Wealth Management or Investment Advising?
A MarketPsych Survey of Financial Advisor Success Traits from 2008 through 2011

Richard L. Peterson, M.D.[1,2]
A. Mark Harbour CPA, CFP®, CFA, CIMA®[1,3]
Frank F. Murtha, Ph.D.[1]

ABSTRACT

In May 2011 MarketPsych, LLC researchers initiated an online survey of financial advisors. The latest iteration of the survey may be taken here (advisors, please take first before reading the following results). The goal of the survey was to identify the traits of financial advisors that led to practice growth during and after the recent financial crisis. The survey asked questions about specific advisor behavioral traits, communication strategies, and practice characteristics. Practice outcomes were measured in terms of overall assets under management (AUM), change in number of clients, and change in AUM since January 2008. Fifty financial advisors from a single firm took the survey. The results indicate that a focus on client relationships is strongly correlated with business growth. In particular the following specific traits correlated with financial advisory practice growth: addressing client service as a higher priority than market timing, having a broad sales funnel, engaging in more frequent client communication, helping clients make better financial decisions, asking about and understanding client values, and offering a broader spectrum of services (wealth management versus only investment management). The article concludes with a series of exercises to help advisors fit success traits into their businesses.

This DRAFT: August 29, 2011

1. MarketPsych, LLC
2. Claremont Graduate University, Center for Neuroeconomics Studies
3. Morgan Stanley Smith Barney, Inc.

INTRODUCTION

Many financial advisory firms rely upon external factors to drive their AUM growth, including new product offerings, branding and advertising efforts, and recruitment of new advisors. Such external factors do not account for the growth contributed by the attitudes, behaviors, and marketing strategies of the individual advisors themselves. In the past decade individual advisors have been coping with lackluster market returns and rising client emotional turmoil leading to dissatisfaction in general and in many cases an erosion of trust. In response, the more salient and astute advisors are working harder than ever to build and maintain well grounded relationships with their clients. As a result of the additional time needed to serve clients, many advisors are re-orienting from a narrow investment focus toward a broader client-centered service model.

The chart in Figure 1 displays trust expressed in online financial social media about the financial system. Overall trust has fallen more than one-third in the past decade.

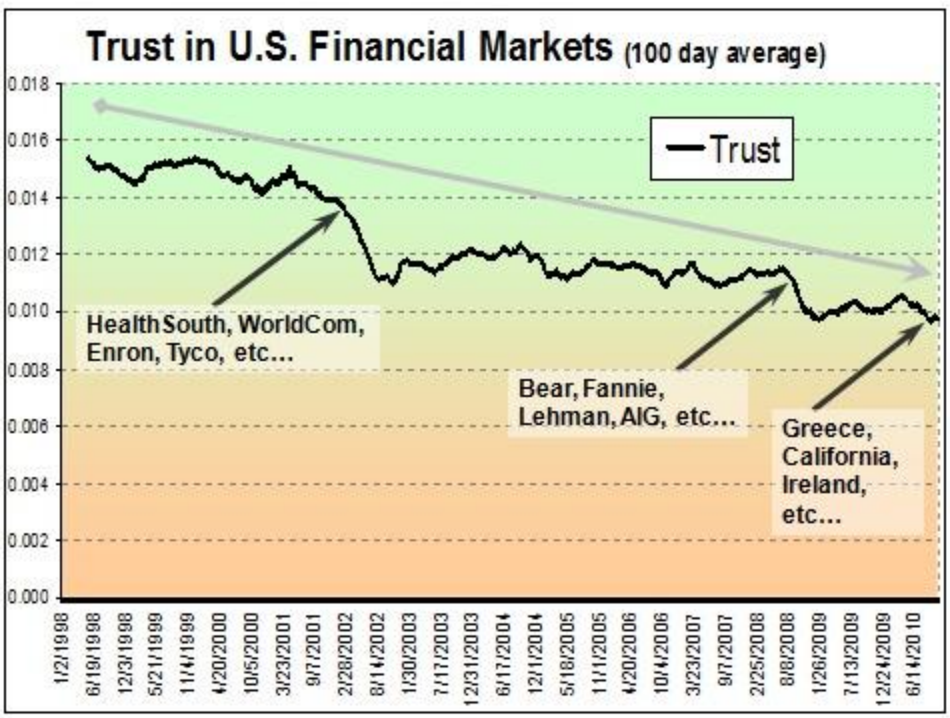


Figure 1: Plot of MarketPsych Financial Trust Index from 1998 through 2010 derived from analyses of online conversations in financial social media. Data and graphic courtesy of MarketPsych Data.

