Financial Advisor Faux Pas:
Inadvertent Mistakes and Their Impact on Advisor-Client Relations

Morningstar Behavioral Research
October 2023

Samantha Lamas
Senior Behavioral Researcher
Samantha.Lamas@morningstar.com

Ankita Ugar
Behavioral Researcher
Ankita.Ugar@morningstar.com

Danielle Labotka
Behavioral Scientist
Danielle.Labotka@morningstar.com

Ryan O. Murphy
Global Head of Behavioral Insights
Ryan.Murphy@morningstar.com

Introduction

The relationship between an advisor and client is paramount to both parties' financial success. Although it can be easy to focus on how to build these relationships, it is equally important to understand what breaks them down. So, it is worth asking: What do advisors do that their clients don't like? And further, how do these actions impact their relationships with their clients?

In this research, we home in on common advisor behaviors to identify which actions may unintentionally trouble clients and damage the advisor-client relationship. We find that some common behaviors, like using financial jargon and inadequately explaining fees, not only are disliked by clients, but can also negatively impact a client's decision to recommend or further engage with their advisor. Through understanding these behaviors, advisors can cultivate positive relationships with their clients by avoiding these faux pas and effectively mitigating their impact when they do occur.

Key Takeaways

- To maintain a successful advisor-client relationship, it's important for advisors to not only avoid catastrophic errors but also to navigate the subtle pitfalls that can erode trust and rapport over time. Our research shows that there are a few inadvertent mistakes advisors make that can damage their relationships with clients.
- Specifically, we find that investors dislike it when advisors: 1) do not adequately explain fees; 2) take more than a week to complete tasks; 3) use jargon; 4) do not consider a client's values; 5) do not provide enough details; 6) make the client fill out long, complex forms; and 7) do not provide holistic advice.
- We also found a relationship between an investor's dislike for these actions and four factors that could negatively impact an advisor's practice, which include: a client's willingness to trust, to collaborate with their financial advisor, to assign assets for management, and to recommend their financial advisor to friends and family.

Identifying Drivers of Disengagement

Relationships are not solely defined by the sum of our positive actions but also by our ability to recognize and address missteps along the way. To maintain a successful advisor-client relationship, it's important for advisors to not only avoid catastrophic errors but also navigate the subtle pitfalls that can erode trust and rapport over time. A recent study[1] found that an advisor's ability to maintain strong client relationships directly impacts their practices. Moreover, clients place considerable value on their relationships with their financial advisors, with approximately 40% of client assets following advisors when advisors switch firms.

In our research, we uncover small advisor missteps that irk clients and measure how commonly these acts occur. We explore how seemingly minor behavioral tendencies can impact the client-advisor relationship—specifically on a client's willingness to trust, collaborate with their financial advisor, assign assets for management, and recommend their financial advisor to friends and family. In doing so, we illuminate how common advisor behaviors can damage their relationships with clients when left unaddressed.

Research Methodology

Advisors exhibit many behaviors when working with clients but, for the purposes of our study, we focused on 15 distinct behaviors/actions that may inadvertently irritate clients. We identified these behaviors from various sources, including academic research, industry studies, and expert opinions at Morningstar (see Exhibit 1).[2]

For our research, 399[3] investors who have advisors completed our survey via the online Prolific platform. These participants were presented with the list of 15 behaviors and were asked how frequently they experienced each behavior, on a five-point scale from "Never" to "Always." For behaviors they reported experiencing, participants rated their emotional response on a seven-point scale that ranged from "I really disliked it" to "I really liked it," with a neutral midpoint. Participants were then prompted to evaluate the impact of each experienced behavior on several aspects of their relationship with their financial advisor. They rated the influence of each behavior on a seven-point scale for how it impacted their decision to trust their advisor, collaborate with their advisor, allocate assets for management, and recommend their advisor to family and friends.

