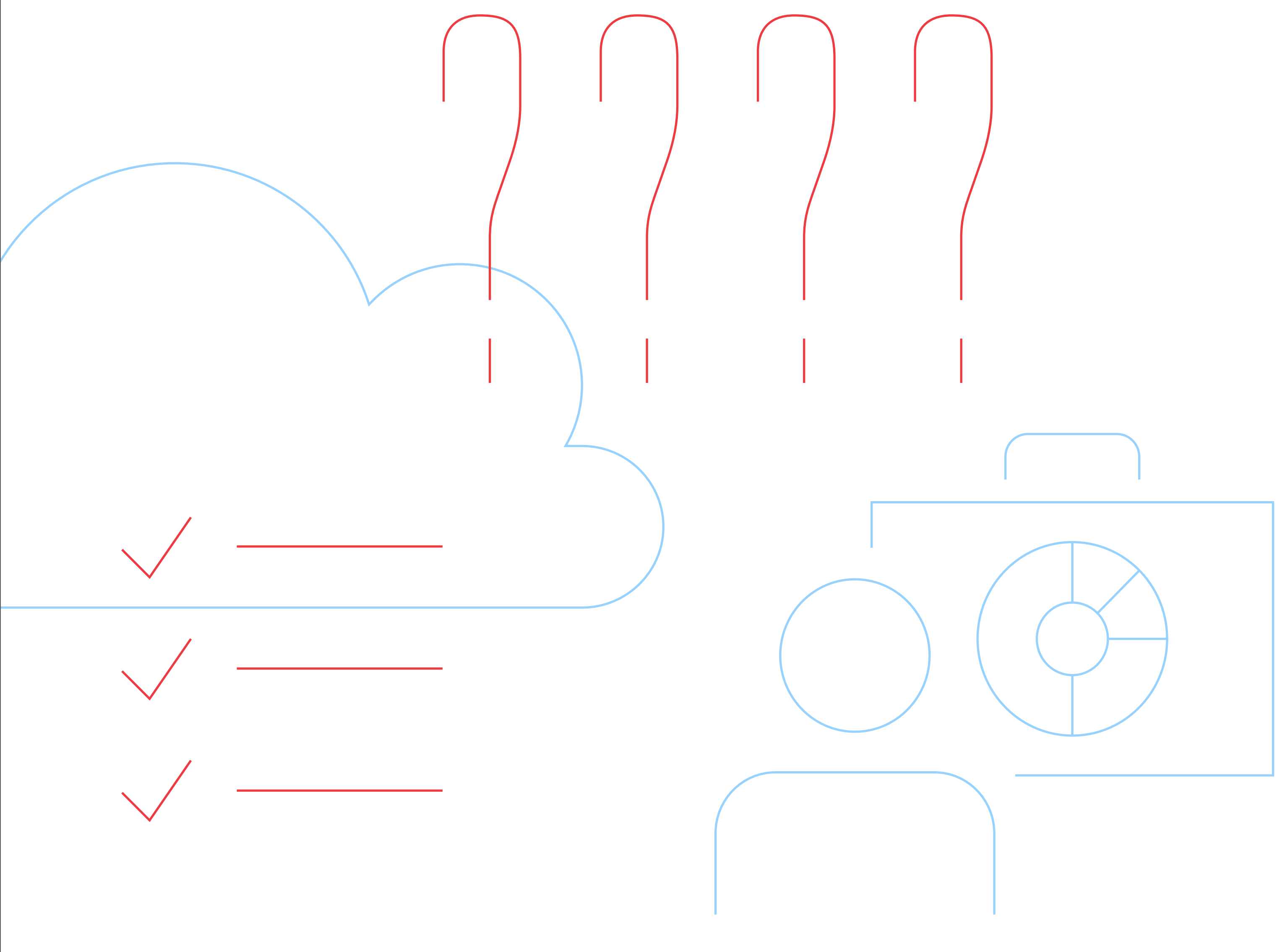
Meeting Client Expectations in Uncertain Times



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It's industry consensus that the landscape of financial advice is evolving—specifically, the role of the advisor in the eyes of the investor.

In order to drill into what these changes are, and how advisors should prepare in response to them, we interviewed members of Morningstar's Advisory Board—a group of financial professionals who help set the future product direction for the financial advisory segment by representing the voice of our clients, their peers, and industry leaders.

