The Professional Financial Advisor Designation Program

Course 4
Fine Tuning Your Practice and The Value of Advice

PRACTICE DEVELOPMENT | MODULE 9
THE VALUE OF ADVICE

2021 Edition (September)

Advocis

Important Disclaimer

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Module 9: The Value of Advice

Section 1: The Value of Your Advice

Learning objectives

Welcome to the final module of the Professional Development discipline of the Professional Financial Advisor (PFA) designation program!

You have had some time to develop and build your financial advisory practice. Now, we will explore the value of the financial advice you provide to your clients. After completing this section and the accompanying practice development activities, you will be able to:

- **Explore and recognize** the unique value you provide to your clients
- **Define the value** you bring to your clients
- **Orient your practice** towards providing the highest value possible to your clients
- **Communicate the value** you provide to your clients

Introduction to the value of financial advice

Even if you are a newer financial advisor, you have very likely heard the phrase “the value of financial advice.” You’ll come across it referenced in training sessions, discussed by your manager or colleagues, mentioned in the media, or included in the marketing messages your organization directs to its clients and prospective clients. Before we begin our discussion of the value of professional financial advice and how it affects your financial advisory practice, let’s first define what we mean when we use the words “value” and “advice.”

The meaning of the word “value” is easily equated with money, and many clients you work with will try to quantify value this way. Clients will try to describe your value in terms of the money they saved or the money they earned by participating in the financial planning process and following your advice. Indeed, three of the meanings offered by Dictionary.com relate to the monetary meaning of the word:[1]

- “The worth of something in terms of the amount of other things for which it can be exchanged or in terms of some medium of exchange”
- “Equivalent worth or return in money, material, services, etc.: *to give value for value received*”
- “Monetary or material worth, as in commerce or trade: *this piece of land has greatly increased in value*”

However, another related definition of ”value” at the same website provides a slightly different meaning: “relative worth, merit, or importance.” Merit and importance can relate to money, but these concepts are also indicative of a quality that makes something desirable, useful or significant to us. This quality is subjective and can have a different meaning for each of us.

“Advice” means “an opinion or recommendation offered as a guide to action, conduct, etc.”[2] While working with your clients, you have likely offered your opinion with more or less impact, depending on how influential you felt you needed to be in a given situation. In your financial advisory practice, you may have “counselled, recommended, suggested, persuaded and offered opinions”[3] as you interact with your client base.

[1] Dictionary.com. n.d. www.dictionary.com/browse/value?s=t (accessed May 19, 2020)

[2] Dictionary.com. n.d. www.dictionary.com/browse/advice?s=t (accessed May 19, 2020)

[3] Ibid.

Determining the value your clients assign to these forms of advice is both an art and a science.

In general, marketing campaigns attribute the following outcomes to professional financial advice:[4]

- Increased returns on clients' investments
- Improved investor savings habits
- Investment products or strategies aligned to risk tolerance and personal circumstances
- Improved tax efficiency
- Customized portfolio asset mix
- Controlled investor behaviour
- Strengthened investor confidence and peace of mind

Client retention is higher for advisors who effectively communicate the value of their advice to clients. According to an in-depth client survey EY Global Wealth Research conducted in 2019, "One-third of clients have switched providers or moved assets in the past three years and another third plan to do so in the next three years."[5] The overwhelming reason clients gave for leaving their advisor was value. The authors of the EY study suggest, "Firms who can best create this value will be best positioned to retain their current clients and acquire competitors' clients who are planning to move."[6]

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[4] Montmarquette, Claude. n.d. "An Econometric Analysis of Value of Advice in Canada." CIRANO: 2. cirano.qc.ca/pdf/publication/2012RP-17_Presentation_Value%20of%20Advice.pdf (accessed January 2, 2020)

[5] Nanayakkara, Nalika, and Phil Hennessey. 2019. "How Do You Build Value When Clients Want More Than Wealth?" EY Global Wealth Management Research: 5.

[6] Ibid.

The EY report further found:[7]

- Clients leave their existing advisor during major life events in search of personalized financial advice
- The youngest and wealthiest clients are the most likely to leave
- Clients prefer simple, personalized and connected solutions to individual products and services
- Clients leave for digital (robo) or automated wealth managers
- Clients leave because they are concerned about fees

Your manager may have instructed you to take every opportunity to "communicate your value" to clients and prospective clients. But what is your "value"? How do you define it? More importantly, how do your clients and your prospective clients perceive the "value of advice"? You've likely been coached to include information on the value of your advice when describing your client process to clients and prospective clients. The prospective clients you are meeting with want to know "what's in it for me?"

Defining and communicating your unique value isn't easy. The value individuals place on advice is "in the eye of the beholder." In other words, it can mean something different to each client. Your unique value is subjective, making it difficult to quantify or describe. Each financial advisor also has a unique combination of skills, attitudes, experience and education that makes that advisor's value different from the value of other advisors. While it is difficult to measure, the "value of advice" is very important to your clients and prospective clients. In a report by U.S. financial services firm Vanguard, the authors describe the enigma of capturing the dollar value of advice: "The most significant opportunities to

[7] Ibid.

add value do not present themselves consistently, but intermittently over the years, and often during periods of either market duress or euphoria."[8]

The influence of "market duress or euphoria" implies that the financial advisor's toolbox must include behavioural coaching skills. It is critical that financial advisors understand the heuristics and biases that can cause some investors to sell when financial markets drop, and others to buy (beyond their individual risk tolerance) when financial markets are over-valued. The added value of behavioural coaching is unquantifiable and will not show up on a client's monthly statement.

"A heuristic, or a heuristic technique, is any approach to problem-solving that uses a practical method or various shortcuts in order to produce solutions that may not be optimal but are sufficient given a limited timeframe or deadline."[9]

If defining the value of your advice is so elusive, how do you express it so clients and prospective clients understand it and can see themselves benefitting from working with you? In this section, we will:

- Examine the research and what it says clients value from their financial advisors
- Provide you with the skills to identify the value you provide to your clients
- Demonstrate how to incorporate your value into your financial advisory practice
- Provide you with tips to communicate your value through your value proposition

[8] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 2.

[9] Investopedia. n.d. www.investopedia.com/terms/h/heuristics.asp (accessed August 30, 2021)

The evidence: how do we know it's not just about the alpha?

There was a time in the financial services industry when it was generally accepted that the most critical performance goal for a financial advisor was to grow clients' financial assets, with success usually measured by comparing portfolio returns to a market index or benchmark. Outpacing the benchmark turned out to be a lofty goal that many advisors and portfolio managers struggled to achieve. Over the last 10 years, researchers have developed a body of work that supports the idea of a "gamma factor."

The gamma factor describes the idea that financial advisors can add value beyond the superior performance of an investment or portfolio.

The gamma factor includes:

- Diversification among asset types
- Tax-efficient investments
- Disciplined behaviour in the face of market volatility
- Improved savings rates
- Balanced portfolios

Let's examine some of the research that supports the idea of a gamma factor and the ways in which your advice adds value for your clients.

Three landmark studies published by CIRANO in 2011, 2016 and 2020 explored the gamma factor and the value of advice. The papers shed light on the relationship between financial advice and consumer financial behaviour.

The findings in the 2011 study[10] clearly indicate that individuals who have a relationship with a financial advisor are more likely to save, and that the savings rate increases with the length of that relationship. Households that had a relationship with a financial advisor had more financial assets.

Here is a summary of the results of the 2011 study:

- Advice has a positive and significant impact on financial assets after accounting for various socio-economic, demographic and attitudinal variables that also affect individual financial assets
- The financial assets multiplier effect of advice cannot be explained by asset performance alone — the greater savings discipline acquired through advice plays an important role
- Advice positively affects retirement readiness, again after accounting for the myriad other variables also at play
- Receiving advice is also an important contributor to higher levels of satisfaction and trust in financial advisors — no doubt, a reflection of financial assets creation

In the 2011 study, the authors identified a limitation: the inability to resolve causality. That is, “Does financial advice improve household wealth, or is it household wealth that attracts advice?”[11] Similar to the 2011 study, CIRANO’s 2016 study focused on a consumer questionnaire. This time, however, the study limited respondents to households that chose their financial advisor, excluding those that had been approached by an advisor. The 2016 study confirmed the 2011 study findings with

[10] Montmarquette, Claude. n.d. “An Econometric Analysis of Value of Advice in Canada.” CIRANO: 8. cirano.qc.ca/pdf/publication/2012RP-17_Presentation_Value%20of%20Advice.pdf (accessed on January 2, 2020)

[11] Montmarquette, Claude, and Nathalie Viennot-Briot. n.d. “The Gamma Factor and the Value of Financial Advice.” CIRANO: 40.

confidence. Furthermore, the results suggested that consumers do not need wealth (investable assets) to receive financial advice.

So, if it’s not “all about the money” (investment performance), what is it that a financial advisor can do to provide value for clients? According to CIRANO’s 2011 study, financial advisors perform several vital tasks in the lives of their clients. Specifically, they “improve financial literacy, develop a culture of savings and investment, assist the development and execution of a financial plan, select appropriate financial vehicles and products, and improve investment decision-making.”[12] The 2016 study refers to these elements as the “gamma factor,” and they comprise some of the additional value an advisor brings to a financial advisory practice.

