

# Challenges Advisors Face with Clients and with their Business



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Senior Marketing Optimization Manager  
June 25, 2019

Join webinar: <https://morningstar.zoom.us/j/595231035>

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# Agenda

- **What advisors are trying to achieve – and the challenges to those goals**
- Behavioral biases and tools for communicating value to clients
- Behavioral biases and tools for more effectively delivering value to clients
- Key takeaways and discussion

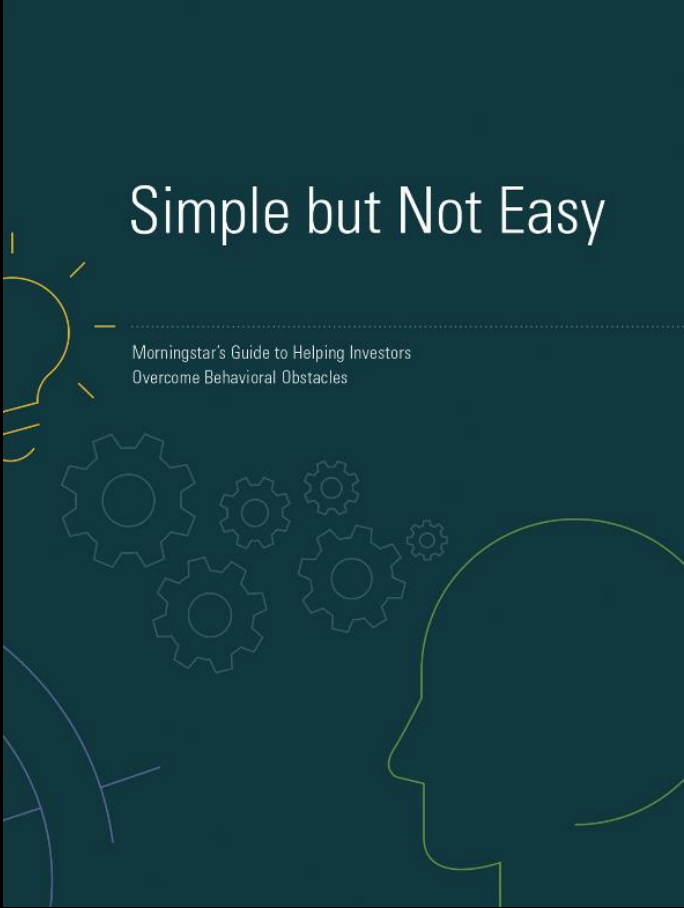
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**Building a better understanding of your practice-management challenges, to provide tools to help.**



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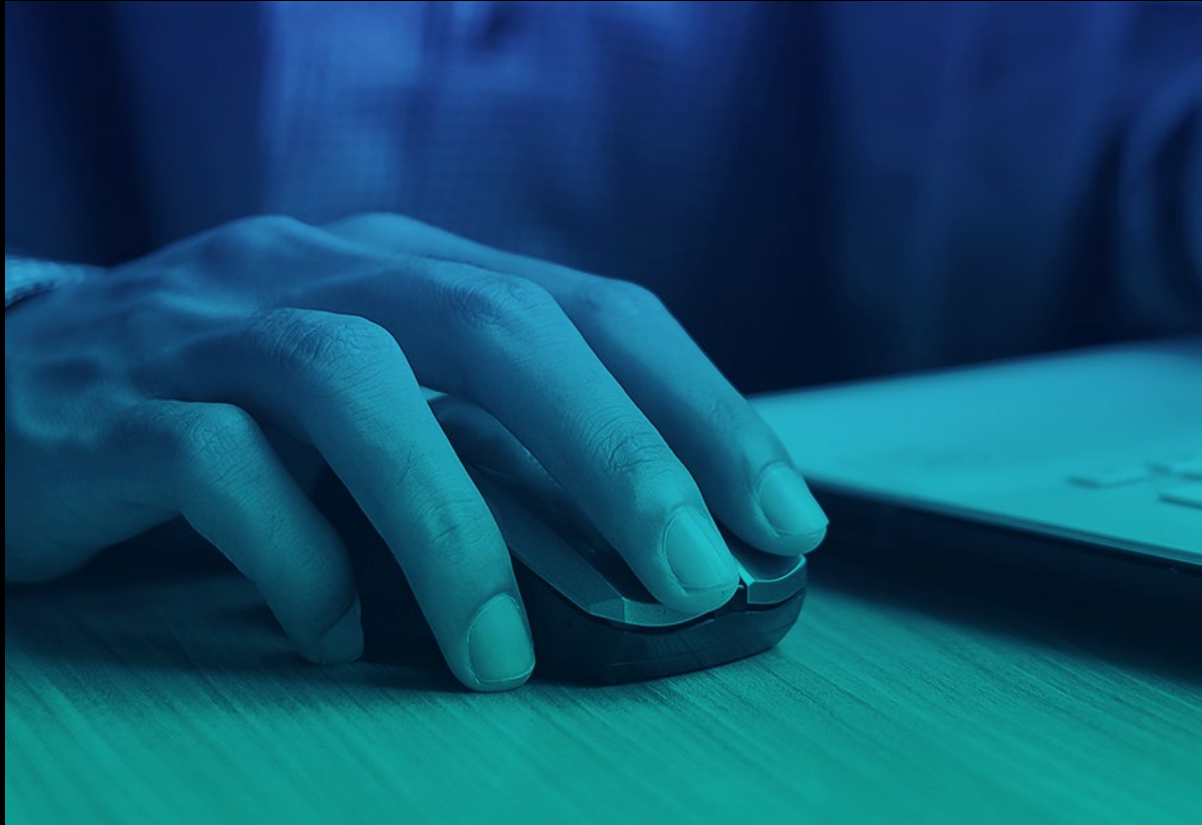
# Tools to help with practice-management challenges





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## The Advisor Insights Survey: a new study to gain insight into modern practice-management



- Topics include business development, client relationship management, and portfolio construction.
- Full results are freely available to survey respondents only.

[morningstar.com/lp/advisor-insights-survey](https://morningstar.com/lp/advisor-insights-survey)