Largely, they agreed that investor expectations for financial professionals have increased in intensity.

David Fingerhut, the Principal and Financial Advisor of Financial Legacy Associates, pointed to the influx of information as a primary factor in changing investor expectations. "Media, articles, co-workers and friends are constantly discussing the market conditions, ideas related to investing and resources available to investors," he commented.

Charlotte Geletka from LFG agreed. "Consumer awareness about the financial services has increased," she shared with us, "Ads by large 'do-it-yourself' companies have prompted the consumer to ask, 'What am I paying for?'"

Tony Hixon from HZ Capital added, "Due to perceived fee compression in our industry, our clients' expectations have seemingly revolved around out performance of benchmarks to justify the fee they pay. We've been vigilant about reminding them of the value they receive by our comprehensive wealth management approach which justifies our fee more than constant out performance of a benchmark."

With investors demanding higher value for advice, advisors are being pressed to demonstrate that they can not only meet but exceed investor expectations. But in order to do so, they must first accurately understand the expectation of their clients.

A Gap in Expectations

The findings from Morningstar researchers Ryan Murphy and Samantha Lamas suggest that there's a gap between what advisors think investors value and what investors actually value.

In a Morningstar study, https://www.financialplanningassociation.org/article/journal/JUL20-Identifying-What-Investors-Value-in-a-Financial-Adviser, our researchers asked two groups to rank 15 attributes of financial advisors in order of importance.

The first group was made up of investors. They were asked: "What do you value most when selecting a financial advisor?" The second was a group of advisors who were asked: "What do you think investors value most when working with a financial advisor?" Interestingly, there were some discrepancies between the answers.

The biggest gaps were:

- *Helps me stay in control of my emotions,* which advisors ranked as the 11th most important attribute out of 15, but which investors ranked as the least important attribute.
- *Understands me and my unique needs,* which advisors ranked as the most important attribute and investors ranked as the seventh most important attribute.
- *Can help me maximize my returns,* which advisors ranked as the second least important attribute, while investors ranked as the fourth most important attribute.

Clearly, there's a need to align common wisdom about investor expectations to what clients actually expect from their advisors.

Here is the list of items investors found most important, ranked from most important to least important	
1	Helps me reach my financial goals
2	Has the relevant skills and knowledge
3	Communicates and explains financial concepts well
4	Can help me maximize my returns
5	Has a good reputation and positive reviews
6	Is knowledgeable on tax consequences of investing
7	Acts as a coach/mentor to keep me on track
8	Understands me and my unique needs
9	Keeps my interests in focus with unbiased advice
10	Has a clear fee structure so I know what I'm paying for
11	Is approachable and easy to talk to
12	Is easy to get a hold of
13	Presents themselves in a professional manner
14	Uses up-to-date technology
15	Helps me stay in control of my emotions

The list of options was compiled by Morningstar researchers after reviewing both academic and industry resources. For more details, advisors can download our FINRA-reviewed list and process: https://www.morningstar.com/lp/value-of-advice-worksheet.

Encouraging Alignment

While the gaps highlighted must be managed, the survey demonstrated a high degree of alignment between investors and their advisors around reaching goals. Giving clients the confidence to define and prioritize goals, plan a strategy, and then take actions that improve their outcomes creates a strong level of alignment and can increase the likelihood of success and fulfillment.

Investor Engagement

Information is everywhere. Translating information into insights and appropriate action empowers investors to make quality decisions and stick to their plans through changing market environments. Technologies that support these communications are key to engaging one's clients in an effective and efficient manner.

While reaching financial goals—however the investor defines the term—is still at number one, the ability to communicate and explain financial concepts well is also high up there. This suggests that investors not only want financial advisors that produce results, but financial coaches who can distill complex financial information into understandable and accessible information.

The desire for enriched communication is in-line with other pieces of external research, including a study from the CFA Institute called, "From Trust to Loyalty: A Global Survey of What Investors Want."

This study provides the following statistics

- 72% of investors want advisors to provide investment reports that are easy to understand.
- 70% of investors want advisors to help them understand why their portfolio is positioned the way it is.