The 2016 study also examined what happened to portfolio values when clients left their financial advisor and became self-directed investors. The researchers examined the period between 2010 and 2014 and found those investors paid a high price for this move: “Households that retained their advisor saw the value of their assets increase by 16.4%, versus only 1.7% for the assets of households that abandoned their advisor during this period.”[13]

CIRANO’s 2020 study, entitled “More on the Value of Financial Advisors,” describes the results of a 2018 survey that examined how willing survey respondents were to invest with or without the help of a financial advisor. This study again confirmed the positive impact of having an advisor: “The average household with an FA [financial advisor] for 15 years or more had asset values 131% higher than average ‘comparable’ households without a

[12] Montmarquette, Claude. n.d. “An Econometric Analysis of Value of Advice in Canada.” CIRANO: 8. cirano.qc.ca/pdf/publication/2012RP-17_Presentation_Value%20of%20Advice.pdf (accessed on January 2, 2020)

[13] Montmarquette, Claude, and Alexandre Prud’Homme. n.d. “More on the Value of Financial Advisors.” CIRANO: 3. cirano.qc.ca/en/summaries/2020RP-04 (accessed May 25, 2020)

financial advisor."[14] Over the 15-year period this study examined, clients and advisors formed a trust-based relationship. This enabled the advisors to help clients pay down debt and save towards their financial goals and objectives. Advisors were also able to counsel clients through market turmoil and various life stages.

Vanguard has attempted to quantify the value of financial advice as Vanguard Advisor's Alpha™. The Vanguard report "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha" expresses in basis points and percentage points the value a financial advisor can add to a client's portfolio. Vanguard maintains that advisors "can add 'about 3%' in net returns when they follow the Vanguard Advisor's Alpha framework for wealth management, particularly for taxable investors."[15] The Vanguard research team defined seven "modules" that make up the Vanguard Advisor's Alpha framework and comprise the elements of a comprehensive financial plan. The following pages briefly explain each module.

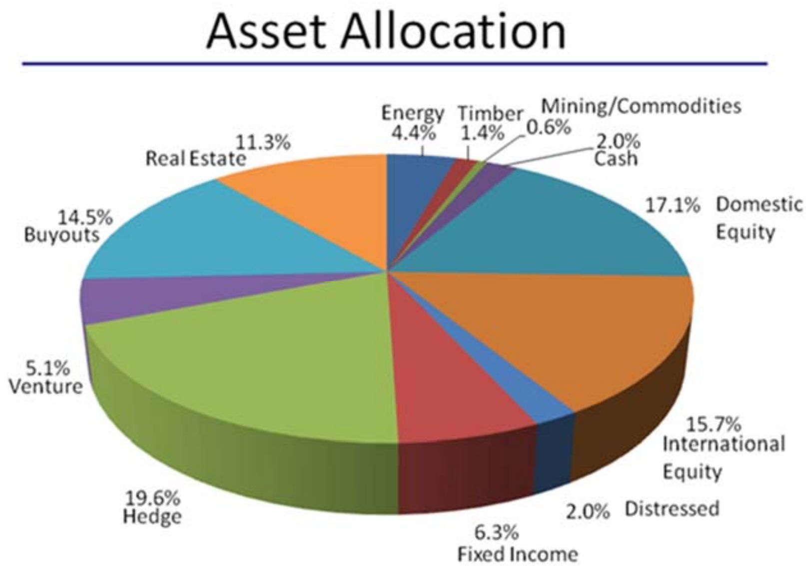
Asset allocation

As you know, asset allocation is the process through which a financial advisor assigns weightings to different asset classes (cash, fixed income and equities) based on a client's investment goals and risk tolerance. This is a critical step in building a well-diversified investment portfolio.

[14] Montmarquette, Claude, and Alexandre Prud'Homme. n.d. "More on the Value of Financial Advisors." CIRANO: 58. cirano.qc.ca/en/summaries/2020RP-04 (accessed May 25, 2020)

[15] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 8.

Figure 1: Asset Allocation



Source: Seeking Alpha[16]

A firm foundation for a financial plan starts with a customized asset allocation that takes into account an investor's tolerance and capacity for risk, investment time horizon, and personal and financial goals. This customized asset allocation is often one of several suggested model allocations that are the result of an investment risk tolerance questionnaire that an advisor works with a client to complete. Vanguard's report acknowledges the significant value of a financial plan and unique asset mix, but deems it "too unique to each investor to quantify."[17]

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[16] Seeking Alpha. ca.images.search.yahoo.com/search/images;_ylt=AwrJ7Y57xs5ebBgA7vnsFAx.;_ylc=X1MDMjExNDcyMTAwNARfcgMyBGZyAwRncHJpZANjQjNqZGVialJMS1RYQzVhbENRbHdBBG5fc3VnZwMzBG9yaWdpbgNjYS5pbWFnZXMuc2VhcmNoLnlhaG9vLmNvbQRwb3MDMARwcXN0cgMEcHFzdHJsAwRxc3RybAMxOARxdWVyeQNhc3NldCUyMGFsbG9jYXRpb24EdF9zdG1wAzE1OTA2MDk1NDM-?fr2=sb-top-ca.images.search&p=asset+allocation&ei=UTF-8&iscqry=&fr=sfp#id=1&iurl=https%3A%2F%2Fstatic.seekingalpha.com%2Fuploads%2F2017%2F3%2F4353481_14903746816907_rId2.png&action=click (accessed May 28, 2020)

[17] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 10.

Cost-effective implementation

Investopedia defines the well-documented "reversion to the mean" principle like this: "Mean reversion is a theory used in finance that suggests that asset prices and historical returns eventually will revert to the long-run mean or average level of the entire dataset."[18]

Mean reversion theory has led to a number of investment strategies, including the selection process for mutual funds. If, over the long term, the performance return of a particular mutual fund portfolio will reflect the average return for that industry sector or group of mutual funds, why pay a premium for that investment? Simply put, if two Canadian equity mutual funds are the same (similar investment mandate, similar holdings, etc.), differing only in their Management Expense Ratio (MER), why pay more for one fund?

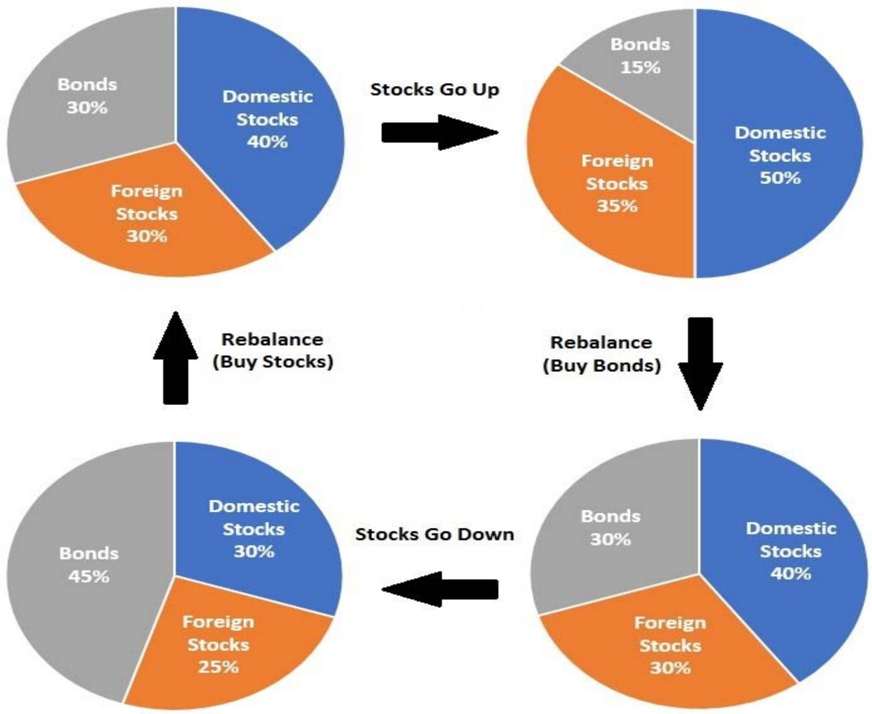
Vanguard's report maintains that the value added by using low-cost mutual funds in your clients' portfolios is 40 basis points every year, and that this strategy works in all market conditions. According to this report and prevailing logic, "When you pay less, you keep more, regardless of whether the markets are up or down."[19]

[18] Investopedia. www.investopedia.com/terms/m/meanreversion.asp (accessed April 19 2020)

[19] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 12.

Rebalancing

Figure 2: Rebalancing



Source: Bing.com[20]

During the Maintenance stage of the Client Relationship Cycle, the financial advisor monitors a client's financial plan to ensure it is on track to achieve the client's goals. After implementing (or partially implementing) a financial plan, the advisor schedules the first of many regular client meetings (which may be annual or at another agreed on interval) to review a client's complete financial plan and update it according to the client's life and goal changes.