---

[1] Gurun, Umit G. and Stoffman, Noah, and Yonker, Scott E. July 1, 2020. "Unlocking clients: The importance of relationships in the financial advisory industry." Available at SSRN: https://ssrn.com/abstract=3132127

2 Moore, Steve and Brooks, G. 2010. "Ineffective Habits of Financial Advisors (and the Disciplines to Break Them): A Framework for Avoiding the Mistakes Everyone Else Makes" (Wiley); West, Scott and Anthony, Mitch. 2000. "Storyselling for Financial Advisors: How Top Producers Sell." (Kaplan Publishing).; Lake, R. Aug. 6, 2019. "What Wealthy Investors Do (and Don't) Want From Financial Advisors." Retrieved Dec. 22, 2022, from https://smartasset.com/investing/what-wealthy-investors-do-and-dont-want-from-financial-advisors.; Grillo, Sara. Aug. 24, 2017. "What Rich Clients Really Want Vs. What Financial Advisors Say = Total Disconnect." saragrillo.com/2017/08/24/total-disconnect-what-rich-clients-really-want-vs-what-financial-advisors-say; Jan. 12, 2021. "Financial Advisors, Are Your Clients Telling You What They Really Want From You?" Nasdaq. www.nasdaq.com/articles/financial-advisors-are-your-clients-telling-you-what-they-really-want-from-you-2021-01-12

[3] A total of 400 participants completed our survey but one participant was excluded for their low-quality data (that is, selecting the same response for every question).

Exhibit 1 Attributes (Behaviors/Actions) Included in the Research

Attributes
My advisor used financial jargon that I did not understand.
My advisor focused more on minimizing risk than maximizing returns.
My advisor requested a referral.
My advisor offered me a lot of investment options to choose from.
My advisor communicated via video calls versus in person.
My advisor did not provide a breakdown of fees.
My advisor provided an in-depth explanation of financial market current events.
My advisor took more than a week to get tasks done.
My advisor provided a long report rather than simply explaining their advice.
My advisor asked me to complete long questionnaires and complex forms.
My advisor recommended investments without considering my personal preferences/values.
My advisor didn't provide holistic advice (for example, only focused on investment management).
My advisor contacted me twice a year or less.
My advisor emphasized a niche/specialization rather than a general advisory practice.
My advisor suggested investment options without going into the details.