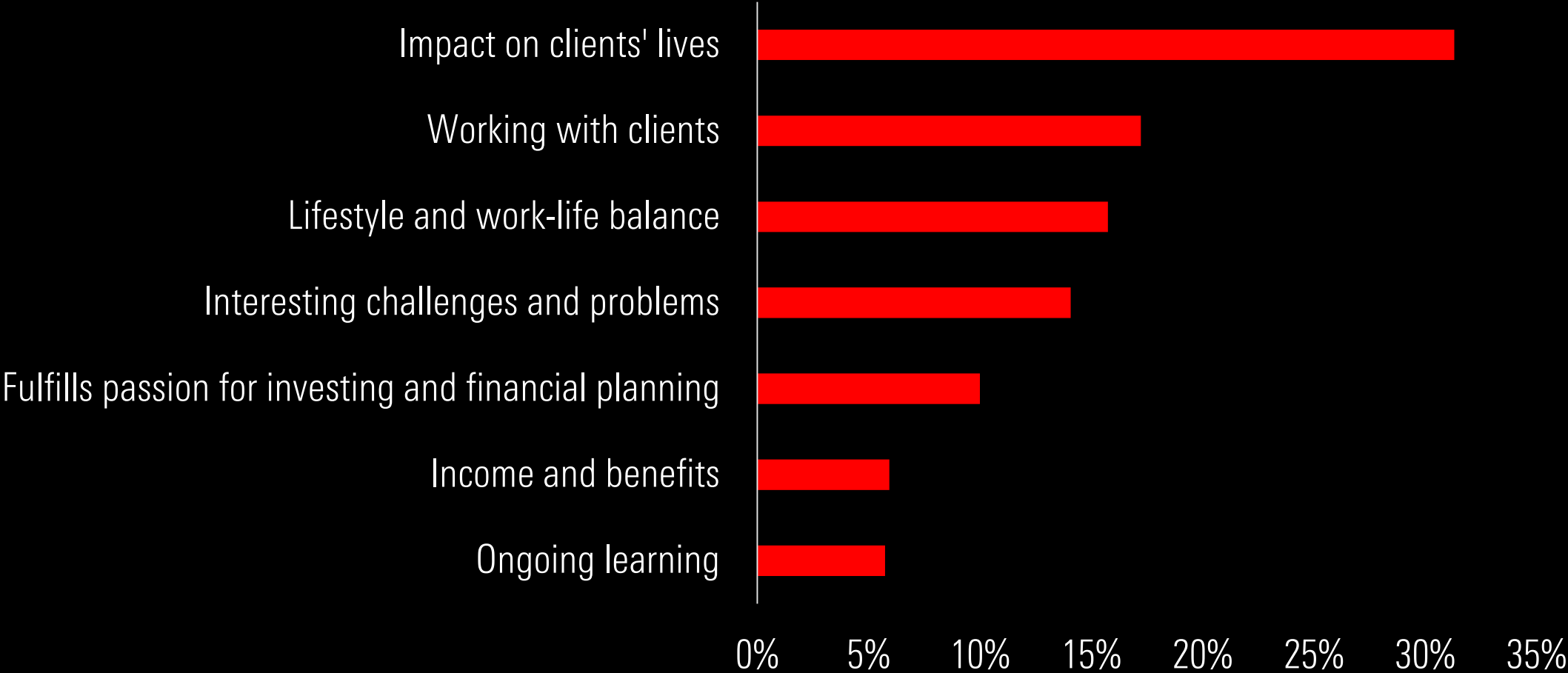
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# What do you like most about being a financial advisor?

1. The impact I have on clients' lives
2. It fulfills my passion for investing and financial planning
3. The lifestyle and work-life balance
4. I enjoy working directly with clients
5. The income and benefits
6. The interesting challenges and problems that the work presents
7. The ongoing learning

## Poll Results

# What other advisors say



Morningstar Advisor Insights Survey, 2019

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# What is most important to your business in the next five years?

1. Growing business via more clients
2. Growing business via additional AUM
3. Improving work-life balance
4. Improving technology capabilities
5. Finding and retaining talent
6. Retaining clients
7. Maintaining the business and its lifestyle

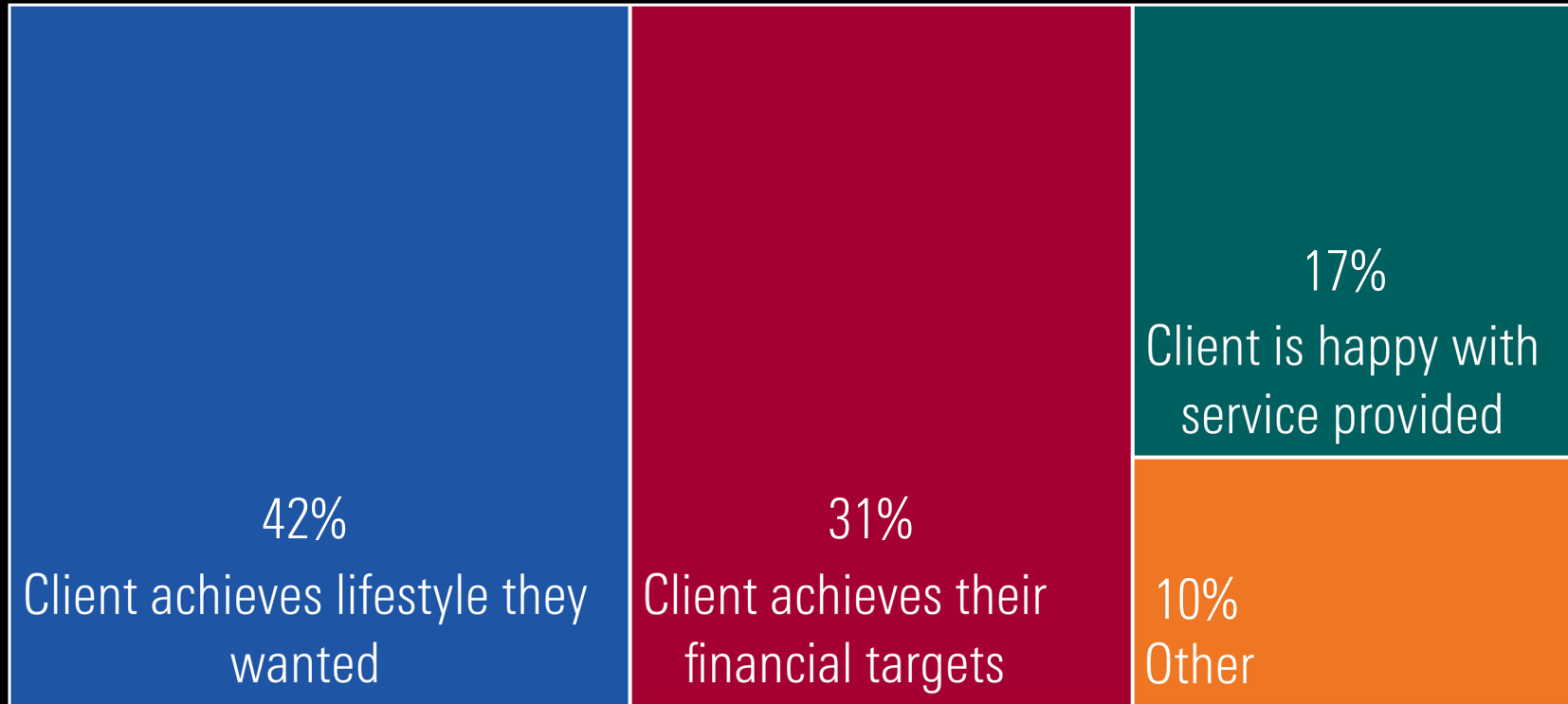
## Poll Results

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## What other advisors say

- 1 Growing business via more clients
- 2 Growing business via AUM
- 3 Retaining clients
- 4 Increasing efficiency
- 5 Maintaining business and lifestyle

# Measuring long-term client success



Morningstar Advisor Insights Survey, 2019

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# Key lesson: Advisors want to build a successful business by having an impact on their clients' lives

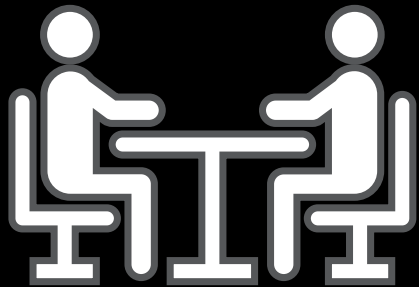


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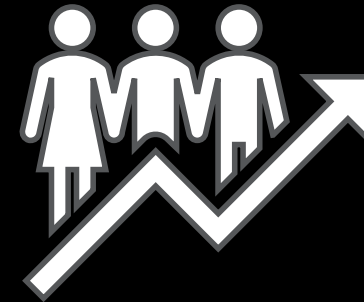
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# The challenges to reaching those goals