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[20] Lynalden.com. www.bing.com/images/search?view=detailV2&ccid=9oSuIp50&id=C245032C20C1AC95408C45963AEE1F80B4E37BAA&thid=OIP.9oSuIp50okkIrja94-FsyAHaHo&mediaurl=https%3a%2f%2fwww.lynalden.com%2fwp-content%2fuploads%2fportfolio-rebalancing-example.jpg&exph=719&expw=697&q=images+showing+portfolio+rebalancing&simid=608001952511492215&selectedIndex=0&ajaxhist=0 (accessed May 28, 2020)

Rebalancing a client's portfolio is an important element of the Maintenance stage. No matter what asset allocation you and your client set for a portfolio based on the client's needs and objectives, it will experience "drift" over time as one asset class outperforms the others and its allocation grows disproportionately larger. You can see this happening first to stocks and then to bonds in the illustration. With this drift, the relative riskiness of the portfolio changes. If the equity component of the portfolio grows disproportionately when compared with the safer investments, the relative risk of the portfolio increases and may increase beyond your client's stated risk tolerance. The discipline of rebalancing requires you to help your client sell out of the asset class that has outperformed and buy into the asset classes that have underperformed. When implemented, this strategy helps to remove the emotion from investing.

Vanguard's report found the potential value added is "up to 35 bps [basis points] when risk-adjusting a 60% stock/40% bond portfolio that is rebalanced annually versus the same portfolio that is not rebalanced (and thus drifts)."[21]

Behavioural coaching

As mentioned earlier in this section, times of market duress and market euphoria will test your behavioural coaching skills. Periods of market volatility and uncertainty can be particularly emotional for your clients, and it is critical to use your understanding of human and investor behaviour to help clients stick with their financial plan. You need to encourage clients to maintain a long-term perspective on their financial goals and use a disciplined approach to adhere to their financial plan. Vanguard's report

[21] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 13.

describes the advisor's behavioural coaching role as "emotional circuit breakers [that circumvent] clients' tendencies to chase returns or run for cover in emotionally charged markets."[22]

The report further states that behavioural coaching is the "largest potential value-add of the tools available to advisors," suggesting that it adds 1% to 2% in net return to a client's portfolio.[23]

Asset location

Where assets are held matters. For example, a long-term strategy of holding fixed income investments in a non-registered investment plan will potentially result in unnecessary tax consequences for an investor in a high marginal tax bracket. On the other hand, holding these same fixed income investments in a registered account — i.e., a Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF) or Tax-Free Savings Account (TFSA) — or within a universal life insurance policy will shelter interest income from taxes. Canadian investors have three broad account types to choose from:

- Taxable — non-registered investment plans
- Tax-deferred — RRSPs, RRIFs and Registered Education Savings Plans (RESPs)
- Tax-free — TFSAs

[22] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 16.

[23] Ibid.

Financial advisors, as part of the financial planning process, can enhance portfolio returns by advising clients on the optimal location to hold various investments. According to the Vanguard report, the potential value added from asset location is zero to 75 basis points, "depending on the investor's asset allocation and 'bucket' size (portfolio size)" — assuming an equal split between taxable and tax-deferred/tax-free investment accounts, a balanced (50% equites, 50% fixed income) asset mix, and a high marginal tax bracket.[24]

Order of withdrawals when clients spend from portfolios

When a client withdraws money from an account, both the taxation of withdrawals and which investments the client sells can significantly affect the total return on a client's portfolio. Depending on the client's portfolio size, the split between taxable and tax-deferred/tax-free accounts, and the marginal tax bracket, potential added value of up to 110 basis points could be available. According to the Vanguard report, "The greatest benefits occur when the taxable and tax-advantaged accounts are roughly equal in size and the investor is in a high marginal tax bracket."[25]

Strategies such as capital gains harvesting (timing the sale of equity investments with large accrued capital gains to spread the tax impact over a number of tax years) and cash wedges (such as planning for your client's next RRIF payment) can also be impactful.

[24] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 18.

[25] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 20.

Total return vs. income investing

In the 1970s and early 1980s, interest rates were significantly higher than they are now. As a result, depending on the size of their portfolio, many retirees were able to live off the interest income their portfolio generated for many years before they needed to access their capital.

In today's low interest rate environment, this is no longer a realistic option for investors. It is the financial advisor's responsibility to find the optimal weighting that will produce sufficient risk-adjusted returns for the unique needs of each client.

The Vanguard report deems the potential value a financial advisor can add in this area to be significant, but also says it is "too unique to each investor to quantify, based on each investor's desired level of spending and the composition of his or her current portfolio."[26]

A continuum of value

If the only value financial advisors brought to their clients was wealth accumulation through superior portfolio performance, this might be the end of the story. However, remember that the determination of value is unique to every investor/client. Also, what clients value at one point in their lives may not be what they value in the future.

For many clients, growth of portfolio assets is the most critical piece of the value they see in their financial advisor. However, this may change when a life-altering event takes place (e.g., divorce, death of a close family member, inheritance or birth of a child). These events alter relationships and client needs. You cannot anticipate all of these events, but you can

[26] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 22.

prepare yourself for many of them by working to build a deep understanding of who your clients are, what they want to achieve and their particular life stage.

Financial advisors need a complex set of skills to provide what their clients need, whether it is a quantifiable value (such as investment returns) or a qualitative value (such as behavioural coaching). You deliver a continuum of value that evolves according to your clients and their life stage.

A follow-up 2019 study by Vanguard, “Assessing the Value of Advice,” identifies and describes three dimensions that combine to produce client satisfaction and loyalty: portfolio value, financial value and emotional value. The three dimensions are not equally valued by every client, nor are they valued in equal proportions. Again, subjectivity applies to the weighting, or importance, a client assigns to each dimension — and this changes throughout clients’ life, as they enter and leave life stages.

The first dimension, portfolio value, relies on the usual means of evaluating the performance of a portfolio: risk-adjusted return, diversification, asset allocation (active vs. passive investment styles, location of assets, etc.), taxation and portfolio fees.[27]

The second dimension, financial value, measures a client’s ability to achieve a desired goal. As you know, a client’s investment account does not stand in isolation. There is typically a goal attached to the account, such as retirement, home purchase, education funding or bequests. It is your job as a financial advisor to help your clients achieve these goals through the financial planning process: financial management, debt management, education planning, retirement planning, estate planning,

[27] Vanguard Research. 2019. “Assessing the Value of Advice.” September 2019: 3. www.vanguard.com/pdf/assessing-value-advice.pdf (accessed May 25, 2020)

risk management and tax planning — all overlaid with human behaviour coaching skills.

The third and final dimension, emotional value, takes into account the subjective or qualitative aspect of the client-advisor relationship. It is a measure of financial well-being or peace of mind. Clients do not have a sense of financial well-being without "trust (in the institution or advisor), the investor's own sense of confidence, the investor's perception of success or accomplishment in financial affairs, and the nature of behaviour coaching such as hand-holding in periods of market volatility."[28]

Another way to examine the value of advice is to understand the reasons why clients leave their financial advisors. This is the approach of EY Global Wealth Management's 2019 report, "How Do You Build Value When Clients Want More Than Wealth?" A 26-country survey of 2,000 wealth management clients revealed that clients "are switching for value — most often at critical life moments and as the complexity of their financial lives evolves."[29] The report identifies five critical areas for organizations and advisors to address:[30]

[28] Vanguard Research. 2019. "Assessing the Value of Advice." September 2019: 7. www.vanguard.com/pdf/assessing-value-advice.pdf (accessed May 25, 2020)

[29] Nanayakkara, Nalika, and Phil Hennessey. 2019. "How Do You Build Value When Clients Want More Than Wealth?" EY Global Wealth Management Research: 5.

[30] Nanayakkara, Nalika, and Phil Hennessey. 2019. "How Do You Build Value When Clients Want More Than Wealth?" EY Global Wealth Management Research: 3.

1. **Know what clients want and when.** Clients switch providers to capture better value. They see the highest overall value for financial advice during major life events and as their wealth and level of investment knowledge increases.
2. **The wealthiest and youngest are most apt to switch.** Overall, one-third of clients plan to move during the next three years. In their search for value, clients form relationships with multiple providers. Independents and FinTechs (financial technology firms) benefit the most.
3. **Solutions are more important than products and services.** Clients want more advice and planning, but many are holding back. Most clients want simple, personalized and connected solutions over individual products and services.
4. **The future is voice.** Client preferences are rapidly evolving towards digital and voice-enabled assistants for managing wealth and receiving financial advice.
5. **Pricing models need to change.** Many clients do not trust that their provider is charging them fairly, and a majority want to pay differently.

Likely the most relevant message in the EY report focuses on an area financial advisors can control to some extent: their clients' financial education. According to EY's research, financial services firms and the financial advisors who work for them are in a unique position to "build trust and demonstrate the value of their services by providing education through thought leadership and financial coaching."[31] The authors maintain that educating your clients on the value of financial advice translates into greater client retention: "Just 20% of clients with 'in-depth knowledge' would consider moving their assets elsewhere in the next three years, compared with 40% of clients with low levels of investment knowledge."[32]

What steps can you take to bring value to your clients?

You have a role to play in your clients' financial education. An important part of this education process is building their financial literacy skills. Let's examine realistic opportunities within your control that you can use to increase your clients' financial knowledge:

- Your client relationship process
- A comprehensive financial planning approach
- Behavioural coaching
- Client educational events
- Embracing technology and digital tools

[31] E Nanayakkara, Nalika, and Phil Hennessey. 2019. "How Do You Build Value When Clients Want More Than Wealth?" EY Global Wealth Management Research: 5.