Since 2008 the financial industry (and advisors themselves) have been faced with pervasive client mistrust, anger, and frustration. Adding additional pressure to advisors, market returns have stagnated over the past decade. More than a few clients are now wondering aloud, “what value does my advisor actually add?” and challenging their advisors to address the question.

Such client frustration is real and raw, and when advisors are faced with it, their response often determines the difference between whether the relationship thrives, merely survives, or ultimately dies. When dealing with client frustration, many advisors find themselves needing to engage the basic communication techniques of psychological counselors, but having very limited actual training to do so. In the current environment, advisors need emotional communication skills to help their clients stay focused on the long term, make better decisions, and reframe their experience of and approach to financial security.

The incorporation of counseling techniques into financial advice can be seen in the context of industry evolution. In the 1980's the retail-facing firms were dominated by brokers, using a transactional model. As transaction costs decreased in the 1990s, a shift to the provision of broader financial advice occurred. To fulfill client desires for a greater range of services, the fields of financial planning and holistic advising arose in the 2000s. In the new decade we're seeing increased references to "wealth management" than in prior years (see Figure 2 below).

Figure 2: A Google Trends display of the frequency of searches for "financial advisor" versus "wealth management" from 2004 through 2011.

Additionally, our regulatory environment seems to be moving toward a fiduciary legal standard from the historical agency type relationship. The implication is that specific advice is developed in terms of "client's best interest" as opposed to "suitable". Clearly this higher standard requires a deeper working knowledge of client circumstances.

In this context of changing skills, tactics, and advisor needs, the authors decided to examine the traits that distinguish the most from the least successful advisors, especially during the financial and emotional crucible of the past three years.

During our work as trainers and coaches of financial advisors (10,000 clients in the past five years), we derived and honed a list of the "success traits" that we have consistently observed among the top performers. In particular, we note that top advisors primarily value their clients as people – they enjoy their clients, are curious about their lives and needs, listen carefully to understand who they are, and work hard to help them achieve their personal objectives and feel secure. We also note that the top advisors have good boundaries, are confident in their own strengths, and understand their limitations. We recognized that our psychological observations could be biased by the nature of our training and work (after all, the authors include a psychiatrist and a psychologist!). In order to bear down on the truth of our perceptions, we designed a survey to objectively gather information about the psychological and emotional traits that distinguished successful advisors over the past three years.

METHOD

Fifty financial advisors from a single firm took a survey of 40 questions (see here). The 40 questions examined use of various marketing, communications, and behavioral techniques. Most questions were scored on a 5-point Likert scale, with responses ranging from 1 to 5: Strongly Agree, Moderately Agree, Neither Agree nor Disagree, Moderately Disagree, and Strongly Disagree. Two narrative questions were analyzed separately, and user responses can be viewed in Appendix A. Outcome variables from the analysis were AUM, change in AUM, and change in number of clients in the advisor's practice. Only the change in AUM and change in client number outcome variables were used to derive the final results. Our objective was to identify the drivers of practice *growth* (versus shrinkage). To encourage honesty, identifying information was not required from survey-takers.