Communicating value



Delivering value



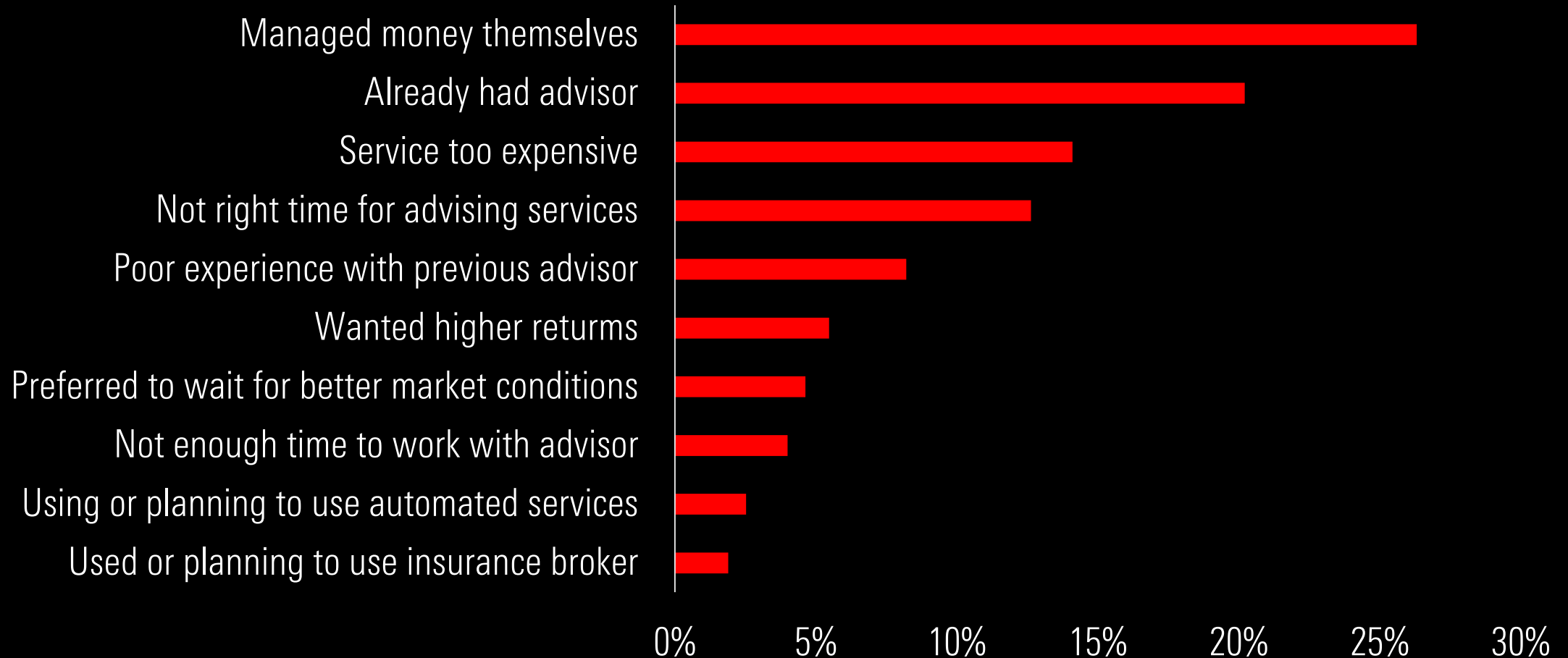


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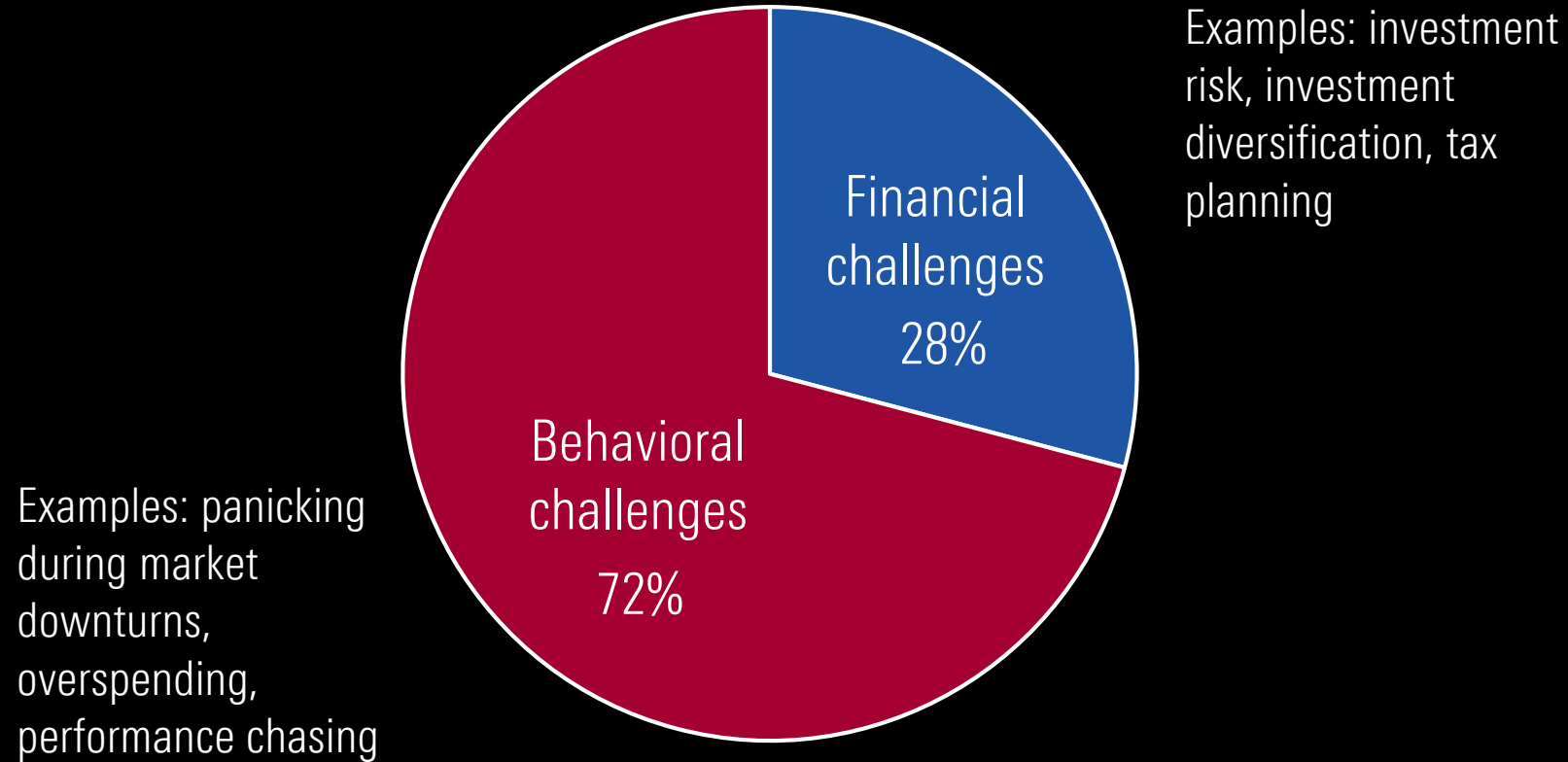
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# Why do prospects not become clients?