[32] Nanayakkara, Nalika, and Phil Hennessey. 2019. "How Do You Build Value When Clients Want More Than Wealth?" EY Global Wealth Management Research: 7.

Your client relationship process

Earlier in this section, we included a quote from CIRANO's 2011 report that identified vital tasks you perform for your clients — and it bears repeating. Financial advisors "improve financial literacy, develop a culture of savings and investment, assist the development and execution of a financial plan, select appropriate financial vehicles and products, and improve investment decision-making."[33]

Your ability to perform these important tasks begins with trust and relationship building, and much of this work begins before your prospective client becomes a client. Recall the Client Relationship Cycle in *Practice Development Module 4, Engagement*. The Initiation stage of the cycle is critical to establishing trust and credibility with your client. During this stage, you build rapport with your client, and it is this rapport that lays a solid foundation for an enduring, trusting and fruitful client relationship.

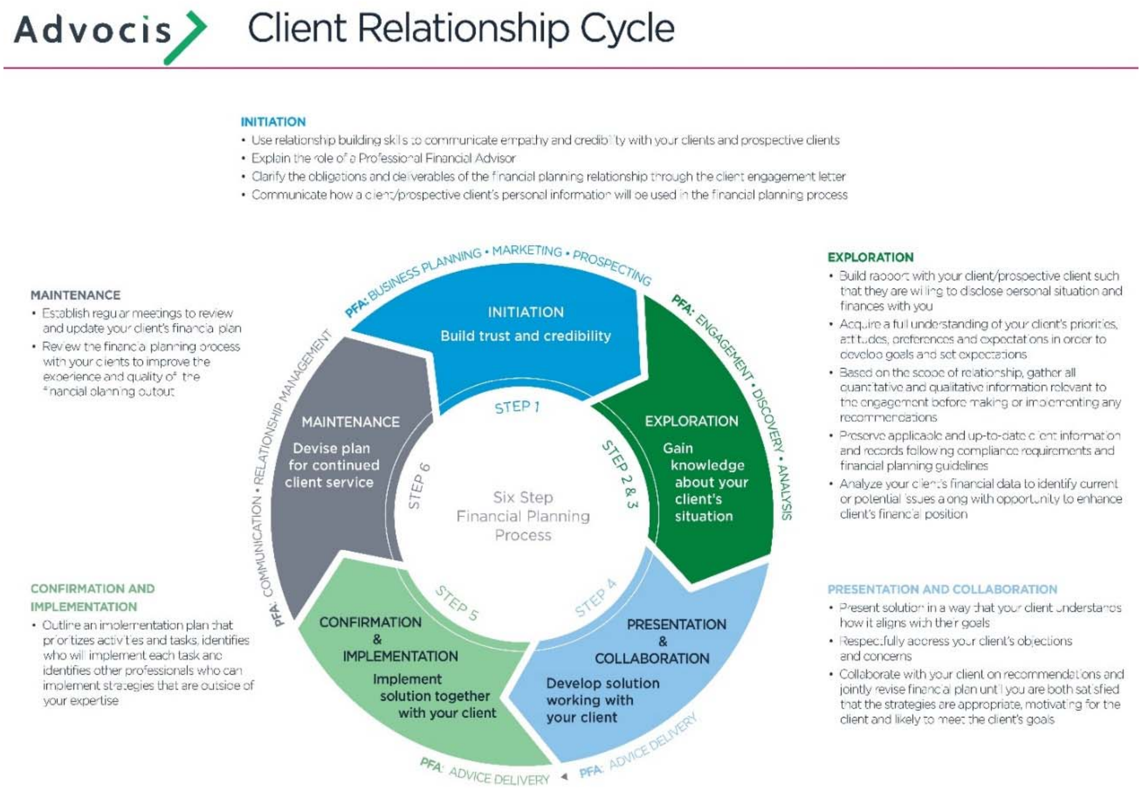
In early meetings with a prospective client, you describe your process for working with clients, the compensation you receive, and how you recommend and deliver agreed on solutions to your clients. Clients learn what information they need to supply for you to prepare a meaningful financial plan. Finally, the Client Engagement Letter you and your client sign serves as a blueprint for the relationship and confirms the scope and details of your engagement. This document clearly delineates roles and responsibilities.

Done well, this first piece of client education goes a long way towards managing your client's expectations.

[33] Montmarquette, Claude. n.d. "An Econometric Analysis of Value of Advice in Canada." CIRANO: 4. cirano.qc.ca/pdf/publication/2012RP-17_Presentation_Value%20of%20Advice.pdf (accessed January 2, 2020)

A comprehensive financial planning approach

Figure 3: Client Relationship Cycle



The financial planning process is one of the best opportunities to engage with clients through discussions of their financial goals, objectives and aspirations, assisting you in building your understanding of who each client is. This process also serves to build your clients' trust in you and the services you provide. The financial planning process can also be a source of stress for many individuals: they have to learn to let go of control over their investments and allow their financial advisor to manage them. The "market" and its future performance is also something none of us can control — client or advisor. Therefore, in a world in which individuals have little control over capital markets, it is prudent to take control of what we can. You have control over the financial planning process — to the extent your clients agree to participate — and you have control over how you treat your clients.

Beginning the client-advisor relationship with a financial plan is essential and one of the best ways to begin to build trust into the relationship. As a financial advisor, you are in a position of privilege as you learn intimate details about your clients' lives, including:

- Their short-term and longer-term financial goals and aspirations
- Their priorities
- Their families
- The businesses they operate
- The interest they have in charities and philanthropic causes
- Their tax situations
- Their concerns for future generations

These topics can be full of emotion for many clients. Working clients through these emotions provides advisors with the opportunity to build trust and deepen their relationships.

Keeping your promises also adds to the trust you build with your clients. Remember, you control the services you provide to your clients. You spend time early in the relationship describing your services in detail. When you take a prospective client through the Client Engagement Letter, you again describe your services and the level of service you will deliver (e.g., your commitment to communications, your financial planning process and the minimum number of meetings in a year). The authors of the Vanguard report agree that working through a Client Engagement Letter at the beginning of your relationship is critical: "Expectations are set regarding the services, strategies, and performance that the client should anticipate from you."[34]

[34] Vanguard Research. 2016. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha®." September 2016: 5.

A comprehensive financial plan is a big undertaking for the financial advisor and can also be an overwhelming experience for the client. Dividing it into smaller steps can help. A modular approach to the financial plan breaks the process down into more manageable sections; however, take care to prioritize certain elements of the financial plan based on your client's situation and needs (the Client Engagement Letter should allow you to do this). Advisors often meet with clients who have booked appointments to discuss a particular area of concern, but through the discovery process you often uncover other areas that are either of greater concern or greater urgency, such as education planning vs. risk management.

Dave Faulkner, author and creator of financial planning software Razor, began his career in 1978 as an insurance salesperson. He has seen a lot of effective sales concepts in his long career and has this to say about them: "Sales concepts have one serious flaw: they fail to consider the client's big picture. Sales concepts use simple assumptions and a limited analysis to highlight changes in one aspect of a client's financial life."[35] Financial planning by definition (see below) is holistic and takes into account your client's big picture. Faulkner sees the financial plan as the main source of value a financial advisor brings to clients: "The value attributed to your financial planning advice is more than the sum of the investment and insurance products you recommend to [your] client."[36]

[35] Faulkner, Dave. 2018. "Planning as a Concept." Razor Logic Systems. October 2018: 7. razorplan.com/wp-content/uploads/2018/11/Razor-PlanningAsAConcept-eBook.pdf (accessed June 12, 2020)

[36] Ibid.

"Financial planning is a disciplined, multi-step process of assessing an individual's current financial and personal circumstances against their future desired state and developing strategies that help meet their personal goals, needs and priorities in a way that aims to optimize the allocation of their resources. Financial planning takes into account the interrelationships among relevant financial planning areas in formulating appropriate strategies [and] is an ongoing process involving regular monitoring of an individual's progress toward meeting their personal goals, needs and priorities, a re-evaluation of financial strategies in place, and recommended revisions where necessary."[36]

When we think of developing a financial plan, we often focus on gathering raw data and analysis of numbers. You worked through the analysis of a client situation in *Practice Development Module 6, Needs Analysis*. You used the formulas and calculations to conduct a thorough analysis of the client situation outlined in the case study. In real life, however, the most efficient way to conduct your analysis is often with the help of a good-quality financial planning software package, which also enables you to add scalability and efficiency to your practice. It is important for you to be comfortable enough with your software to demonstrate your findings and change a plan's criteria and assumptions while your client watches and participates in your office. Take opportunities to learn the intricacies of your software package and get familiar with it by practising using various client scenarios. FP Canada includes guidance for the use of technology in its Standards of Professional Responsibility (July 2021).

As you know, the analysis of your client's situation is only part of the financial plan. In *Practice Development Module 7, Advice Delivery,* you learned how vitally important it is to communicate findings and solutions effectively to enable your client to meet financial goals and objectives. Perhaps you've already been able to practise some of the methods in that module. With practice, these methods will increase the likelihood that your clients will collaborate with you to determine the best solutions for them. They will also help with understanding and adoption as you implement your recommendations together.

