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The value of advice

What clients think, what advisers think, and how you can "mind the gap"

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Disconnected Expectations

Advisers can provide value to clients in many ways, from goal setting to tax planning to behavioural coaching. But how do clients perceive the value of these services?

Our research suggests that there's a difference between what clients value from their advisers and what advisers believe clients value. That disconnect can create problems on both sides of the relationship. For advisers, it's hard to build a long-term relationship if clients don't understand the value of the advice they're getting. And it can be frustrating for clients if it seems that their adviser isn't meeting their expectations.

While our results show that expectations around advice aren't always aligned, this gap can be overcome by understanding where the differences are and where the value lies in client/adviser relationships.

Measuring the Value of Advice

The industry consensus on why financial advice is valuable is different than it used to be. While an adviser's worth used to be simply based on the adviser's ability to beat a benchmark, it's now understood that an adviser's value is far better measured by the impact that their services can have on clients' financial outcomes. New metrics and research findings show that the interpersonal aspect of advice may have more impact on a person's finances than anything else. This outlook favours services like behavioural coaching—helping clients mitigate their biases and stay the course—and personalised advice versus traditional selling points like maximising returns and asset allocation. Gamma[1], a metric introduced by Morningstar's David Blanchett and Paul Kaplan, measures the additional expected retirement income achieved through wise financial-planning decisions, and many of these decisions are made with an adviser's assistance.

Morningstar's Gamma research demonstrates that making sound financial planning decisions in five areas—asset allocation, withdrawal strategy, guaranteed income products, tax-efficient allocation, and portfolio optimisation—can generate 29% more income on average for a retiree. Vanguard's Adviser's Alpha[2] is similar. It measures the value added, in basis points, by seven best practices in wealth management: asset allocation, cost-effective implementation, rebalancing, behavioural coaching, asset location, spending strategy, and total-return investing versus income investing. This research suggests that behavioural coaching is the single most impactful thing an adviser can do, adding, on average, 150 basis points. Emotions can be our own worst enemy, especially when the markets are volatile, and guidance from a behavioural coach can save us from panic selling and abandoning long-term financial plans.

Additional Morningstar research[3] found that offering clients personalised advice and using a combination of interventions—like increasing someone's contribution rate to 6% and retirement age to 67—can help 71.2% of households avoid extreme austerity and still have what they need when they retire. These findings aren't outliers: Numerous studies demonstrate that advisers can have a huge impact on client finances, but it's hard to say if these findings have been recognised and understood.

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[1] Blanchett, David, and Kaplan, Paul. "Alpha, Beta, and Now…Gamma." The Journal of Retirement 1, no. 2 (Oct. 31, 2013): 29–45.

[2] Kinniry, Francis M., Jaconetti, Colleen M., DiJoseph, Michael A., and Zilbering, Yan. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha." The Vanguard Group, 2014.

[3] Wendel, Steve. "Easing the Retirement Crisis." Morningstar, 2018.

Defining Adviser Value

Our study examined client perspectives on the value of working with a financial adviser and how that compared with what advisers thought clients value about working with financial advisers. In our survey, 693 clients ranked a set of common attributes (see Exhibit 1) in order of importance. We also surveyed advisers about these attributes; 161 responded, ranking the attributes in the order they thought clients found most valuable.