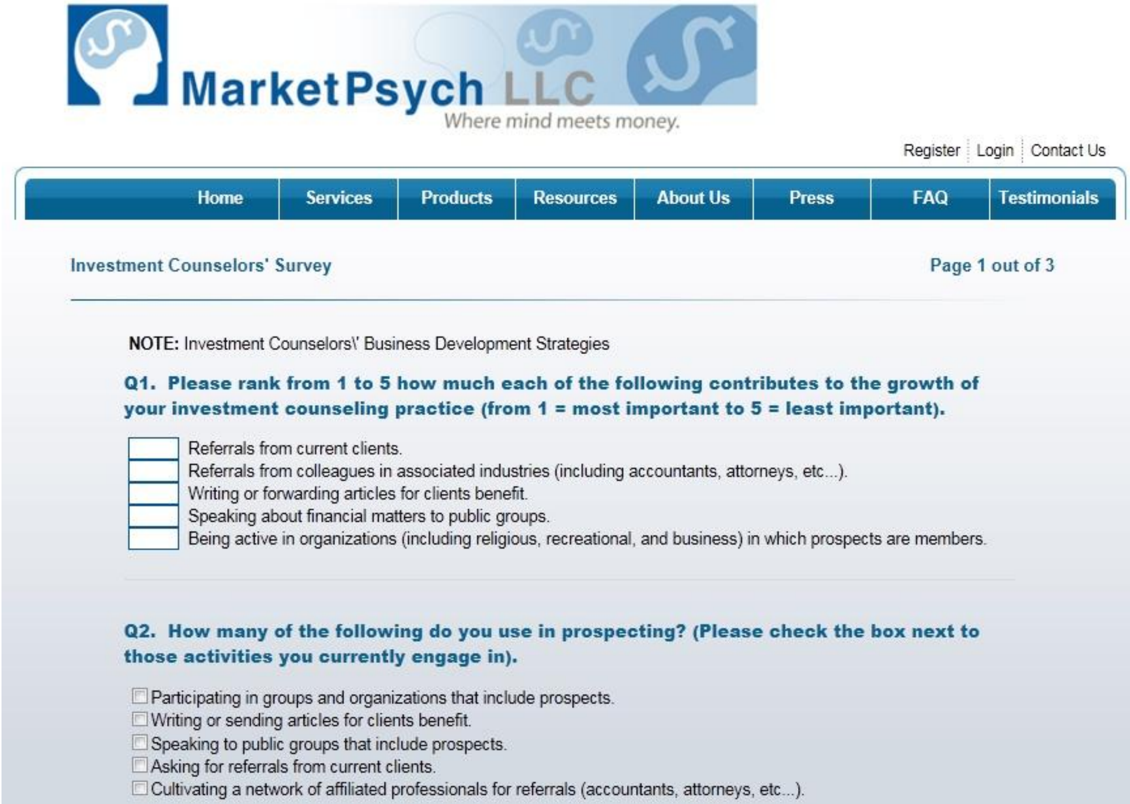
Our researchers analyzed the user response data with a series of linear regressions. The level of user agreement with each individual item (question) was regressed against that user's response to outcome variables, resulting in a correlation coefficient. See the outcome variables below:

OUTCOME VARIABLES:

- *From January 2008 to the present, what has been the annualized growth (or decline) of your assets under management (AUM)?*
- *How many clients have you gained or lost (net) since January 2008?*

If user agreement with both outcome variables had a greater correlation than 0.20, then that item was considered a significant driver of practice growth. As this survey is expanded, additional data will be gathered and more robust statistical techniques used to determine significance.

As screenshot of the survey advisors took is shown below in Figure 3:


MarketPsych LLC
Where mind meets money.
Register | Login | Contact Us
Home | Services | Products | Resources | About Us | Press | FAQ | Testimonials

Investment Counselors' Survey — Page 1 out of 3

NOTE: Investment Counselors\' Business Development Strategies

Q1. Please rank from 1 to 5 how much each of the following contributes to the growth of your investment counseling practice (from 1 = most important to 5 = least important).

- Referrals from current clients.
- Referrals from colleagues in associated industries (including accountants, attorneys, etc...).
- Writing or forwarding articles for clients benefit.
- Speaking about financial matters to public groups.
- Being active in organizations (including religious, recreational, and business) in which prospects are members.

Q2. How many of the following do you use in prospecting? (Please check the box next to those activities you currently engage in).

- Participating in groups and organizations that include prospects.
- Writing or sending articles for clients benefit.
- Speaking to public groups that include prospects.
- Asking for referrals from current clients.
- Cultivating a network of affiliated professionals for referrals (accountants, attorneys, etc...).

Figure 3: A screenshot of the financial advisor questionnaire whose results inform the current report.

RESULTS

Note to financial advisors: before reading the following results, please take the survey yourself here to avoid biasing your responses. The results are confidential, and identifying information is not required.

Table 1 below organizes the general results and reflects our observations regarding the correlations. Recall that if agreement with an item correlated with a higher value response for an outcome variable, then it generated a positive correlation. The conclusion that follows the table adds a narrative description about the results, their implications, and future directions for this research.