Scheduled financial planning reviews with your clients are necessary for a number of reasons. The most important is to follow up on the implementation of a financial plan. This is critical to your clients' ability to achieve their financial goals. Client review meetings also give financial advisors opportunities to demonstrate their value. Additional benefits for advisors and clients include:

- Giving your clients tangible proof of progression towards achieving their goals and objectives
- Validating your role in achieving important client milestones
- Providing opportunities to bring your clients personalized service (financial management, estate planning, retirement planning, education planning, tax planning) that high-tech solutions and robo-advice cannot deliver
- Showcasing your value beyond investment performance

Engaging your clients in the financial planning process with an initial comprehensive financial plan, or a series of modular plans, can bring you closer to them. It facilitates an understanding of their life stage and enhances your ability to anticipate their major life events. If you are connected to your clients through social media, their posts may even contain news that prompts you to check in, showing you are engaged and care about their well-being.

The Client Engagement Letter also includes your client's preference for frequency and mode of communication. While social media and other digital tools make it easier for financial advisors to connect with clients, remember that when markets are volatile or when clients are undergoing a major life change, many clients prefer to engage with advisors one on one in a face-to-face environment (though some prefer to engage virtually). According to the EY report, "One-quarter of clients currently prefer face-to-face interactions or phone calls as their primary method of engagement; even more clients do so for receiving financial advice (42%). High-touch engagement is especially desired during periods of personal change or significant market turmoil, when clients are looking for a trustworthy advisor to soothe nerves."[37]

Behavioural coaching

Understanding how the brain works and makes decisions helps you guide your clients through those times of duress or euphoria. It also assists you in understanding the values, heuristics and emotions related to money that can impair an investor's decision-making abilities. We encourage you to read books that provide you with this knowledge. You may also find it helpful to reread sections of *Financial Planning Module 12, Human Behaviour*.

The actions you take as a financial advisor, combined with effective communications skills, can deepen trust and strengthen relationship building. *Practice Development Module 7, Advice Delivery*, outlines communications strategies you can incorporate into your financial planning process.

[37] Nanayakkara, Nalika and Phil Hennessey. 2019. "How Do You Build Value When Clients Want More Than Wealth?" EY Global Wealth Management Research: 25.

Coaching in action

In *Practice Development Module 6, Analysis*, and *Practice Development Module 7, Advice Delivery*, we walked through a case study where the clients, Lois and Bernadette, appeared to need an RESP. However, when their financial advisor Jacqueline dug further into their situation, it became apparent that many of the clients' financial goals could not be achieved without first addressing some of their financial management issues.

Budgeting and savings are where the conversation needs to begin for many clients, and many financial advisors underestimate the critical importance of an understanding of these basic financial literacy elements. Unfortunately, financial management discussions don't appear to be high on the agenda — for clients or their advisors. However, when these topics are addressed, clients deepen the trust they have in their advisor. According to the EY report, "While tools have emerged to nudge clients to save and increase automatic contributions, many clients struggle to understand how much and when to save. Providing clear and constructive savings advice based on a deeper understanding of income and expenses can be a significant step to improving a client's financial well-being — and can serve as a conversation starter to other financial needs."[38]

Effective questions for the discovery phase

An effective discovery approach with your clients includes a stable of "high gain" questions. As you know from *Practice Development Module 5, Discovery*, the purpose of taking your client through the Discovery phase of the Client Relationship Cycle is more than ticking the boxes of a Know Your Client (KYC) form. Your job is to probe your client's situation so you come away with a good understanding of who your client is, your client's

[38] Nanayakkara, Nalika and Phil Hennessey. 2019. "How Do You Build Value When Clients Want More Than Wealth?" EY Global Wealth Management Research: 15.

current financial situation, and the goals and objectives your client hopes to achieve through the financial planning process. As discussed in *Practice Development Module 5, Discovery*, open-ended questions are some of the most effective questions to ask your clients. These questions are often uncomfortable for the newer financial advisor to ask. They can be even tougher for clients to answer, as they address some of life's most sensitive and uncomfortable subjects (such as death, divorce, job loss, disability and illness) and are often charged with emotion.

Entire books have been written on questioning techniques. The examples of open-ended questions below range from gently probing questions to those that are more challenging. What's important is that these questions give rise to the "courageous conversations" that will provide you with a deeper understanding of your clients and their concerns as you address each financial planning area. Note that your clients' comfort level in responding to tough questions relates directly to the level of trust you have fostered with them.

Fact-finding and goals

- Tell me about your family.
- What family issues could affect your financial planning?
- What is your biggest financial concern?
- What keeps you awake at night?
- What is the biggest financial risk facing you and your family today?
- What are some potential obstacles preventing you from achieving financial success?
- What is it about money that's important to you?
- What would you like your money to do for you?

- When you think about your financial situation, in an ideal world where would you like to be in five years?

Investing

- Tell me about your worst/best investment experience and how you felt about it.
- How do you feel about recent market volatility?
- In your own words, what would you consider to be a wise investment?
- How involved would you like to be in the management of your investments?
- How would you describe your spouse's investment knowledge?
- What are the fees you are paying your current advisor?

Estate planning and insurance

- What does estate planning mean to you?
- Whom would you like to benefit from your estate?
- What do you want to see happen to your investments when you are no longer here?
- How is your family going to be affected by your passing?
- How is your family going to be affected if you are critically injured or suffer a serious illness?
- What obstacles do you see in the settlement of your estate?
- Tell me about your experience in creating your will.
- How did you choose your executor?

Succession planning and insurance

- Tell me about how you have built your business over the years.
- To whom will this legacy flow?

- How would your family negotiate with your business partners for your interest in the business?
- What would you like to see happen with your cottage when you (both) die?
- How will your children handle the ongoing costs related to maintaining the cottage after you die?
- What conflicts could arise between your beneficiaries as a result of having to pay their share of the taxes resulting from the deemed disposition of the cottage?
- Do you have a partnership agreement that includes buy/sell provisions? If so, how is it funded?

Retirement planning

- What does your retirement dream look like?
- What type of lifestyle do you want to have at retirement?
- What do you see yourself doing in retirement?
- How will you know when you are ready to retire?
- Tell me about any concerns or obstacles that challenge your retirement plans.
- How would you feel if you did not reach your retirement goals?
- How would you feel if you had to work an additional 10 years before retiring?

Education planning

- What education/career dreams do you have for your children?
- Why is your children's education important to you?
- How would you feel if you could completely finance your children's education needs?

- What are your aspirations for your children?

These questions are starting points for courageous but necessary conversations with your clients. These two articles (short reads) provide more tips for initiating and participating in these rewarding discussions:

- "Engaging in Courageous Conversations When Selling Financial Security"[39] by Joey Davenport, CLU, CLF40
- "Having Difficult Conversations: A Skill Every Financial Advisor Needs"[41] by Ashley Hunter.[42]

► Please complete **Activity 9.1 – Role Play: Courageous Conversations**. The role plays we include in Activity 9.1 are taken from real life client situations commonly experienced by financial advisors. You may have experienced similar client situations as well. They are uncomfortable for both clients and financial advisors but these situations are opportunities for you to probe deeper, raise issues and provide financial planning leadership.

Describe a courageous conversation you find challenging to initiate with a client or prospective client. Include what you find challenging about it and the potential best outcome for you and your client. Practise the conversation in a role play with a colleague or peer.

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[39] Davenport, Joey. 2008. "Engaging in Courageous Conversations When Selling Financial Security." eZineArticles.com: August 22, 2008.

[40] Joey Davenport is the president and co-founder of Hoopis Performance Network (HPN), which provides world-class learning solutions designed to empower financial professionals to reach their true potential. HPN is recognized by Inc. 500 as one of the fastest growing privately held businesses in the United States. www.hoopis.com

[41] XY Planning Network. 2020. "Having Difficult Conversations: A Skill Every Financial Advisor Needs." February 20, 2020.

[42] Ashley Hunter is the talent development manager for XY Planning Network.

Client educational events

What does your marketing plan include? Do you offer educational seminars for your clients? How much time do you spend helping your clients understand concepts and strategies?

Consider a client education strategy that includes both live and web-based or social media presentations. Live events are wonderful opportunities to interact with clients in a less formal setting. If you also bring to your events expertise on topics of interest or current market conditions, that can add tremendous value for your clients. If you are not an expert in the topic you are featuring at an event, consider inviting one of your COIs with expertise in the subject to present to your clients (and prospective clients).

Web-based video applications such as Webex, Zoom and Microsoft Teams enable you to reach clients who prefer to connect remotely to virtual events instead of travelling to an event. You can easily bring in experts on topics of interest or current market conditions to share their insights at these web-based events. Meanwhile, social media allows you to share news and thought leadership with your clients. You may choose to share recordings of your web-based events. You can also share articles that "amplify" the messages from the event long after it is over.

It is vital that you understand client preferences for interaction when considering an education strategy. Clients want a personalized experience with their financial advisor, and they want it when they want it. Evaluate how you currently interact with your clients, and be open to new technologies. They may suit client needs or desires and generate greater efficiencies in your interactions with clients and prospective clients. In your customer relationship management (CRM) tool, note client preferences for:

- Phone, email, text, social media
- Mobile applications
- Web-based applications (Adobe Connect, FaceTime, Zoom, Webex, etc.)
- Face-to-face interactions

Embracing technology and digital tools

There is tremendous demand across many sectors of the economy to provide high-quality products faster and cheaper, and the financial services industry is not immune. Financial advisors are pressed to provide their clients with optimal portfolio outcomes while maintaining low fees or further reducing them.