Given the information-saturated market, it makes sense why investors are asking for a higher level of transparency in the advice process. Not every client will be looking for the same level of personal financial literacy, but they may be evaluating an advisor's ability to communicate their decisions understandably as an important criterion of high-value advice.

David F. from Financial Legacy put it this way. "I feel more clients are looking for more specific details related to their financial situation. We are constantly looking to improve the level of details to clients. This is challenging because many of my clients are just not interested in drilling down and others are very interested in a high level of details. So, when preparing for client reviews, we are trying to supply just the right amount of info needed to satisfy the client."

When it comes to that level of custom communication, technology can be hugely helpful. To competitively demonstrate value in an information-saturated market, advisors need technology to make sense of the data in the form of customizable reports and engaging collateral, so they walk into client meetings with the tools they need to communicate not merely what decisions they advise, but the reasoning behind their advice.

Meeting Expectations Amidst these Uncertain Times

In these uncertain times, the necessity of working from home may be elevating the need for technology to support client communication.

We recently surveyed representatives of existing clients and prospects in a variety of roles at wealth management firms about any changes in behavior since the market downturn. Respondents identified that having a greater understanding of the technology they already own would help them be more productive while working from home.

79.25% of respondents are using and scaling existing technologies (compared with new, company-wide technologies) to engage with clients during social distancing.

In times of uncertainty, communication is even more important. 83.96% of respondents to our survey have revisited goals or portfolio objectives with their clients during this time. Respondents also indicated that they are looking for both ways they can communicate as well as practical information they can share with clients about market volatility and how to prepare for the future.

To help advisors communicate with clients, our behavioral insights team put together a conversation checklist to help advisors help their clients stay on track with financial plans during market turmoil.

This checklist covers three types of interactions advisors might be having with clients right now	
1	Markets are dropping, and a client calls to find out how to respond.
2	Markets are dropping, and a client calls you, panicked.
3	Markets are dropping, and a client hasn't called. Should you be proactive?

Items on the checklist include:

Protect against the psychology of panic.

As our CEO Kunal Kapoor says, "Call me naïve, but investor expectations always get jolted in times like these. We tend to forget what true pain can look and feel like (especially when everything seems awesome for 10 years!)."

Emotions can be an investor's worst enemy, so point to the biases that fear causes in order to empower investors on how to avoid them. Check out this Morningstar article on the connection between fear and foolish investment decisions: https://www.morningstar.com/articles/864845/biases-dont-make-investors-foolish.

Set the right narrative.

While market downturns can be incredibly frightening to investors, advisors can seize the opportunity to provide a wider perspective. For example, advisors can point out that short-term volatility is an inevitable part of investing, and how, since many people run away from falling markets, savvy investors can discover opportunities for finding good values in the marketplace.

Decrease the noise.
As previously discussed, the market is saturated with information, much of it over-sensationalized. As an advisor, you have the authority to help your clients cull through the noise and focus on what's important. It might be worth mentioning that researchers have found that the more frequently people look at market news, the more it warps their investing behavior.

Download the rest of the checklist here: https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Psychology_of_Volatility_Guide_Checklist_FINAL.pdf

Given the current situation, investor expectations may seem magnified. While our research suggests that this period is merely surfacing trends that already exist; however, these increased expectations are important to address.

"My sense is that in the current environment, many investors might, quite reasonably, expect their advisors to be thinking broadly about the current situation, not just about their portfolios," Christine Benz, Morningstar's director of personal finance, told us. "After all, this is a health crisis first and an economic crisis second; for many investors, what's happening with the markets and their portfolios might place a distant third."

Specifically, investors may be expecting their advisors to help them navigate the rapidly evolving public policy and tax landscapes, as well as support for the concerns of day-to-day life such as job loss, early retirements, changes in their children's college plans, and so on.

Empowering Investor Success: Morningstar Solutions Aligned with Our Mission

If you're experiencing intensifying client expectations, your practice may benefit from innovative data, research, technology, and investment management solutions that can help you enrich your client communications, and not only meet, but exceed, their expectations. For over 35 years, Morningstar has maintained a unique relationship in the marketplace with both investors and the advisors that serve them. We have leveraged these relationships and the insights they provide to develop high quality solutions to find, engage, and keep investors on track.

See how you can bridge the expectations gap with our solutions to provide great investment advice: https://www.morningstar.com/company/financial-advisor