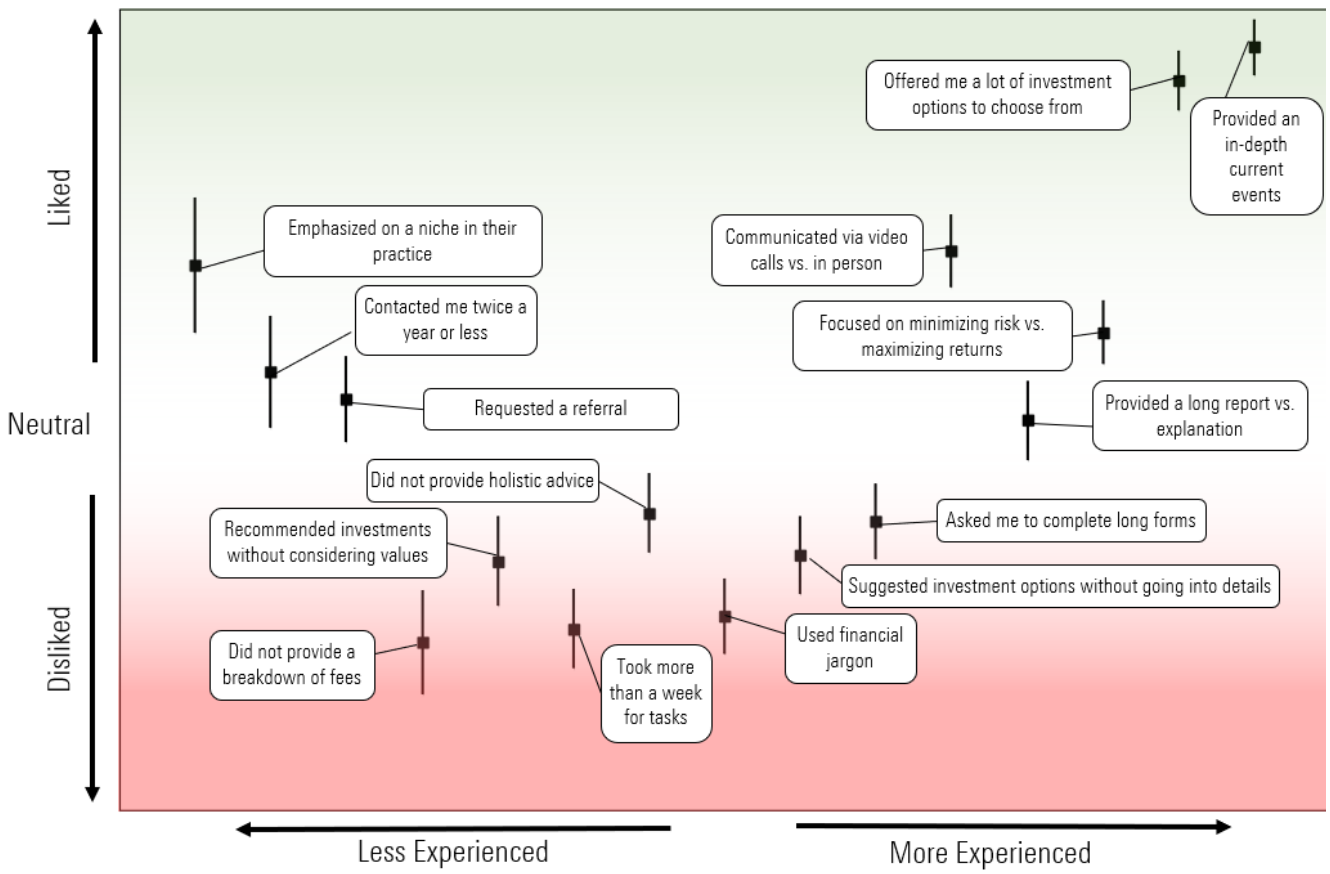
Source: Morningstar.

Which Common Advisor Behaviors Do Clients Dislike Most?

We found seven actions clients reported disliking (in order from most to least disliked): 1) not explaining fees; 2) taking more than a week to complete tasks; 3) using jargon; 4) not considering a client's values; 5) not providing enough details; 6) making the client fill out long, complex forms; and 7) not providing holistic advice (see Exhibit 2 for visual of full results).[4] For the rest of the actions in the survey, clients reported either neutral or positive feelings.

[4] An action was considered disliked if it fell significantly below the midpoint of the scale. Fees: $t(218) = -8.83$, $p < .001$, $d = -0.60$, 95% CI [2.72, 3.19]. Tasks: $t(279) = -10.79$, $p < .001$, $d = -0.65$, 95% CI [2.83, 3.19]. Jargon: $t(287) = -10.71$, $p < .001$, $d = -0.63$, 95% CI [2.90, 3.24]. Values: $t(253) = -6.69$, $p < .001$, $d = -0.42$, 95% CI [3.11, 3.52]. Details: $t(290) = -7.30$, $p < .001$, $d = -0.43$, 95% CI [3.17, 3.52]. Forms: $t(305) = -5.87$, $p < .001$, $d = -0.34$, 95% CI [3.33, 3.67]. Holistic: $t(282) = -5.15$, $p < .001$, $d = -0.31$, 95% CI [3.56, 3.71].

Exhibit 2 Average Reaction for Each Behavior — in Order of Most Disliked to Most Liked



*Average mean is denoted by the black dots with the error bars showing the 95% confidence interval. The y-axis shows the average reaction per behavior (from the range "I really disliked it" to "I really liked it"). The x-axis shows the percentage of people who experienced each behavior, the range of which is 46% on the low end ("Focuses on a niche in their practice") to 97% on the high end ("Explains current events").