FinTech is one of the biggest disrupters the financial services industry has seen in the 21st century. Its growth is fuelled by the need “to help companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones.”[43] The appeal of FinTech is that individuals can use their computer, tablet or smartphone to transact in a number of ways, including “money transfers, depositing a cheque with your smartphone, bypassing a bank branch to apply for credit, raising money for a business start-up, or managing your investments.”[44]

FinTech is now ubiquitous, and it is especially prevalent in the financial services industry where digital online financial solutions and robo-advice have become part of the service most financial institutions offer. Until recently, only tech-savvy investors used robo-advice to manage their

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[43] Investopedia. n.d. www.investopedia.com/terms/f/fintech.asp (accessed April 22, 2020)

[44] Ibid.

money; however, these tools are now common across all demographics, from new savers to retired boomers.[45]

As with all new technology, robo-advice was initially met with some skepticism and fear. A 2015 study of advisory success conducted by Pershing and BNY Mellon in the U.S. found that “nearly 3 out of 4 advisors see digital online financial solution providers as an emerging threat — particularly the lower costs these technologies promise.”[46] However, very few of the advisors who participated in the study believed that computers could ever replace the knowledge, sophistication and personal touch that financial advisors provide. The advisors who were more open to the idea of robo-advice felt that adding artificial intelligence capabilities to a financial advisory practice could have a liberating effect for the financial advisor: “Smarter tools will be able to do more tasks that inevitably will be commoditized over time. This creates a significant opportunity for early adopters to evolve their business models to accentuate the unique value they provide — and let computers handle the rest.”[47]

FinTech generates savings and cost efficiencies for some clients, since most investment options in the robo-advice arena rely on exchange-traded funds (ETFs). FinTech technology automatically splits up the assets in a client’s account into various ETFs based on the client’s recorded risk tolerance and goals. Among the robo-advice service providers *MoneySense*

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[45] Borzykowski, Bryan. 2020. “A Guide to the Best Robo-advisors in Canada for 2020.” *MoneySense.* February 25, 2019. www.moneysense.ca/save/investing/best-robo-advisors-in-canada/ (accessed April 22, 2020)

[46] Pershing and BNY Mellon. 2015. “The Third Annual Study of Advisory Success: Confidence and Concern in the New Digital Age.” 3. www.pershing.com/_global-assets/pdf/third-annual-study-of-advisory-success.pdf (accessed May 26, 2020)

[47] Pershing and BNY Mellon. 2015. “The Third Annual Study of Advisory Success: Confidence and Concern in the New Digital Age.” 4. www.pershing.com/_global-assets/pdf/third-annual-study-of-advisory-success.pdf (accessed May 26, 2020)

analyzed for a 2019 article, fees range from 0.2% to 0.7%, with some providers offering their services for a flat monthly fee.[48]

This doesn't have to be a "financial advisor vs. artificial intelligence" battle. It can be regarded as a joining of forces. In fact, recent research from Accenture Consulting indicates that hybrid models (financial advisors and digital capabilities/tools) offer the best of both worlds: "the low cost and access of robo-platforms with an advisor's expertise in handling more nuanced or complex investing scenarios."[49]

Technology can help financial advisors expand their reach into segments with a preference for digital advice while improving the efficiency of their practices. Algorithms do not replace a human advisor's ability to coach a client through market turmoil or euphoria, and they cannot work through a client's significant life changes, such as divorce, death and loss of employment. This is where you can add value for your clients when you build a trusted client relationship based on a deep and holistic understanding of the client's goals, situation and needs.

The efficiency of robo-advice is clearly appealing. However, the Accenture Consulting research also revealed that "more than half (51%) [of the investors surveyed] favourably rated a suite of technology and mobile/online services with access to a dedicated advisor to help with decision-making. Investors particularly show a need for advisors when they are seeking the uniquely human qualities of help and reassurance."[50]

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[48] Borzykowski, Bryan. 2020. "A Guide to the Best Robo-advisors in Canada for 2020." *MoneySense.* February 25, 2019. www.moneysense.ca/save/investing/best-robo-advisors-in-canada/ (accessed April 22, 2020)

[49] Accenture Consulting. 2017. "The New Face of Wealth Management: In the Era of Hybrid Advice." 2.

[50] Accenture Consulting. 2017. "The New Face of Wealth Management: In the Era of Hybrid Advice." 6.

What can you do to adopt technology or increase your usage?

The authors of the Pershing and BNY Mellon study of advisory success cited earlier outline six steps for success in the digital future:[51]

1. **Start small, then advance.** Sort through the technology tools available and implement just one that will eliminate a repetitive or low-value-added task from your day. Then, one by one, try adopting increasingly sophisticated tools.
2. **Automate high-touch practices.** Use digital tools to send targeted information to clients (e.g., interesting articles or newsletters), preserving the special touch while spending seconds, not minutes, reaching out.
3. **Cultivate a digital client group.** Examine whether you can increase scale by combining digital advice tools with select high-value services that would appeal to self-directed and younger investors.
4. **Be a tech gateway for clients.** If clients seek out new technologies themselves, you may lose them. Better to be a herald and guide, reinforcing your expertise by helping them adopt useful tools.
5. **Articulate your value.** Take time to educate clients about the work you do on their behalf, as well as the distinct value you provide for your fees compared with what digital services deliver.
6. **Proactively shift the focus of your practice.** If you have an appetite for tech-enabled growth, invest your time and money in the latest capabilities. If not, shift your focus towards financial planning or serving wealthy or hands-off investors.

[51] Pershing and BNY Mellon. 2015. "The Third Annual Study of Advisory Success: Confidence and Concern in the New Digital Age." 15. www.pershing.com/_global-assets/pdf/third-annual-study-of-advisory-success.pdf (accessed May 26, 2020)

Communicating your unique value

"The call of the wild: Each one of the world's 10,000 bird species has its own unique set of calls, so that every member of a flock can hear and understand its messages. In the same way, a unique value proposition instantly communicates what makes you different from your competition".[52]

Practice Development Module 2, Marketing, provided you with the information you need to write a personal value statement. Since you first wrote the value proposition tailored to your target client market, you've likely had opportunities to incorporate it into your marketing strategy, online presence, client communications, interactions and communications with your COI network, and client process. You've likely noticed the need for slight modifications, depending on the medium and the context. Now, let's examine the process of reviewing and revising your value proposition, with advice from another study by Pershing and BNY Mellon that reviewed the value statements from Barron's Top 100 Advisors.[53]

How unique or effective is your value statement?

Most advisors struggle to write a truly unique value proposition; many find self-promotion difficult. Your value proposition is a statement that clearly and succinctly describes the services you offer in a compelling fashion. It needs to resonate with both clients and prospective clients. Most of all, it must answer the question, "Why should a client choose me?" Developing the right value proposition is worthwhile because it connects who you are with your target client market.

[52] Pershing and BNY Mellon. 2014. "What Do Top Advisors Say and What Do Top Advisors Really Think? A Study of Advisor Value Propositions." www.pershing.com/_global-assets/pdf/pershing_a-study-of-advisor-value-propositions.pdf (accessed May 24, 2020)
[53] Pershing and BNY Mellon. 2014. "What Do Top Advisors Say and What Do Top Advisors Really Think? A Study of Advisor Value Propositions." www.pershing.com/_global-assets/pdf/pershing_a-study-of-advisor-value-propositions.pdf (accessed May 24, 2020)

According to the Pershing and BNY Mellon study, a unique value proposition helps you:

- Increase the professionalism of your communications
- Clearly differentiate yourself from your competitors
- Connect your solutions to your clients' (and prospects') most important needs
- Make your message clearer and more likely to "sink in" because it is consistent and repeatable
- Focus your communications on the single most compelling reason to select you (your firm)

Pershing and BNY Mellon studied the value propositions of 84 financial advisors on Barron's Top 100 Independent Wealth Advisors List and found there were many common and overused phrases. Here are some of the ones that appeared most often:

- Develop a solution that meets your needs
- Deliver investment management programs
- Provide comprehensive financial planning
- Assure your estate planning needs are met
- Tailor each investment plan to individual needs
- Act in the best interests of clients
- Provide a well-grounded investment approach
- Help clients reach their financial goals
- Customize our advice to you

► Please complete **Activity 9.2 – Review your Value Proposition**. In this activity, we ask you to review all versions of your value proposition. You may have several variations of your value statement, depending on where and how you are using it. How often do you use the phrases listed above in your value proposition?

This exercise will help you understand just how well your value proposition stands out against your competitors. If you find many of the same phrases, your value proposition is not doing what it should for you.

Now that you've reviewed your value proposition, how do you write a new one or revise your existing statement to ensure it attracts your target client market(s) and communicates your desired message? We've compiled the following tips for you as you revisit your value statements, based on the Pershing and BNY Mellon study:

- Your value proposition should include the following three basic promises, as they have proven to resonate with investors. Although these promises are common among advisor value propositions, you still need to consider integrating them into your message to ensure your value proposition resonates:
  - Tailored solutions that meet your needs.
  - Work in your best interests.
  - Experienced investment managers.
- A message containing promises to simplify your client's life appeals to a limited market: the young and very high net worth clients. If one of these demographics is your target market, then go ahead and use language describing simplicity; however, if it is not, then your message may be lost or ineffective.
- If your investment philosophy is conservative and focuses on preservation of capital, then you should include this in your value

proposition. The Pershing and BNY Mellon study reveals that very few value propositions contain statements suggesting caution and prudence, such as:

- o We focus on capital preservation and income.
- o We take a conservative approach to help you live comfortably today and protect your legacy for the future.