Morningstar Advisor Insights Survey, 2019

# Critical challenges advisors help clients manage are largely behavioral



Morningstar Advisor Insights Survey, 2019

# The cost of behavioral biases

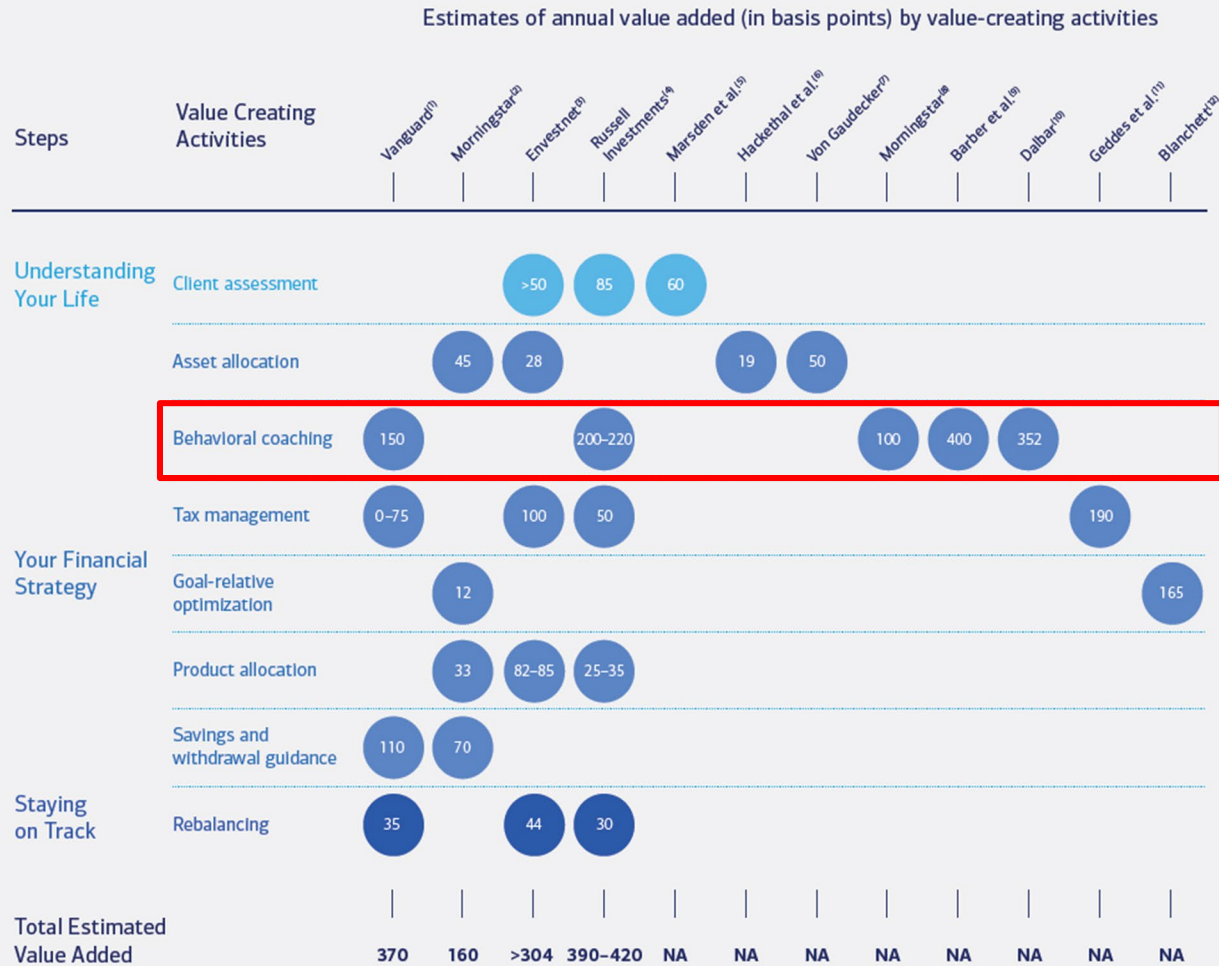
**Exhibit 1** 10-Year Annual Investor Returns by Asset Class



Source Morningstar, Inc. Data through 3/31/2018. Note: All Funds figures are ex funds of funds. The other groupings are not.

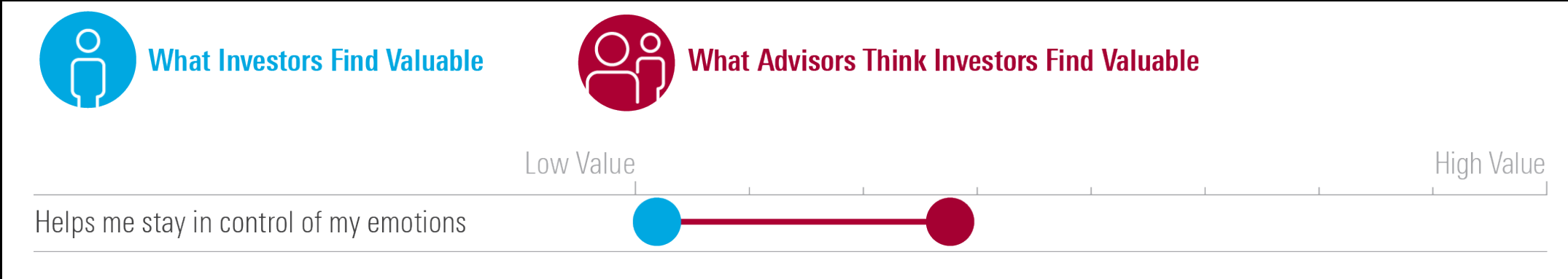
# The value of behavioral coaching

Exhibit 1: Goals-Based Wealth Management, its associated activities and their estimated value added



◀ Alpha in bps

# The value gap between advisors and investors



Lamas, Murphy, and Sin (2019)

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**Key lesson: Advisors understand the value of advice beyond investment selection, but investors do not**





