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An Obsession for Determined Outcomes

NAVIGATING THE FINANCIAL OUTCOME PUZZLE

Have You Ever Seen Your Client Cry?

Retirement savers have been whipsawed by market disruption and uncertainties for more than a decade: a global market collapse, sluggish economic recovery, and more recently, potential prolonged inflation, market volatility, and interest-rate jitters. No wonder so many feel uncertain, vulnerable, and hyperaware of anything that could compromise their plans for old age.

While markets may be volatile and unpredictable, individuals can focus on the things they can control.

According to Charles Schwab's 2017 Independent Advisor Outlook Survey, 84% of financial advisors reported that they had to reassure clients that they will achieve their retirement goals, despite record market returns. In a recent CNBC survey1, 35% of respondents aged 45 to 54 said that "being able to save enough for retirement" was their top personal finance concern; the share was 42% for people aged 55 to 642.

The worries don't go away once people reach retirement. Almost half of retired clients rank outliving their assets (44.6%) and unanticipated health care costs (47.9%) among the biggest threats they have experienced while more than one-third (36.9%) place generating a reliable income stream in retirement in the same category, according to Financial Advisor magazine's latest retirement survey 3.

These very real, anxiety-producing concerns underscore the fact that advisors today need to understand not just the client's portfolio or investment targets, but the client as a person. While markets may be volatile and unpredictable, individuals can focus on the things they can control: their lifestyle goals, their plans for their children's education, for retirement, for travel, for charitable giving. Helping them to do so is as much the advisor's job as managing their investment portfolios. But first, the advisor needs to know the client.

Have you ever seen your client cry? Of course, you're a financial advisor, not a therapist. But if you haven't, there's a high probability that you may not know everything you need to know about him/her: whether he/she is contemplating divorce, has just lost his/her spouse or a parent, or just received a serious medical diagnosis, any of which could have deep financial repercussions. Without connecting with your clients on these difficult topics, you may not learn about all of their assets or relationships with other financial institutions or providers. Similarly, such off-the-topic subjects as politics and religious faith may reveal important clues

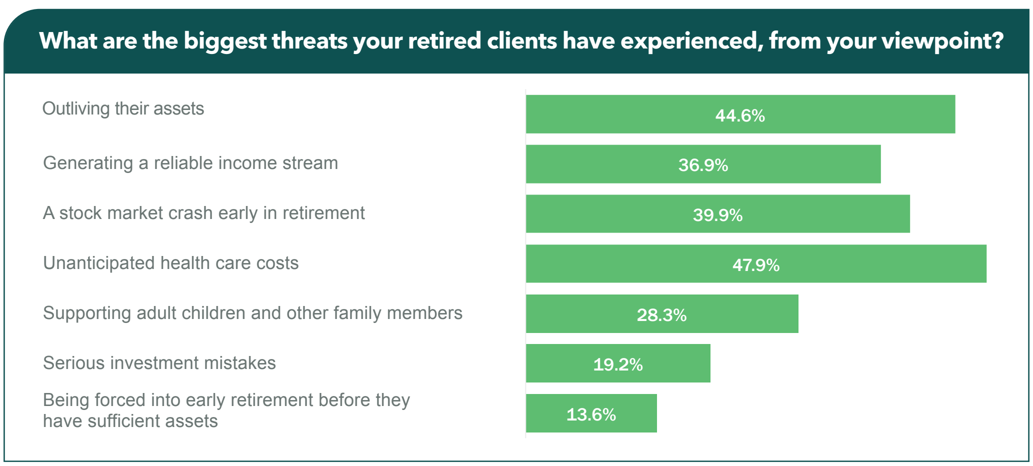
1 Charles Schwab: "Independent Advisor Outlook Study"
[2] CNBC: "Americans are more confident about saving for retirement [...] doesn't mean they aren't worried"
[3] Financial Advisor Magazine: "Outliving Assets No. 1 Client Worry"

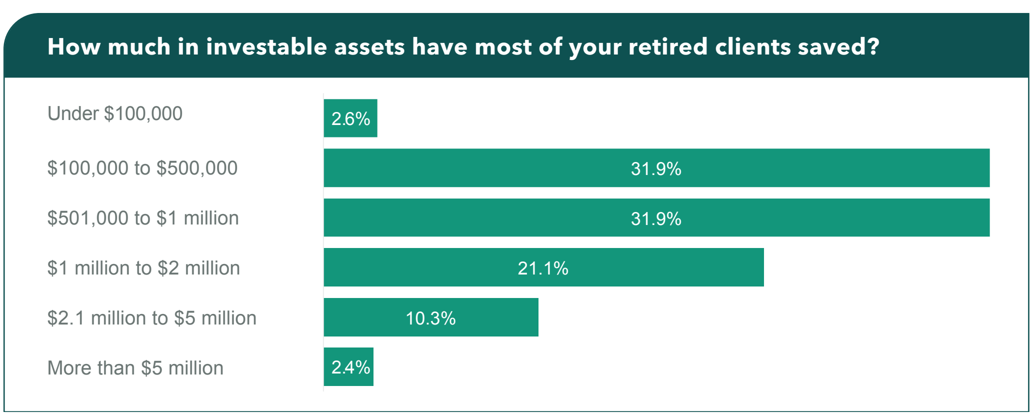
about your client's fears regarding recent news developments or events in their lives: fears that might drive sudden decisions about investments—but only if you bring them up and show a genuine interest.

Investors want to be more open about their overall situation, and there's evidence they are looking for services that make them feel they can be. Robo-advisors have seen their assets under management explode in just a few years; the five largest, including Vanguard Personal and Schwab Intelligent Portfolios, now manage $187.5 trillion, and consultant A.T. Kearney predicts that digital advice could command $1 trillion of investments by next year[4]. One reason may be that individuals feel less vulnerable revealing all relevant information to a database supported by an algorithm than to a human being who may or may not empathize with their particular desires and fears.