- Investors place a very high importance on the values of trust, integrity and accountability. However, it’s not as simple as saying, “Trust me to handle all your financial needs.” You must demonstrate trust, integrity and accountability in your everyday dealings with clients and prospective clients. You may be able to include this messaging on your website through testimonials from satisfied clients.
- Consider using the following recipe when formulating your value proposition. All value propositions that ranked highest in the Pershing BNY Mellon study contained each of the following ingredients:
  - o **Attributes.** Characteristics of the advisor, such as a firm’s size or years of experience.
  - o **Benefits.** What the investor gains from working with the advisor.
  - o **Reason.** A rational explanation of how the firm’s (or financial advisor’s) attributes produce benefits for the client.
  - o **Emotion.** Language that evokes a feeling.
- Review your target client market. Does your value proposition appeal to what you know are the needs and concerns of your target client market?
- Watch your language. Avoid industry jargon and use plain language and an emotional appeal in your message. Where possible, link emotional and rational appeals. Pershing and BNY Mellon found that some words resonate more with investors than others, including:

- o **Comprehensive** over holistic (88% to 12%)
- o **Comprehensive** over expansive (85% to 15%)
- o **Unwavering** over committed (84% to 16%)
- o **Passionate** over dedicated (81% to 19%)
- o **Comprehensive approach** over 360-degree view (80% to 20%)

► Please complete **Activity 9.3 – Writing your Value Proposition**. In this activity, you will again go back to your value proposition. Does your value proposition reflect these tips? Using the information in this section of the module, rewrite your value proposition. Try to use the "recipe" in the fifth bullet point above. Ensure that your value proposition incorporates statements about your integrity, expertise and understanding of clients' needs.

Summary

This section explored the concept of the value of advice and highlighted research that shows how financial advisors provide value to their clients beyond investment-based alpha. The consensus is that you add significant value over and above the performance of your clients' investments.

We also looked at steps you can take to bring additional value to your client relationships — for example, by examining your client relationship process, adopting a financial planning approach, engaging in behavioural coaching, planning and hosting client educational events, and embracing technology and digital tools.

Finally, we reviewed the importance of communicating your value by defining and refining an effective value proposition. We included best practices for crafting a value proposition that resonates with your target client market.

Section 2: Communicating Your Value

Learning objectives

In the last section, we explored the concept of the value of advice and looked at steps you can take to bring additional value to your client relationships. This section guides you through recent research and best practices to help you refine and evolve your value proposition.

After completing this section and the practice development activity, you will be able to:

- **Evaluate your current client communications practices** to understand any gaps in channels, types and frequency of communications
- **Develop a communications strategy** for your financial advisory practice

Activity 9.2 and Activity 9.3 in the previous section focused on refining your value proposition. Arguably, developing your value proposition is one of the most important activities you have completed within the PFA designation program. Rewriting or creating a new value proposition is challenging but necessary to ensure your value proposition remains effective and relevant, resonates with your target client market, and is authentic to you. Recall from the previous section that it also helps you:

- Increase the professionalism of your communications
- Clearly differentiate yourself from your competitors
- Connect your solutions to the priorities that resonate with your targeted clients and prospective clients

- Make your message clearer and more likely to “sink in” because it is consistent and repeatable
- Focus your communications on the single most compelling reason to select you (your firm)[54]

The following quotation explains why we focus so intensely on your value proposition in the PFA designation program:

“By taking the time to consider what they want their personal brands to be, advisors may gain greater insight into the ideal client profiles with whom they would most prefer to work. With this deeper level of self-reflection, advisors will be better poised to shape their value proposition to appeal to their ideal clients. In addition, their clarified value will help existing clients make more successful referrals.”[54]

This important message is an ever-present theme in research on financial advisor value and communications and is at the heart of the PFA designation. This section begins by taking another look at the value proposition and then examining how you communicate your value to clients. We will delve into current media channels (email, phone, in-person, social media, text messaging) and communication distribution (one-to-many vs. one-to-one or personal), as well as the frequency with which you communicate.

In this final section, we take a different approach than in previous Practice Development modules. In place of transmitting knowledge to you, you are going to read the research and, with guided support, explore the work of experts in the field of advisor communication.

[54] Pershing and BNY Mellon. 2014. “The Second Annual Study of Advisory Success: A New Age of Client Communications and Client Expectations.” 9. www.pershing.com/perspectives/the-second-annual-study-of-advisory-success (accessed May 29, 2020)

We have curated a series of recent articles and a podcast that discuss:

- The importance of a communication strategy
- The channels, types and frequency of advisor communications
- Client preferences for receiving communications
- The importance of clear, meaningful communications in client-advisor relationships

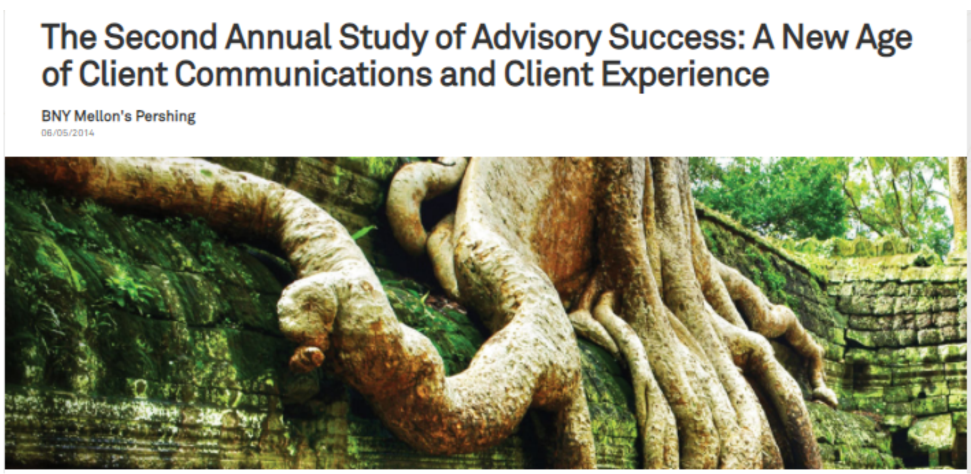
Here is the required reading and listening for this section.

Reading 1

"The Second Annual Study of Advisory Success: A New Age of Client Communications and Client Expectations"

www.pershing.com/perspectives/the-second-annual-study-of-advisory-success

Pershing BNY Mellon is a business-to-business provider that offers global financial solutions to advisors, broker-dealers, family offices, hedge and fund managers, registered investment advisor firms and wealth managers.



This article describes the results of two surveys conducted a few months apart. The first, in December 2013, targeted financial advisors and focused on their practices, career satisfaction and challenges. In addition, questions asked about their brand, client communications and use of social media and technology. The second survey, in April 2014, targeted investors (clients) and focused on their financial advisors' brand and value proposition, the frequency and reason for communication, clients' preferences for communication channels, and their financial advisors' online presence. The results provide a unique opportunity to examine different perspectives on similar issues.

After reviewing and analyzing the results of the two studies, the authors conclude financial advisors should pay attention to three opportunities:

1. Value propositions: 83% of advisors say they have a defined value proposition. However, when asked if their clients can articulate what differentiates them from other advisors, only 26% of advisors strongly agree.
2. Communication choices: 58% of advisors reach out when markets go down, as do 68% of advisors when a client's personal investments drop in value. Yet, few spread positive news.
3. Online presence: 76% of advisors have no individual website, which means they are neglecting what is likely the most sought-out and effective platform for building a personal brand. Moreover, fewer than half (48%) of advisors have searched their name online in the past year.[55]

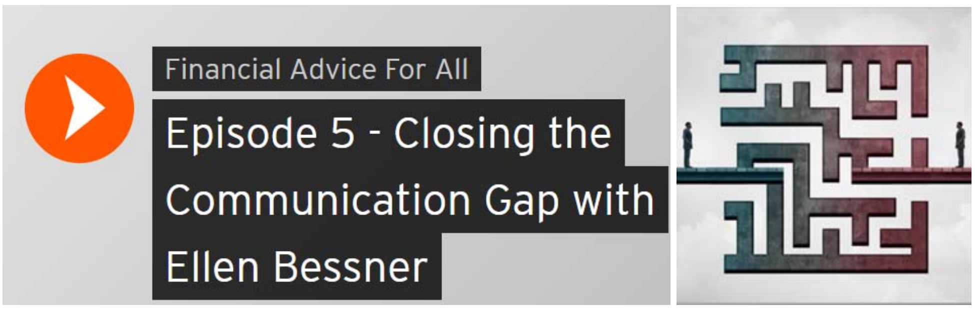
[55] Pershing and BNY Mellon. 2014. "The Second Annual Study of Advisory Success: A New Age of Client Communications and Client Expectations." 18. www.pershing.com/perspectives/the-second-annual-study-of-advisory-success (accessed June 8, 2020)

Reading 2

"Closing the Communication Gap with Ellen Bessner" (shared with permission)

https://soundcloud.com/financialadviceforall/episode5

Ellen Bessner is a litigator and regulatory defence lawyer. She is the author of two books, the best-selling *Advisor at Risk* and its sequel, *Communication Risk*, available at BabinBessnerSpry.com.



