funds with Morningstar ratings of one to five stars, Baird Asset Management found that lower-rated funds outperformed the higher-rated ones by almost 1.5% over every cycle.

To paraphrase a legally required disclaimer in our profession, the Baird study showed that a fund's track record — the main basis for Morningstar's ratings — is bad at indicating what the future holds.

Reinforcing that point, Vanguard, one of the granddaddies of all asset managers, in July published a white paper that spoke to the impact of chasing fund performance. "Our research furthermore reaffirms the importance of an oft-cited but frequently ignored legal disclaimer about investing: *Past performance is not necessarily indicative of future results,*" the paper said. "This statement certainly appears to hold true among recent top-performing funds, and investors are well-advised to remind themselves regularly of it."

Just as the general public is largely in the dark about the methodologies behind the numerous college and university rankings, investors might be in much the same situation vis-à-vis professional asset management. The



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authors of the Baird study declared, "In our view, there is no substitute for a thorough analysis of any investment opportunity."

This is where good financial advisors should earn their keep. The average client, who is working toward long-term financial goals, can't possibly keep up with the flood of market and investment information.

A 2012 University of Montreal study of more than 3,000 Canadians concluded that, over a 15-year period, investors working with a financial advisor wound up with 173% more assets than those without professional guidance. "The difference in financial assets is explained most significantly by higher household savings and greater allocation into non-cash investments," the study said. "The presence of a financial advisor increases the confidence of having enough money to retire comfortably."

While industry recognition and rankings can be affirming, the most gratifying recognition we receive comes from the stack of thank you notes our clients send us and we gratefully collect. A service that empirically quantifies the success of investor outcomes will tell a far more meaningful story than rankings alone can do.

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*(2009\*)The number of advisors shown for each state is based on the total population of the state, so larger states have larger listings. The rankings reflect assets under management, revenues, quality of the advisors' practices and other factors. Total assets are all assets overseen by the advisor's team, including some that are held at other institutions. Assets managed for other institutions are given less weight in the scoring. Portfolio performance is not a criterion because most advisors do not have audited track records. Criteria was based on more than 300 filtered nominations from more than 100 investment, insurance, banking and other related financial service firms. 0914-03888*