TABLE 1: **ADVISOR ATTITUDES, BEHAVIORS, AND COMMUNICATIONS**	**CORRELATION WITH PRACTICE AUM AND CLIENT GROWTH RATE**
Result 1: Successful advisors describe themselves as wealth managers (not investment managers)	

* I believe the primary role of the financial advisor is: (Investment vs Wealth management)	** "Wealth management" respondents report higher growth than "Investment Management"respondents.*
* During registration, those who self-described as "Financial Advisor" (about half) had more growth than those who checked "Portfolio Manager."	** "Financial advisor" respondents report higher growth than "Portfolio manager"respondents.*

<u>Result 2:</u> Successful advisors place higher priority on cultivating meaningful relationships with their clients.

* Building strong client relationships is essential to my success.	** Agreement = Higher growth*
* I ask my clients about their values (such as family, spirituality, charity, etc...)	** Agreement = Higher growth*

<u>Result 3:</u> While high growth advisors help their clients make better financial decisions and plan ahead, they do not engage in market timing.

* I help my clients make better financial decisions.	** Agreement = Higher growth*
* Please rank the services that you perform for your clients in their order of importance to the success of your business (1 for most and 5 for least). - Providing specific and timely investment management.	** Lower ranking for this item correlates with faster practice growth.*
* Please rank the services that you perform for your clients in their order of importance to the success of your business (1 for most and 5 for least). - Financial planning.	** Higher ranking for this item correlates with higher growth.*

<u>Result 4:</u> Of course, an advisor's higher-than-average investment returns relative to their peers does help practice growth (N.B., in our study, market timing does not appear to help investment returns, and may in fact hurt it, thus advisors who match market returns are average or better).

* Average Annual Return (Investing)	** Higher returns = Higher Growth*
Result 5: The more successful advisors typically do not have clients who are "trading" and thus focused on returns or market timing (consequently, they may be self selecting more stable long-term clients).	
* The size of client investment returns is a key factor in my success (Agree vs. Disagree).	** Disagreement = Higher Growth*
* What proportion of your clients would rank either high or consistent investment returns as the most important reason for working with you? (Few vs. Most)	** Few = Higher Growth*
* The consistency of my clients' investment returns is a key contributor to my success.	** Disagreement = Higher Growth*
Result 6: Contradicting the literature on "target" marketing, high growth advisors cast a wide net in terms of client demographics, not restricting themselves to groups identified by non-financial classifications such as religion, ethnicity, or profession.	
* How many prospects are currently in your sales pipeline?	** Higher number = Higher Growth*
* There is an ideal client personality profile for my practice.	** Disagree = Higher Growth*
Result 7: High growth advisors are networking with other professionals for referrals. (This also suggests a greater likelihood of effective collaboration with other professional "team" advisors to a mutual client.)	
* Please rank from 1 to 5 how much each of the following contributes to the growth of your investment counseling practice (from 1 = most important to 5 = least important).	** High rank for this item correlates with higher growth.*

- Referrals from colleagues in associated industries (including accountants, attorneys, etc...).	
Result 8: The best advisors proactively communicate with clients when times are tough, and thus aim to enhance the relationship of trust. They specifically attempt to educate clients (and prospects) with written articles, research, and explanations of events along with a discussion of implications for decision making.	
* I reached out to my clients during September-October 2008 with a phone call, email, or personal meeting.	** Agreement = Higher growth*
* Please rank from 1 to 5 how much each of the following contributes to the growth of your investment counseling practice (from 1 = most important to 5 = least important). - Writing or forwarding articles for clients' benefit.	** High rank for these items correlates with higher growth.*

Table 1: The left column contains questions as asked in the online survey, while the right column indicates the correlation with practice growth.

In Appendix A below, we listed the results of two narrative questions we included in this survey, one about common challenges advisors face, and the other about advisors' inspiration to perform their work. While the list of hassles is long and variable, the inspiration for almost all advisors surveyed is client well-being.

CONCLUSION

In this preliminary study we found results largely consistent with what many have suggested: the highest growth advisors of the past three years are those who cultivate client relationships and let the markets take care of themselves.