In this podcast, the fifth episode of the "Financial Advice for All" series, Ellen Bessner talks about how clients and financial advisors can work to close the communication gap. She explains why it is important for clients to open up to their advisors about their personal experiences, spending habits and goals to get the best financial advice. While the podcast focuses on what consumers can do, there are important underlying messages for financial advisors about how they can help clients feel more comfortable about opening up about their private lives.

Reading 3

"How Can Advisors Better Communicate with Clients?"

YCharts, founded in 2009, is a financial software company that provides fundamental research tools including stock charts, stock ratings, and economic indicators for investors.

go.ycharts.com/hubfs/YCharts_Client_Communications_Survey.pdf?_hsenc=p2ANqtz-8oH5jJ7Cl6XmqzVMglytiAZNcjmiRTQA7pQBIqIkdx40cOFVX1vkbQteqZVzIMx0jzH-o9EArY8cDpIe6gXqEBmYdUag&_hsmi=80862466t

One of the many important points Ellen Bessner makes in her podcast is that financial advisors need to truly understand what their clients want. A study YCharts conducted in 2019 surveyed 650 American investors and found that clients expect their financial advisors to have "a deep understanding of me and my goals." YCharts concludes, "By acknowledging client goals, building a plan that addresses them, and communicating in a way that demonstrates your understanding, advisors can maximize the value they add to clients' lives, and do so with a premier level of service."[56]

When asked about the state of client-advisor communications, respondents told the authors of the YCharts study:

- Clients do not feel engaged
- Clients want personalized communications
- Clients' confidence and likelihood to retain or refer advisors is directly affected by the advisor's communications strategy[57]

So, what can you do to improve the situation in your financial advisory practice? The final section of the article describes the actionable steps you can take to enhance your communications strategy:

1. Commit to a cadence (the rhythm of your communications)
2. Create new touch points and opportunities
3. Serve some clients champagne and others sparkling water
4. Focus on understanding your clients and their goals[58]

The article goes into greater depth on these steps that you will find beneficial to developing your communications strategy.

[56] YCharts. 2019. "How Can Advisors Better Communicate with Clients?" December 2019: 7. go.ycharts.com/hubfs/YCharts_Client_Communications_Survey.pdf?_hsenc=p2ANqtz-8oH5jJ7Cl6XmqzVMglytiAZNcjmiRTQA7pQBIqIkdx40cOFVX1vkbQteqZVzIMx0jzH-o9EArY8cDpIe6gXqEBmYdUag&_hsmi=80862466t (accessed June 8, 2020)

[57] YCharts. 2019. "How Can Advisors Better Communicate with Clients?" December 2019: 8. go.ycharts.com/hubfs/YCharts_Client_Communications_Survey.pdf?_hsenc=p2ANqtz-8oH5jJ7Cl6XmqzVMglytiAZNcjmiRTQA7pQBIqIkdx40cOFVX1vkbQteqZVzIMx0jzH-o9EArY8cDpIe6gXqEBmYdUag&_hsmi=80862466t (accessed June 8, 2020)

[58] Ibid.

Reading 4

"Best Practices in Client Communication for Financial Advisors"

www.kitces.com/blog/best-practices-in-client-communication-for-financial-advisors/

Michael Kitces is the author of an educational newsletter for financial planners called "The Kitces Report" and the blog "Nerd's Eye View." He holds the following degrees and certifications: MSFS, MTAX, CFP®, CLU, ChFC, RHU, REBC and CASL.

Best Practices In Client Communication For Financial Advisors

In this blog post, Michael Kitces discusses the findings of a 2014 Australian study conducted by the Beddoes Institute, the Association of Financial Advisors and Zurich Financial. It focused on the preferences of clients when it comes to communicating with their advisors. The article examines different types of communication, including channel, type and frequency of communication, and the challenges advisors have in meeting the communications expectations of different client generations.

The article has three key messages for financial advisors:

1. More is better. Client satisfaction increases with a greater number of communication channels (email, social media, telephone, face-to-face meetings, virtual meetings, etc.). The study found the "sweet spot" for the optimal number of channels an advisor can use is five.
2. While the number of communication channels is important, it is critical that financial advisors get the communication channel right. When choosing communication channels, give consideration to finding the right mix of formal review meetings, catch-up email exchanges and one-to-many communications (e.g., your blog or website).

3. A communications strategy should also consider each client's preference for channel, type and frequency of communications.

In summary, the authors say, "The benefits of delivering in these three areas are clear: advisers who communicate using their clients' favored channels achieve higher client satisfaction, have stronger client relationships and have clients that are more likely to recommend their practice.[59]

Reading 5

"Crafting a Communications Matrix to Refine Client Investment Communications for Stronger Relationships"

https://www.kitces.com/blog/client-communication-matrix-report-personalization-ycharts-sean-brown-frequency-style-channel/

Guest blog author Sean Brown is the CEO and president of YCharts, an investment research platform that enables smarter investments and better client communications, and focuses on helping advisors deliver more value to their own clients. This blog post is a companion piece for Activity 9.4.

Strong communications skills and a communications strategy are critical tools for establishing and strengthening relationships with your clients. This blog post provides you with background on the study described in the YCharts report "How Can Advisors Better Communicate with Clients?"[60] It

[59] Association of Financial Advisors, Beddoes Institute and Zurich Financial. 2013. "Connecting with Clients: Solving the Communications Matrix for Financial Advice Practices." October 2013. www.beddoesinstitute.com.au/publications/connecting-with-clients-solving-the-communication-matrix-for-financial-advice-practices-2014-the-afa-zurich-and-the-beddoes-institute-along-with-online-simulator-simulator-con/ (accessed June 9, 2020)

[60] YCharts. 2019. "How Can Advisors Better Communicate with Clients?" December 2019. go.ycharts.com/hubfs/YCharts_Client_Communications_Survey.pdf?_hsenc=p2ANqtz-

also outlines steps to build a communications matrix that helps you identify communications gaps and make key decisions about your communications strategy.[61]

► Please complete **Activity 9.4 - Advisor-Client Communications Framework**. This activity provides you with a communications matrix (adapted from YCharts) that you can use to analyze your current communications practices. When you've completed it, it will become clear whether you have been relying too heavily on certain types and channels for your communications. With your new understanding of the gaps (if any) in your communications strategy, you can begin to develop your plans for effective future client touchpoints.

As you work through your communications strategy, keep in mind Pershing BNY Mellon's six tips for communications success:[62]

- **See yourself the way your clients do,** particularly online. This means taking the time to discover your own online presence through searches, and then refining that presence to be more effective.

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[61] Kitces, Michael. 2020. "Crafting a Communications Matrix to Refine Client Investment Communications for Stronger Relationships." March 30, 2020. www.kitces.com/blog/client-communication-matrix-report-personalization-ycharts-sean-brown-frequency-style-channel/?utm_source=rss&utm_medium=rss&utm_campaign=client-communication-matrix-report-personalization-ycharts-sean-brown-frequency-style-channel&utm_source=Nerd%E2%80%99s+Eye+View+%7C+Kitces.com&utm_campaign=2d692bad12-NEV_MAILCHIMP_LIST&utm_medium=email&utm_term=0_4c81298299-2d692bad12-57372381 (accessed June 8, 2020)

[62] Pershing and BNY Mellon. 2014. "The Second Annual Study of Advisory Success: A New Age of Client Communications and Client Expectations." 17. https://www.pershing.com/perspectives/the-second-annual-study-of-advisory-success (accessed June 8, 2020)

- **Reach out with the good news too.** When you communicate with clients for a range of reasons, your outreach in times of declining markets or other negative news will seem less reactionary and forced. Relationships require tending and regular contact.
- **Capitalize on social media.** A number of zero-cost or low-cost platforms can provide you with efficient tools for listening (research and market commentary), distribution, and engagement (interactions with clients). If you haven't started investigating these tools, this is the year to get going.
- **Don't kill yourself by trying to create original content.** Part of your professionalism is your ability to discern whether information has value. Curate content smartly and enjoy benefits that are similar to those you might acquire by writing things yourself.
- **Don't overextend.** Make sure you can reasonably maintain any social properties you create. A few dynamic connections to clients are better than multiple stale properties.
- **Figure out how your clients prefer to be engaged** and communicate accordingly. Have you asked them yet? Now is the time.

Summary

In this module, you explored client preferences for new and not-so-new modes of communication, examined your own communications practices, and reviewed research on channels, types and frequency of client communications. Most importantly, you now possess the tools to develop a communications strategy for your financial advisory practice that effectively communicates your value to your clients.

Congratulations! You have now completed all the modules of the PFA designation program. We hope it has been a rewarding journey. We encourage you to revisit sections of the Client Relationship Cycle and refine your value proposition and communications strategy as your advisory business continues to evolve. The concepts you've learned will serve you over the course of your career in financial advice. Learning is a constant in this profession, and we hope that an open mind, curiosity and dedication to serving your clients will lead to a long, successful and rewarding career.