Source: Morningstar.

Crucially, these disliked actions were common in clients' experiences. For each disliked action, over half of the surveyed clients reported experiencing them with their advisor. On the low end, 55% of clients reported having experienced their advisor not giving them a breakdown of fees; on the high end, 77% of clients experienced having their advisor ask them to fill out long, complex forms.

How Did Disliked Behaviors Impact Client-Advisor Relationships?

We created a composite impact score by averaging participants' responses to the four impact items: 1) change in trust; 2) change in how much money they keep with their advisor; 3) change in how likely they are to provide referrals; and 4) change in whether they decided to keep working with their advisor.[5]

[5] Cronbach's alpha for the impact items in the composite score was $\alpha = .98$. We also calculated Cronbach's alpha for the impact items of each behavior individually, all of which were above $\alpha = .89$.

For each disliked behavior, we found that how much a client disliked an action had a moderate, negative impact on their relationship with their advisor.[6] In other words, an investor experiencing a disliked behavior discouraged them from trusting and recommending their advisor, as well as encouraging them to invest less with and to stop working with the advisor.

By and large, though, how frequently the advisor performed a disliked action did not affect their relationship with their client.[7] This is to say that if a client strongly dislikes an action, it will have a negative impact on their relationship with their advisor regardless of whether the advisor has only done it once or a dozen times.

Who Felt Differently About Common Financial Advisor Faux Pas?

We examined demographic variables to determine whether different investors had varying feelings and outcomes to their experience of disliked advisor behaviors. We did not find any effects associated with factors such as income, investable assets, age, gender, and race.

However, we did find an interesting connection between financial literacy and the disliked behaviors, where the more financially literate an investor was, the more they reported disliking each of the common advisor faux pas.[8] Additionally, those investors who were more financially literate reported a greater negative impact of these behaviors on their relationship with their advisor.[9]

Furthermore, we also uncovered a relationship between how frequently an investor interacted with their advisor and the disliked behaviors. Investors largely reported fewer negative emotions toward behaviors when they interacted more frequently with their advisor.[10] Investors also generally reported a less negative impact on their relationship with their advisor due to these actions and the more frequently they interacted with their advisor.[11]

We find that these common disliked behaviors do not affect every client the same: 1) those who are more financially literate take greater issue with these actions, and 2) those who frequently interact with their advisor more readily shake these behaviors off.

---

[6] Regressions for each behavior examined the effect of emotion (that is, how much they liked the action) on the impact on the relationship (that is, how positive the impact was). The effect of emotion was significant for all behaviors: Fees: *Beta* = .32, $p < .001$; Tasks: *Beta* = .37, $p <.001$; Jargon: *Beta* = .26, $p < .001$; Values: *Beta* = .39, $p < .001$; Details: *Beta* = .42, $p < .001$; Forms: *Beta* = .43, $p < .001$; Holistic: *Beta* = .37, $p < .001$.

[7] Regressions for each behavior examined the effect of how frequently the behavior was experienced on the impact on the relationship (that is, how positive the impact was). The effect of frequency of behavior was not significant for any behavior except details and holistic: Fees: *Beta* = -.04, $p = .470$; Tasks: *Beta* = .04, $p =.442$; Jargon: *Beta* = .07, $p = .213$; Values: *Beta* = .07, $p = .215$; Details: *Beta* = .11, $p = .028$; Forms: *Beta* = -.22, $p = .658$; Holistic: *Beta* = .12, $p = .021$.

[8] Regressions for each behavior examined the effect of financial literacy on investor emotion (that is, how much they liked the action). The effect of financial literacy was significant for all behaviors: Fees: *Beta* = -.25, $p < .001$; Tasks: *Beta* = -.30, $p <.001$; Jargon: *Beta* = -.33, $p < .001$; Values: *Beta* = -.24, $p < .001$; Details: *Beta* = -.24, $p < .001$; Forms: *Beta* = -.28, $p < .001$; Holistic: *Beta* = -.17, $p = .008$.