Result 1. The differences between wealth management vs. investment management speak to a subtle but important difference in the financial professional's philosophical approach. A wealth manager is focused on managing client assets, whereas an investment manager is focused on the specific investment decisions. Wealth necessarily precedes investments, though not all wealth becomes investments. Thus the former is by definition a deeper and more holistic focus than the latter. It is perhaps unsurprising that this deeper more client-centric (wealth management) is associated with greater success than a portfolio-centric (investment management/portfolio management) during difficult market periods.

Result 2. Another success trait that correlates with greater AUM and client acquisition is cultivating of stronger relationships with clients. Professionals who focus on building stronger relationships are more likely to address values (i.e., that which is most important to clients). The extent to which this approach represents a pragmatic tool for developing business or a genuine interest in getting to better know and understand clients is unknown. Nonetheless, Result 2 is similar to Result 1 in that it indicates a deeper focus on the clients' lives than more narrowly on the clients' investments.

Result 3. High growth professionals appear to take a longer-term and more collaborative approach to their work. Success is associated with less of a focus on short-term decisions ("timely investment management"), than on longer-term decisions ("financial planning"). A focus on helping the client make the decisions (rather than making them for the client) appears to be a major point of differentiation.

Result 4. Another finding is that for all the virtues of a more client-centric approach, performance matters. Professionals who reported better-than-average returns also reported greater growth in clients and assets. Because these data cover a time of virtually unparalleled market upheaval – from January of 2008 to May of 2011, the DJIA and S&P 500 lost nearly half their value before nearly recovering it all – it is possible that those with worse returns may have seen devastating losses for their clients. A longer-term approach in which clients "rode out the storm" rather than timing the market would have resulted in their net worth being approximately at the level of three years prior. Given the fate so many investors suffered during this period, to emerge no worse for wear would indicate above average returns.

Result 5. Despite better portfolio returns being a good thing, high growth advisors did NOT view the size or the consistency of those returns as being especially important to their success. So despite a correlation between better returns and increased asset growth, high growth advisors attribute their success to less quantifiable factors. This finding strongly suggests once again that the relationship between high growth advisors and their clients is based largely on factors other than performance.

Result 6. Success as an advisor is associated with greater openness to potential clients. The merits of "target" marketing notwithstanding, the most successful advisors indicate that they do not have an ideal "type" of client with whom to work. This greater flexibility may contribute to their having a greater pool of prospects with whom they feel comfortable, and thus more prospects in their sales pipeline. While this finding's relationship to client "quality" is difficult to discern, its relationship to client quantity is clear. A wider net leads to more clients.

Result 7. High growth advisors indicate they are more likely to gain referrals from professionals in related fields, such as attorneys and accountants. This finding not only suggests the benefits of networking, but perhaps the value of a "team approach." A network of relationships with supporting professionals suggests that high growth advisors are seeking to provide more comprehensive services than simple portfolio management.

Result 8. The willingness of advisors to reach out and communicate with clients during difficult investing periods was associated with greater asset and client gowth. This finding offers tangible proof of what many suspect - having the courage to make difficult phone calls in tough times pays off in client retention. It is, of course, easier to reach out to clients when the advisor does not consider performance to be the foundation of their relationship with the client.

In Appendices B and C we have inserted a study guide to help advisors integrate lessons from this article into their practices. Appendix B asks advisors to consider how to apply the general findings from this study, and Appendix C asks advisors to work through the details of each of five "Success Factors" as it applies to them.

One firm that took the initiative to enhance the client-relationship abilities of advisors is iPac (a division of AXA), which employs the world's largest group of financial planners. The firm is engaged in a pilot project in which new planner-trainees are drawn from the healing professions – E.g., nursing, teaching, social work, and psychology. The trainees are taught the precepts of Rogerian counseling in addition to the basics of financial advising.

Rogerian counseling was developed by Carl Rogers, Ph.D., an eminent American psychologist of the 20th century. Rogerian counseling focuses on eliciting information about the whole person and creating a safe and respectful space for working through challenges. Rogerian therapists seek to demonstrate empathy, unconditional positive regard, and validation of the client's feelings and motivations. This positive therapeutic environment leads to greater client honesty and decision efficacy. The iPac pilot project is ongoing, and it remains to be seen if it is successful, but preliminary indications are positive.

The current paper is a pilot study intending to identify the "soft" factors that lead to financial advisor success. Weaknesses of our study include a small sample size (50) and basic statistical methods of analysis. We plan to offer a longer free survey online shortly. Several other firms and academics have produced results that mirror ours in several respects. Additionally, we suspect that individual firms may have different success traits unique to their firm cultures, and we are looking for industry partnerships so that we may study the success traits of advisors within individual firms.