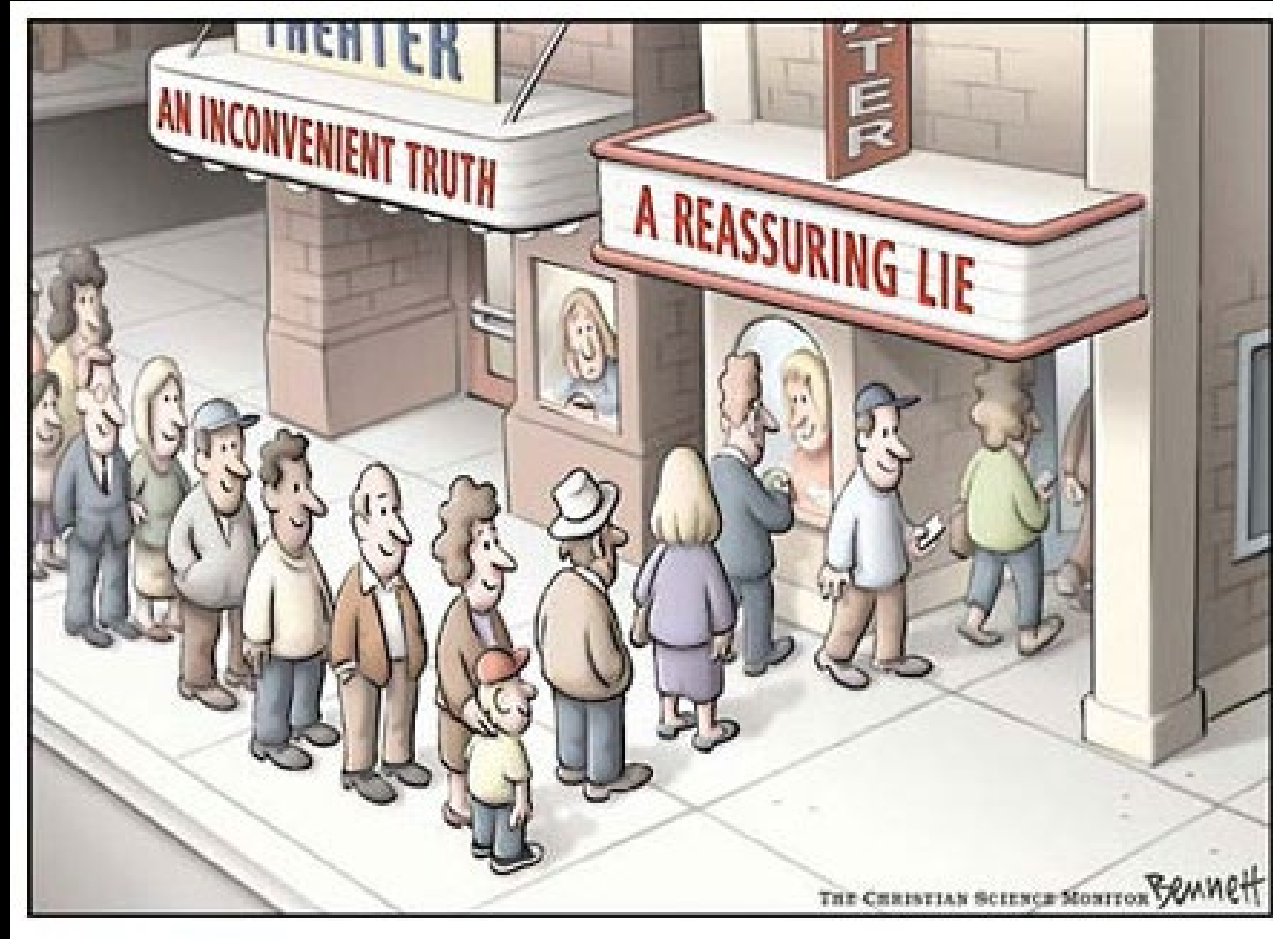
# Overconfidence bias: Investors overestimate their abilities



Moore & Healy (2008)



# Confirmation bias: Investors find and remember data that supports them



Nickerson (1998)

# How to Debias: Ask prospects to explain the opposite



Koriat, Lichtenstein, & Fischhoff (1980); Larrick (2009)

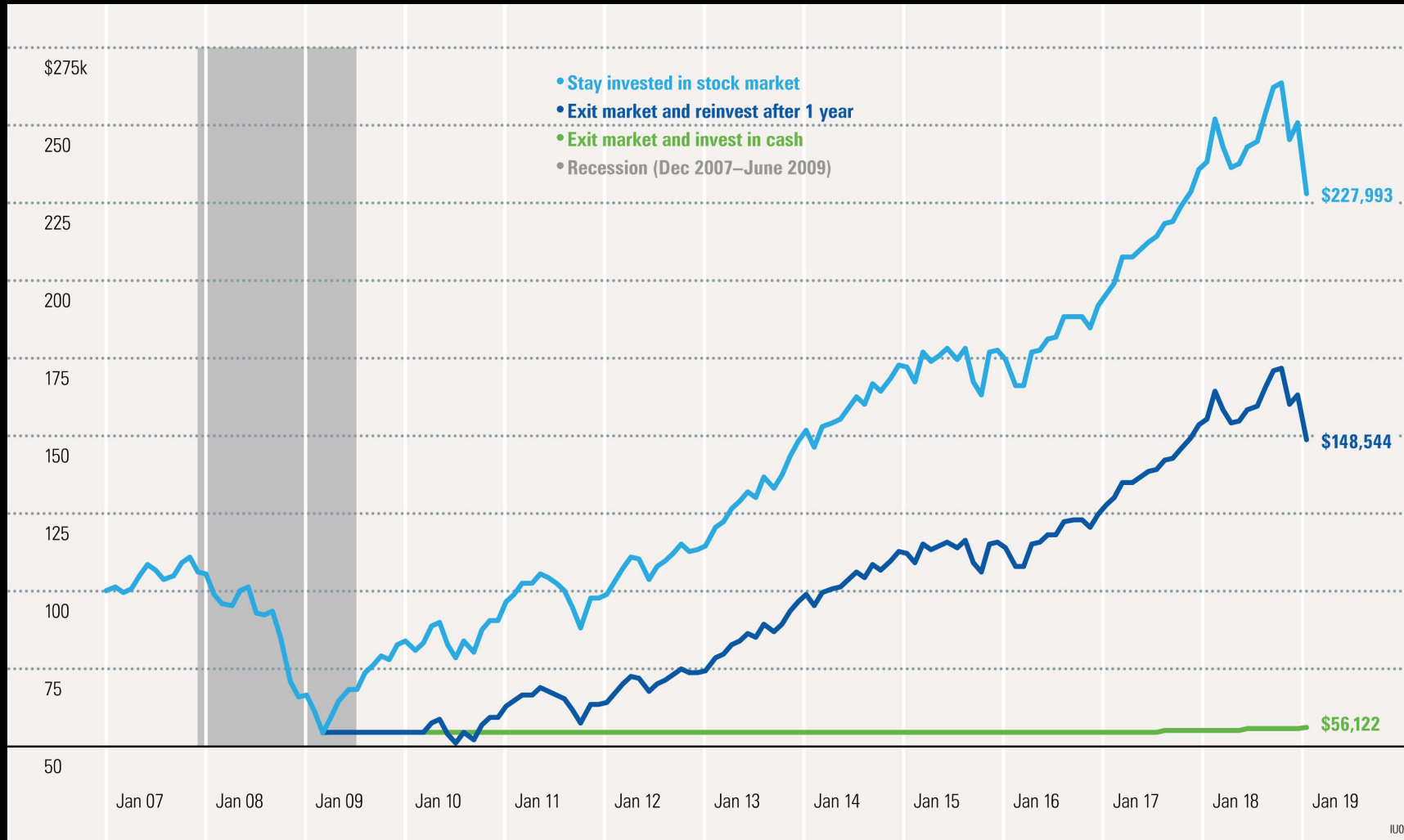


# How to Debias: Behavioral education, especially just in time



Lynch (2014); Perttula (2010); Egan (2015)

# How to Debias: Emphasize the cost of behavioral biases



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# How to Debias: Demonstrate the value of behavioral coaching