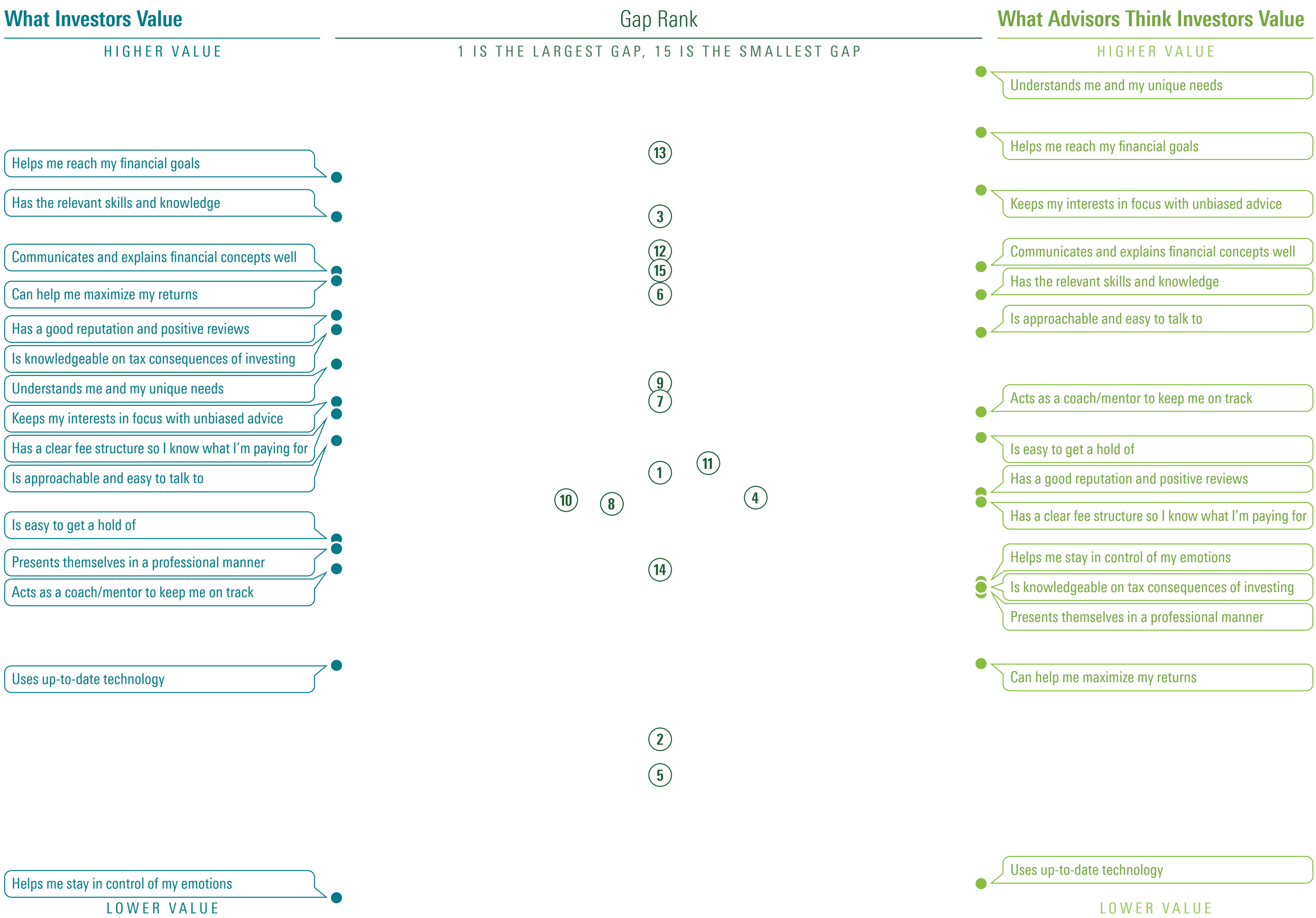
Exhibit 1: List of attributes

- Helps me stay in control of my emotions
- Has a good reputation and positive reviews
- Is knowledgeable on tax consequences of investing
- Can help me maximise my returns
- Is approachable and easy to talk to
- Helps me reach my financial goals
- Is easy to get a hold of
- Has a clear fee structure so I know what I'm paying for
- Understands me and my unique needs
- Uses up-to-date technology
- Acts as a coach/mentor to keep me on track
- Presents themselves in a professional manner
- Keeps my interests in focus with unbiased advice
- Communicates and explains financial concepts well
- Has the relevant skills and knowledge

Room for Improvement

After comparing the average ranking of each attribute between advisers and clients, we found some agreement between both groups on what attributes are important and valuable, but not strong agreement. The correlation[4] between both groups' average lists is about 0.46—meaning there is a moderate relationship between the two lists. There are interesting disagreements on what's considered valuable, and this suggests that there are opportunities for advisers to better address clients' needs and educate clients on the real value of advice.

Exhibit 2: The impact of the master list



Largest Gaps Between Investors and Advisors	
1	Can help me maximize my returns
2	Helps me stay in control of my emotions
3	Understands me and my unique needs

Smallest Gaps Between Investors and Advisors	
15	Communicates and explains financial concepts well
14	Presents themselves in a professional manner
13	Helps me reach my financial goals

Source: Morningstar

[4] We calculated the Spearman rank-order correlation coefficient for this analysis.

How Did the Goals Change?

Advisers and clients both place "Helps me reach my financial goals" in their top three most valuable attributes, but the other top attributes display different priorities. Clients valued the technical side of financial advice more than other benefits of advice—especially in the behavioural realm. "Helps me stay in control of my emotions," for example, is ranked last by clients even though research suggests that cognitive biases and other behavioural obstacles often inhibit clients from making sound financial decisions, especially when their emotions are running high.[5]

Behavioural coaching is one solution for common behavioural mistakes (such as panic selling in a market downturn) but it was all but ignored by the clients who took our survey. Given the numerous research findings suggesting that behavioural coaching is the single most impactful service an adviser can offer, there's obviously an opportunity for communication and education here.