[9] Regressions for each behavior examined the effect of financial literacy on the impact on the relationship (that is, how positive the impact was). The effect of financial literacy was significant for all behaviors: Fees: *Beta* = -.38, $p < .001$; Tasks: *Beta* = -.24, $p <.001$; Jargon: *Beta* = -.25, $p < .001$; Values: *Beta* = -.20, $p < .001$; Details: *Beta* = -.16, $p = .003$; Forms: *Beta* = -.18, $p < .001$; Holistic: *Beta* = -.13, $p = .021$.

[10] Regressions for each behavior examined the effect of how frequently an investor meets with their advisor about investor emotion (that is, how much they liked the action). The effect of meeting frequency was significant for all behaviors except tasks and holistic: Fees: *Beta* = .24, $p < .001$; Tasks: *Beta* = .09,, $p = .114$; Jargon: *Beta* = .12, $p = .034$; Values: *Beta* = .19, $p = .003$; Details: *Beta* = .19, $p = .001$; Forms: *Beta* = .15, $p = .009$; Holistic: *Beta* = .09, $p = .175$.

[11] Regressions for each behavior examined the effect of how frequently an investor meets with their advisor about the impact on the relationship (that is, how positive the impact was). The effect of meeting frequency was significant for all behaviors except fees and details: Fees: *Beta* = -.01, $p = .863$; Tasks: *Beta* = .13,, $p = .012$; Jargon: *Beta* = .13, $p = .021$; Values: *Beta* = .17, $p = .003$; Details: *Beta* = .10, $p = .076$; Forms: *Beta* = .18, $p < .001$; Holistic: *Beta* = .17, $p = .003$.

Applying Insights Into Practice: Recommendations for Financial Advisors

Advisors can begin incorporating insights from this research by addressing the top five disliked behaviors: 1) not providing an adequate breakdown of fees, 2) taking more than a week to complete tasks, 3) using jargon, 4) not considering the client's values, and 5) suggesting options without sufficiently digging into the details.

Fees, Fees, Fees

Fees are a common sore spot in financial advising. Past research[12] finds that fees are a core factor when it comes to building trust between a client and their advisor, yet many clients[13] are confused by their advisor's payment structure or that of other financial professionals. Our findings here further emphasize the importance of advisors explaining to clients how their fees work. Advisors can dig into this topic by explaining their commitment to the best-interest standard and defining what that means for their relationship with the client. A few possible topics to address along these lines are:

- How do you as an advisor get paid?
- What happens if the client accepts your recommendation?
- How do costs/fees break down?
- How often will you be monitoring their investments?
- How often will you be meeting with the client?

Setting Expectations for Deadlines

Investors report dissatisfaction when advisors take longer than a week to complete tasks, but this may be less about timeliness and more about lack of communication. Many financial planning tasks are aimed at the long term, so completing them in two weeks instead of one week should not have a lasting impact on investor success. Thus, clients may be irked by this behavior because their advisor failed to notify them that work is in progress and didn't tell them when they should expect a follow-up. In other words, advisors should communicate with clients about how long certain tasks should take and when they should be hearing from them.

The Curse of Knowledge

As financial professionals, we are immersed in financial jargon and conversation, so we can forget that some terms and phrases are not common knowledge. This mistake can frustrate clients because jargon can prevent advisors from successfully communicating to them what is going on with their finances. When talking to clients, advisors should avoid the use of jargon and opt to communicate with simple, common terms without sounding condescending. A good way to strike this balance is to explain these concepts to clients with the premise that you are speaking to someone you highly respect and who is an expert in a field other than finance.