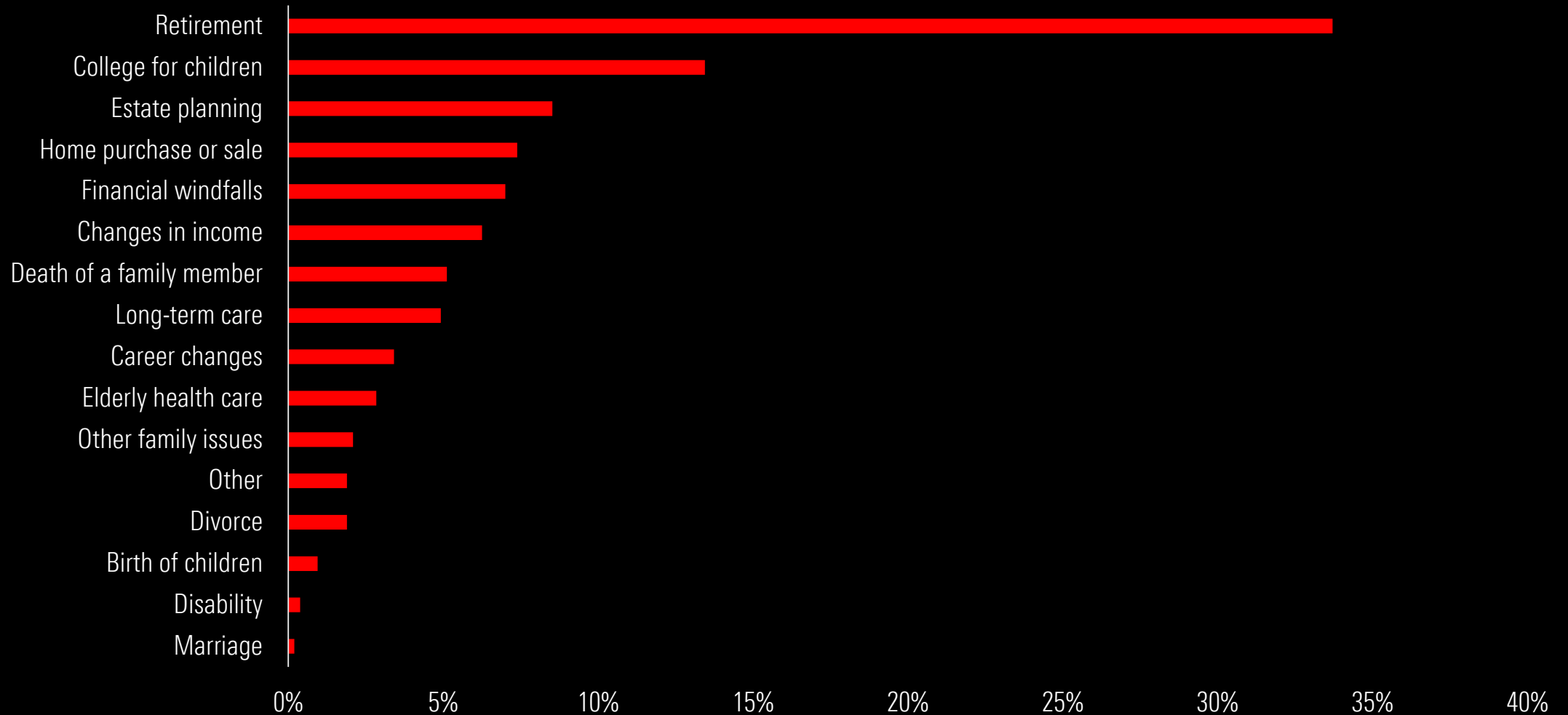


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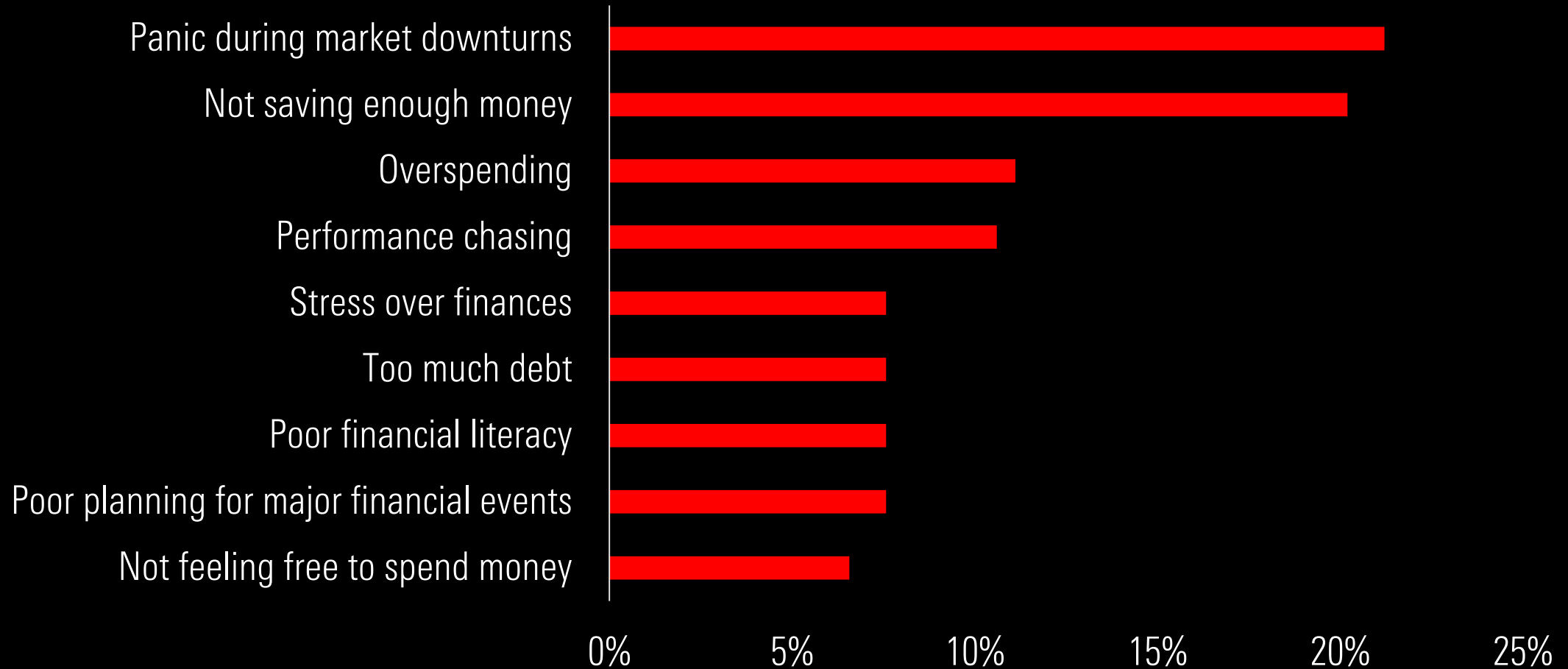
- What advisors are trying to achieve – and the challenges to those goals
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# Key life events for clients