Our MarketPsych financial advisor training programs are ongoing. We look forward to meeting the thousands of advisors we are scheduled to train in Fall 2011. We enjoy engaging with advisors and providing helpful insights from psychology and behavioral economics for working through client challenges.

Please contact us with any thoughts, questions, or comments at info@marketpsych.com or join our email list to keep up with our latest research via the Subscribe box on www.marketpsych.com.

Best wishes,

Richard L. Peterson, M.D.
A. Mark Harbour, CPA, CFP®, CFA, CIMA®
Frank F. Murtha, Ph.D.

APPENDIX A: NARRATIVE QUESTIONS

CHALLENGES

What is the greatest challenge to becoming a successful financial advisor?

- **Time**: More time with clients, for business development, and personal time.
- **Client Service:** Trust building, maintaining confidence and regular contact, client selection, keeping clients in long-term vs short-term thinking, investment allocation decisions.
- **Business**: Competition, institutional framework, prospect pool.
- **Emotional Intelligence:** Maintaining enthusiasm, developing people skills, listening.
- **Multitasking** and Maintaining Focus.

INSPIRATION

What inspires you in your work as a financial advisor?

- <u>Clients: 95% mentioned clients, and below are the general themes expressed.</u>
  - Making a difference in clients' lives.
  - Improving clients' financial security.
  - Helping clients achieve goals.
- <u>Personal</u>
  - The learning and challenges of the job.

APPENDIX B: APPLYING THE LEARNING

Please get out a pad of paper or notebook to write down your answers to these exercises.

APPLYING THE LEARNING TO YOUR PRACTICE

- Describe the **traits** contributing to financial advisor business growth as they apply to your business.
- Identify which traits are **"do-able"** for you or your firm.
- Identify **clients and prospects** to begin engaging these new behaviors.
- Create an **action-plan**.

PRACTICE DEVELOPMENT FOCUS EXERCISES

- Which traits are out of your control?
- Which are most urgent for you?
- Which ONE must be solved first to advance your business?

APPENDIX C: THE FIVE SUCCESS FACTORS

1. Success Factor: *High growth financial advisors focus more on clients and less on returns.*

PRACTICE DEVELOPMENT EXERCISES

- How will you apply this to your business?
- How can you avoid market timing?
- How can you broaden client conversations to include topics separate from and perhaps more fundamental to an investment focus?
- How will you manage yourself during market volatility? (Please write down three things you can do to avoid letting your short term emotional impulses known you off of your long term plans - see the MarketPsych Stress Management Guide at http://www.marketpsych.com/stress.pdf for ideas).
- How can you manage clients using communication tactics? (See our articles on strategic emotional communication for ideas):
  1) IMCA_EmotionalCommunicationStrategies.pdf
  2) PrivateWealthManagementNewsletter_EmotionalIntelligenceSkills.pdf

2. Success Factor: *High growth financial advisors have larger and less exclusive sales funnels.*

PRACTICE DEVELOPMENT EXERCISES

- How will you apply this to your business?
- What channels are available for you to pursue in order to identify new prospects?
- Identify and schedule three actions you can take this week to
  - widen your sales funnel.
  - widen your professional referral network.

3. Success Factor: *High growth financial advisors send more personal communications and articles. They also ask about values and legacy.*

PRACTICE DEVELOPMENT EXERCISES

- Which three clients can you send relevant articles to?
- Which three would benefit from more frequent contact?
- What will you send/say to clients the next time there is serious market volatility? (Please list three things).

4. Success Factor: *High growth financial advisors focus on building relationships and understanding their clients' values.*

PRACTICE DEVELOPMENT EXERCISES

- What three things can I do systematically to further strengthen my client relationships?
- Which three clients can you ask about their values (who you haven't asked yet)?

- Which three would benefit from more decision coaching?

5. Success Factor: *High growth financial advisors see themselves as wealth managers and offer financial planning and holistic services.*

PRACTICE DEVELOPMENT EXERCISES

- Does wealth management fit for you?
- If so, how might you enhance your services?
- If not, how might you use the lessons of the wealth managers to grow your investment management practice?