Advisers Emphasise Personalisation

Clients in our survey said maximising returns was a key part of the value of advice, while advisers said they thought clients valued personalisation and portfolios tailored to their unique needs. Advisers' emphasis on personalisation lines up with research that advocates for new approaches to investing, such as goals-based investing, which can result in 15% more client wealth.[6]

Even though personalisation or behavioural coaching may result in more overall wealth, our research suggests that clients do not see their value. This shouldn't surprise anyone.

For years, professional financial advice was promoted as a way to beat the market, and while financial and investing professionals might understand that this isn't the case, changing the "returns first" perception won't happen overnight.

Communicating True Value

It's not enough for financial professionals to understand the value of advice beyond investment selection—clients must understand it as well. And advisers have a prime opportunity to educate their clients, show them the value of a broader, goals-based approach to investing, and build long-term trust that doesn't fall apart when the market swings.

Here's an example of how that could work: A client is three years away from retirement and on track to meet her goals, but she's still focused on maximising returns. A goals-based approach can help the adviser explain the trade-off inherent in maximising returns, specifically the possibility of added risk that could prevent her from reaching her financial goals. With proper communication, the adviser can help that client understand why a goals-based approach that reallocates her funds to low-risk investments is the better option in her specific situation, since it can increase her chances of success.

We tested variations on the wording of this attribute and got similar results, which suggests that the idea, not the wording, was what didn't resonate with individual clients.

What This Means for the Industry

It's easy to look at our results and think that clients are just behind the times, but in many ways their responses show that clients have internalised the industry's past tendency to over-emphasise returns and benchmark relative performance. Research shows that the interpersonal side of advice, which includes personalisation and behavioural coaching, can be the most valuable aspect of professional advice, and the industry needs to better articulate that. Returns aren't the end-all, be-all—modern advice is more coaching than stock-picking, and the short-term returns are only part of the picture.

Changing client perceptions won't be easy, but it's a challenge worth taking, both for client success and the success of professional advisers.

[5] We tested variations on the wording of this attribute and got similar results, which suggests that the idea, not the wording, was what didn't resonate with individual investors.

[6] Blanchett, David. "The Value of Goals-Based Financial Planning." Journal of Financial Planning 28, no. 6 (2015).

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About the Authors

About Samantha Lamas

Samantha Lamas is an associate behavioural researcher at Morningstar. She focuses on developing content and conducting research to better understand who investors are and how we can help them reach their financial goals.

She began her career at Morningstar as a product consultant working directly with the individual investor and advisor audience segments. Samantha holds a bachelor's degree in business with a concentration in finance from Dominican University.

About Ryan O. Murphy, Ph.D.

Ryan O. Murphy, Ph.D., is head of decision sciences for Morningstar Investment Management and part of the behavioural insights team. Murphy's research is interdisciplinary, bringing together methods from experimental economics, cognitive psychology, and mathematical modelling to understand how people make decisions and develop ways to improve decision-making.

Before joining Morningstar in 2016, he was the chair of decision theory and behavioural game theory at the Federal Institute of Technology in Zurich, Switzerland, and a visiting professor in the University of Zurich economics department. Previously, he served as associate director of the Center for the Decision Sciences at Columbia University in New York. Murphy has written extensively about human decision-making and has been published in Management Science; Experimental Economics; Decision; Judgment and Decision Making; Personality and Social Psychology Review; and the Journal of Behavioural and Experimental Finance. He's taught university courses in decision theory, behavioural economics, negotiation analysis, experimental game theory, and statistics.

About Ray Sin, Ph.D.

Ray Sin is a behavioural scientist at Morningstar. His research draws from psychology, economics, and sociology to better understand investor behaviour. His goal is to leverage data, guided by social science theories, to generate and experimentally test interventions that help improve investors' success by avoiding common behavioural obstacles. To that end, he has developed subject-matter expertise in two areas: (a) sustainability, aiming to learn how investors think about environmental, social, and governance factors when they invest; and (b) the relationship between financial and non-financial goals, understanding if the pursuit of non-financial goals may lead to positive financial outcomes. Recently, he, together with others, completed an experiment with a nationally representative sample on fee sensitivity and perception of fees.

Ray holds a bachelor's degree in sociology from National University of Singapore, and received his Ph.D., also in sociology, from the University of Illinois at Chicago.