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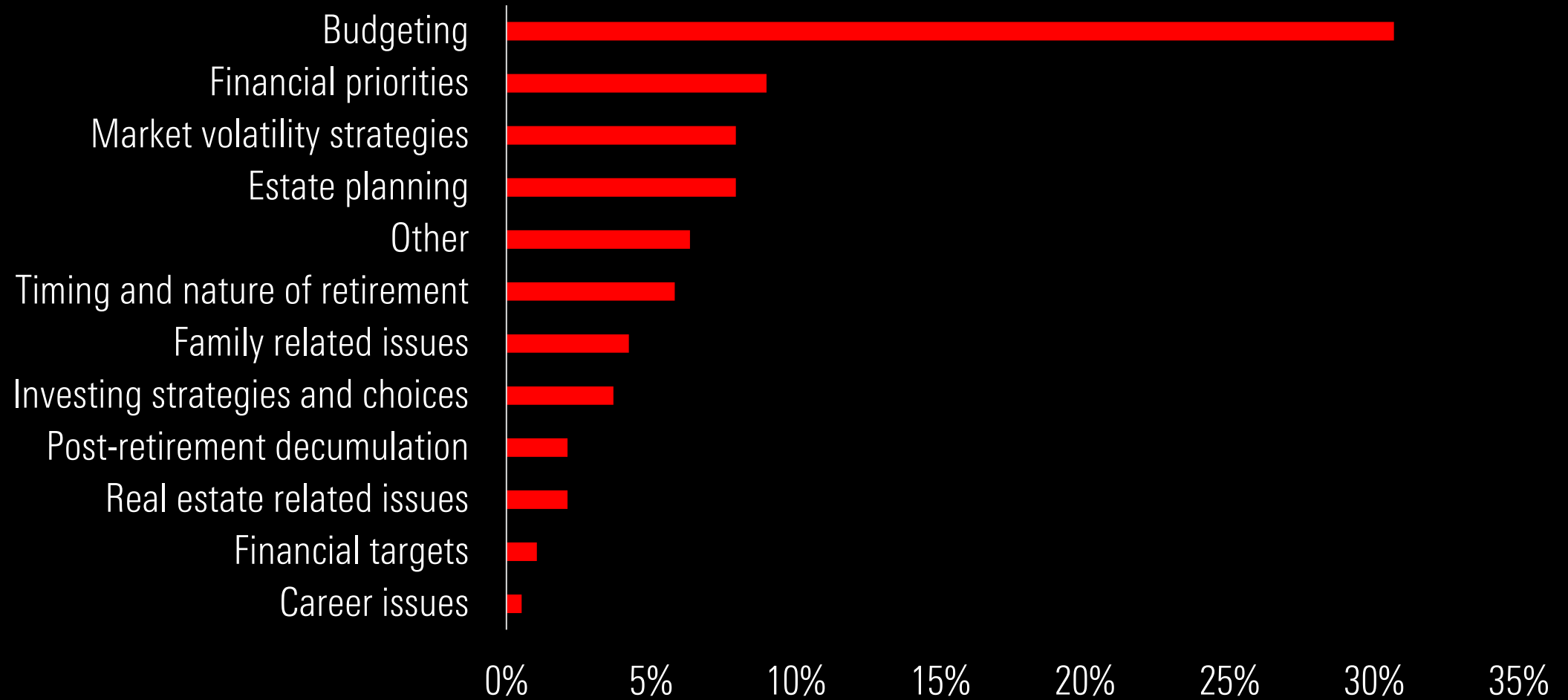
# Critical behavioral challenges advisors help clients manage



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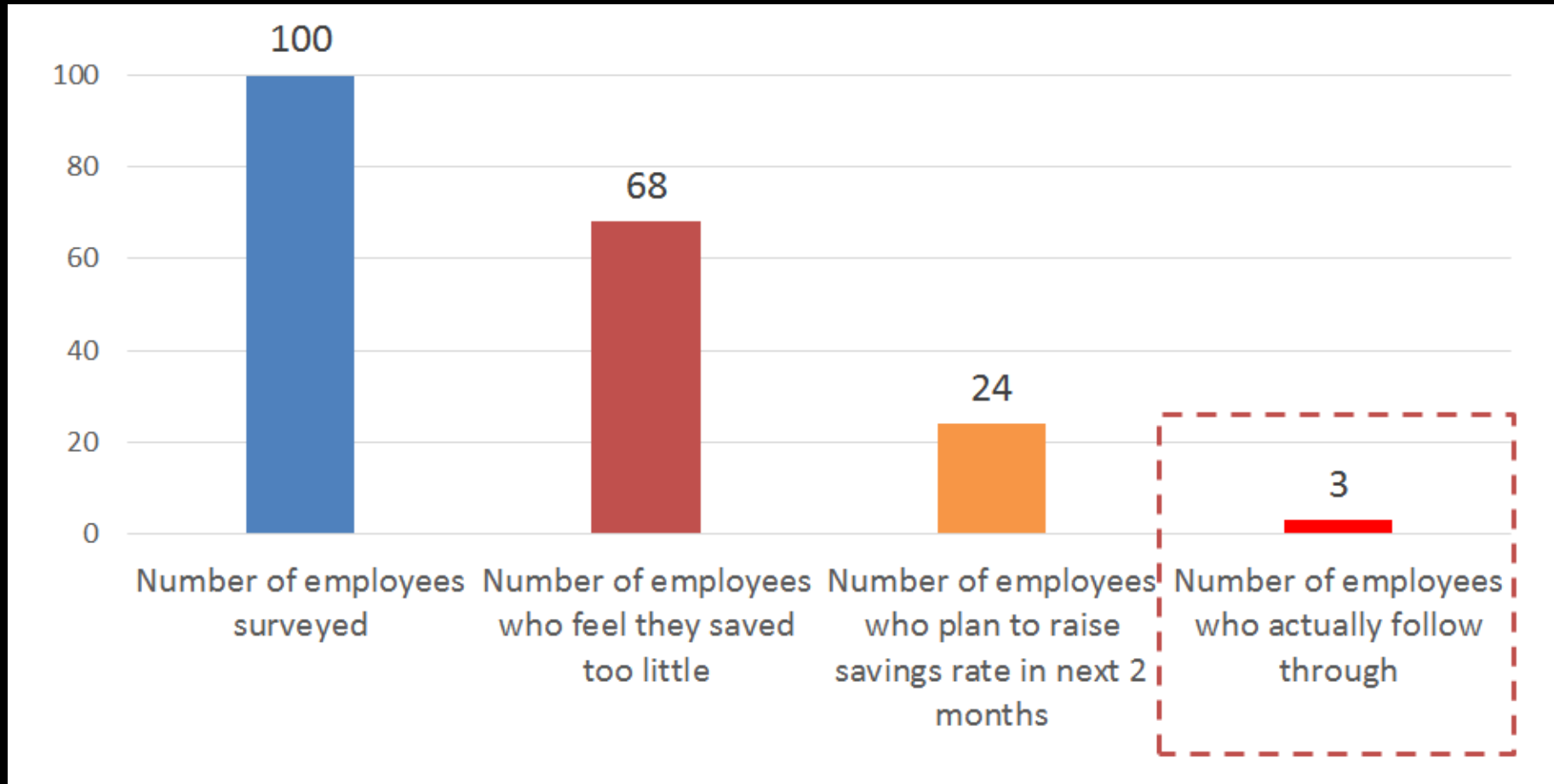
# Recommendations clients resist



*19% said clients "rarely or never push back on advice"*

Morningstar Advisor Insights Survey, 2019

# Key lesson: People want to save, but they struggle



Wright (2014), based on Choi et al. (2001)

# Present Bias: People aren't wired for long-term planning



# Mental Accounting Heuristic: Money without a purpose is easier to spend



# Status Quo Bias: Preference to maintain current state



# How to Debias: Externalize through automation

## Participation rates and auto enrollment

Average participation rate for eligible employees in plans **WITHOUT** auto enrollment

55%

Average participation rate for eligible employees in plans **WITH** auto enrollment

82%

Source: Fidelity Investments



# How to Debias: Assign meaning to savings



# How to Debias: Reframe goals





# How to Debias: Visualize the future



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## Key takeaways for advisors



- Investors underestimate the value of advice.
- Advisors can communicate this value by demonstrating the costs of behavioral mistakes, the added value of advice, and counteracting the overconfidence and confirmation biases.