> Understanding how to get past investors' reluctance to open up fully about their financial condition and goals is going to be one of advisors' greatest challenges going forward—and one of their most promising routes to closer, more lasting and successful client relationships.

Understanding how to get past this barrier is going to be one of advisors' greatest challenges going forward—and one of their most promising routes to closer, more lasting and successful client relationships. It requires a significant change in the advisor mindset: from quantitative to qualitative, from financial to personal. It entails coaxing clients to communicate about their fears, including fear of retirement and the sometimes frightening unknowns it forces them to plan for: medical emergencies, incapacity, adult children in need of a bailout, and the nagging fear that despite all their planning, they may run out of money. By ignoring this new reality, however, advisors run the risk that their clients will turn to a robo-advisor, or leave for a human rival who displays greater understanding and empathy for their retirement goals and anxieties.





Financial Advisor Magazine: Outliving Assets No. 1 Client Worry

[4] Robo-Advisor Pros: "Robo-advisors With the Most Assets Under Management -2019"

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Recognizing the challenge, formal training programs in financial psychology, including emotional intelligence, understanding family dynamics, and listening techniques, are taking root at some educational institutions. Kansas State University has offered a graduate-level certificate in financial therapy since 2014 and Golden Gate University's Masters program in financial planning includes courses on coaching, therapeutic communication, and behavioral finance, for example[5]. A Financial Therapy Association was created almost a decade ago for professionals who specialize in helping people manage their anxieties about money and investment.

> The basic principles of a successful approach to forming a deeper client engagement are simple, however, rooted in an understanding of the human need for connection that social researchers like Brené Brown have studied and discussed for years 6. Everyone experiences vulnerability—the fear of not making connection or not being worthy of it—to some degree, and financial concerns can exacerbate these feelings. When people feel vulnerable, often their first impulse is to numb the feeling: to hide it, both from themselves and others.

The advisor's job, in the financial context, is to give the client a safe space for vulnerability.

The advisor's job, in the financial context, is to give the client a safe space for vulnerability: to let go of who they think they should be and embrace who they authentically are. This allows them to make a real connection with the advisor, opening the way for a more frank, practical, and successful relationship.

THE PROCESS STARTS WITH THE ADVISOR

Don't avoid your client's vulnerabilities; embrazce them. It's natural to want to avoid unpleasant topics, especially with often touchy financial matters. Instead, go into your first meeting resolved to consider where your client's fears may lie and get your client to address them.

Be a good observer. Clients feel a stronger connection with you if they sense they are being heard. Listen, but also observe body language to figure out what the client Is feeling during the meeting. Guide the conversation to make sure you get the information you need, but when clients don't speak up, encourage them to talk about what may be bothering them.

Start with life goals and work back to financial goals. Ask your clients, for example, what the 15 most significant aspects of their lives are likely to be—say, career choices, buying a home, geographic location, having children, getting married, hobbies, charitable activities. Then ask what are the 15 things they want to achieve in each of these areas. Chances are, the nature and magnitude of their investment portfolio will not be one of them. Only after this profile is established, address how their investment strategy can help achieve those objectives. Do not make this a cursory discussion; giving it the necessary time and attention creates intimacy. That increases the chances that your clients will feel close enough to you to reveal their fears as well, and that you will get all the information you need to tailor an appropriate investment strategy.

[5] US News: "How Financial Planning Becomes Therapy"
[6] TED: "The Power of Vulnerability"

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Let the client know about you. After you've taken the steps above, you will have a much more definite sense of where your previous experience and knowledge match with the client's needs. Now, discuss why you became an advisor, your track record, and especially how you have helped other, similar clients achieve their goals.

Don't assume the client knows everything you do. Drop the financial jargon and acronyms from your vocabulary. The ability to explain financial concepts in an easy-to-understand way is one of your strongest assets as an advisor and an important resource for building a stronger and more frank relationship. If you make things that are already complicated even more so, you will be doing the opposite.

The most immediate benefits of building close personal connections is a better understanding of the client's personal and retirement goals.

Be open-minded. If your client has an idea, don't dismiss it because it's not your own. If it's an idea for an investment, research whether it's feasible and report back; if it's not a good fit with your client's goals, explain why not. If it's a large-ticket, non-essential expense—a vacation home, a boat, a loan to a friend in trouble—explain how it would impact your client's investment strategy and what adjustments he/she would have to make to accommodate it. But remember that the decision is his/hers.

Follow through. If you say you are going to deliver a report or call at a specific time, do so. If you don't honor the commitments you make, even seemingly less important ones, trust—and the connection you've been working hard to build—will dry up.

Don't exclude the family. Your goal is to build long-term, robust relationships with your clients, that can survive a death or a generational transfer or wealth. This is not easy. When an account holder dies, in 70% of cases the surviving spouse moves the account to another advisor, according to a 2011 Spectrem Group study; the rate jumps to 90% when the account passes to the couple's children[7]. Yet, trillions of dollars are going to pass from the current generation of older workers and retirees in the coming decades, and the time to establish relationships with the next generations is before they inherit. Connections that are strong enough to survive these transitions are built on a sense that the advisor is serving the entire family and understands them as such.

The most immediate benefits of building these connections, however, are a better understanding of the client's personal and retirement goals, the personal factors that might stand in the way, and as full an inventory as possible of the client's financial assets and liabilities. With these, the advisor can set about designing an investment strategy that helps achieve the client's goals. In the next paper in our series, we'll examine how you can work with your clients to craft an Investment Policy Statement that maps a path to that objective.

[7] ThinkAdvisor: "How Advisors Can Stop Losing Clients' Heirs as Clients"