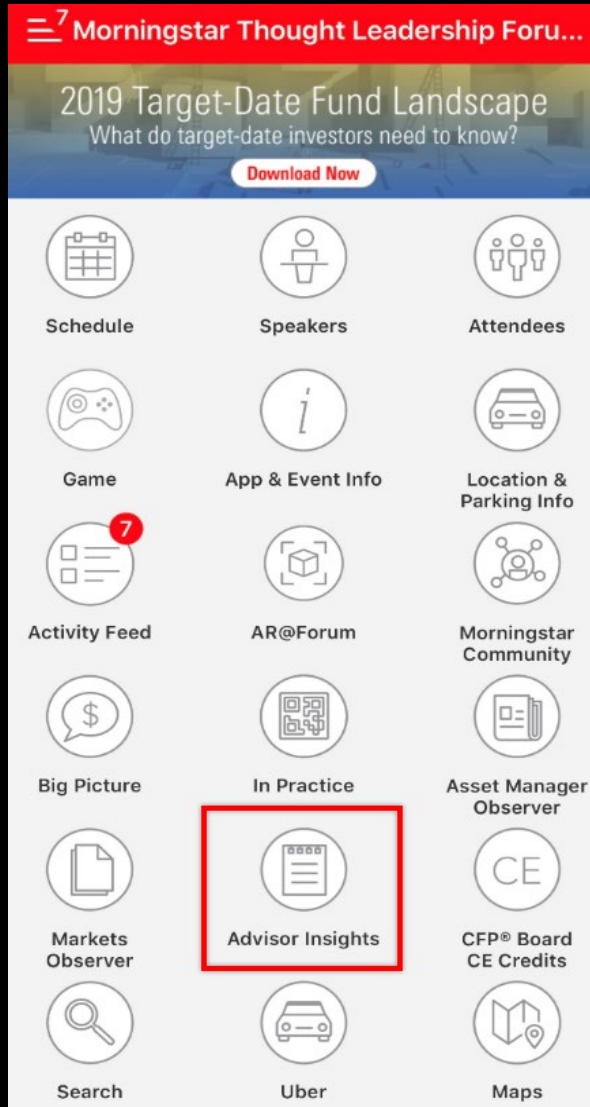


## Key takeaways for advisors



- Providing good advice isn't enough to help clients reach their goals. People struggle to follow through with their plans.
- Advisors can overcome these challenges with automation, goal-based strategies, and future saliency techniques.

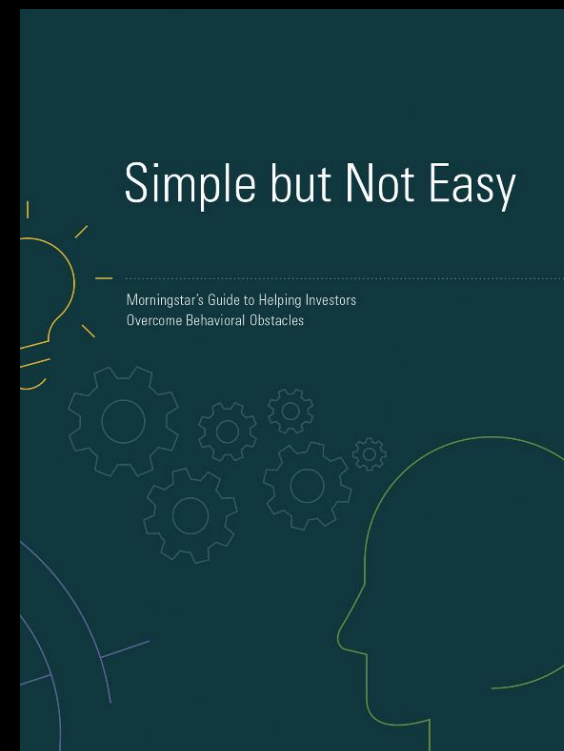
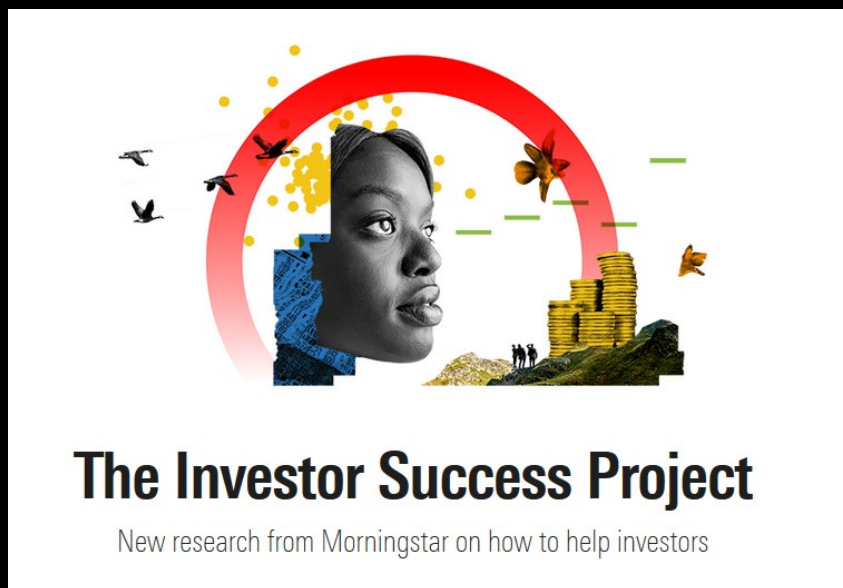
# Complete the survey for full access to the findings



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# Tools to help these challenges

[morningstar.com/lp/advisor-toolkit](http://morningstar.com/lp/advisor-toolkit)



[morningstar.com/company/investor-success](http://morningstar.com/company/investor-success)



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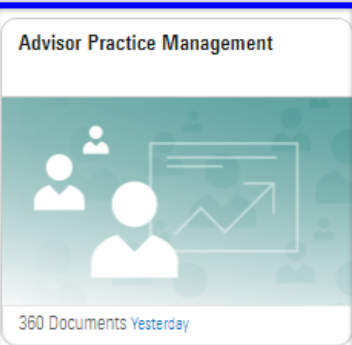


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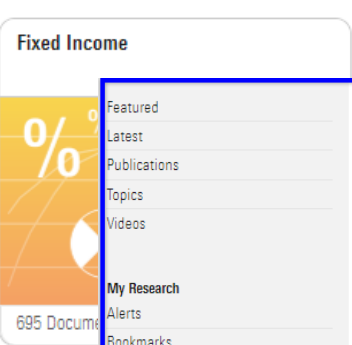
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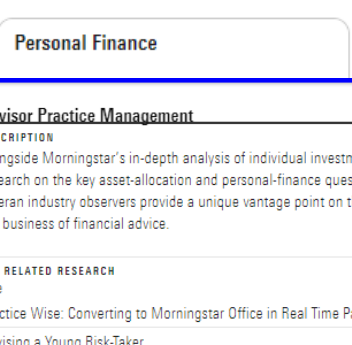
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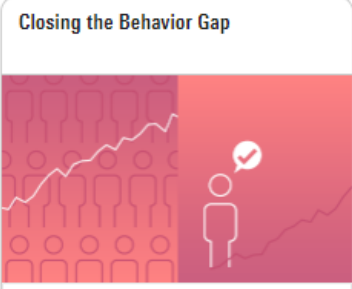
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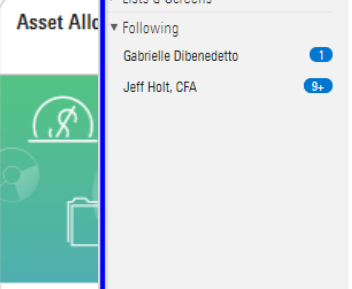
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