[12] Lamas, Samantha and Murphy, Ryan O. 2022. "How to Build Trust in the Advisor-Client Relationship." Morningstar.
[13] Hung, Angela A.; Clancy, Noreen; Dominitz, Jeff Emmett; Talley, Eric; Berrebi, Claude; and Suvankulov, Farrukh. 2008. "Investor and Industry Perspectives on Investment Advisers and Broker-Dealers." Santa Monica, CA: RAND Corporation. https://www.rand.org/pubs/technical_reports/TR556.html. Also available in print form.

More Is Expected of Financial Advisors

With the increase of technology in personal finance, investors are demanding more from financial advisors than ever before. Clients don't just expect investment advice but also want personalized experiences, goal planning, and value orientation. As such, clients may be left feeling unsatisfied if they cannot see how their values are being taken into consideration in their financial plan. To remedy this issue, advisors must have comprehensive discussions with clients to discover (and help the client discover) their needs, goals, and values. Importantly, advisors should realize conversations with clients do not tend to naturally find their way to these deeper topics, and instead, advisors can turn to ready-made tools and exercises to uncover a person's financial goals[14] and values.[15]

Juggling Options

Advisors are put into a tough position when it comes to presenting investment options to clients—on one hand, they want to give the client the information they need to make a decision, and on the other hand, they don't want to overwhelm the client and prompt choice overload or undue stress. However, it's also important that clients don't feel like they've been left in the dark. Research[16] suggests clients may benefit from starting off with a shortened list of options. It also may help to present information in a table where comparisons can be easily made and where the advisor can more easily explain to clients why they are suggesting one option in particular. Though many clients may be satisfied with this condensed information, advisors should always be prepared with more in-depth information about the options should the client ask for it.

Conclusion

Our research on common advisor behaviors provided some surprising results. Some advisor behaviors that one would expect clients to dislike—like meeting over video versus in person or asking for a referral—were seen as positive or neutral by most people who have experienced them. However, we did find some behaviors may inadvertently rattle clients. Namely, we find that behaviors such as not providing an adequate breakdown of fees, taking more than a week to complete tasks, using jargon, not considering the clients' values, and suggesting options without sufficiently digging into the details, are disliked by most clients and may have a negative impact on an advisor's practice.

To help avoid these behaviors in practice, advisors can refer to the previously mentioned tips, such as having a conversation about the best-interest standard and setting expectations for deadlines. As a next step, advisors can refer to the checklist on the following page, where we outline items to be aware of during a conversation with a client and a follow-up survey to send out to clients after a meeting to make sure the advisor is not inadvertently partaking in these unintentionally irritating behaviors.

[14] Sin, Ray; Murphy, Ryan O.; and Lamas, Samantha. 2018. "Mining for Goals: How Behavioral Nudges Can Help Investors Discover More-Meaningful Goals." Morningstar.
[15] Labotka, Danielle; Murphy, Ryan O; and Lamas, Samantha. 2023. "Digging Deeper for Goals." Morningstar.
[16] Broniarczyk, Susan M., and Griffin, Jill. "Decision Difficulty in the Age of Consumer Empowerment." *Journal of Consumer Psychology* 24, no. 4 (2014): 608-25.

Faux Pas No More: Being Conscious of Unintentional and Irksome Behaviors

Many of the behaviors we investigated in our research seem relatively harmless at first glance, but we find that they may have a lasting impact on an advisor-client relationship. To make matters worse, our research finds more than half of investors have experienced each of these behaviors. To help an advisor make sure they aren't one of the culprits, we created the following two-step takeaway.

Step 1 is a checklist you, as the advisor, can use as a cheat sheet when having a conversation with a client. The checklist focuses on the top five most disliked behaviors. We suggest reviewing the checklist before a client meeting and, if possible, taking a moment to review the list in the last 10 minutes of your conversation. This brief pause will help you reflect and address any behavior you may have fallen prey to and give you a chance to address them in the moment.

Step 2 is a follow-up survey template you can send to clients after a meeting. Since we are only human, we are bound to make mistakes, and ingrained habits are hard to break. Sending a follow-up email to clients that addresses the top-five disliked behaviors can help you be sure you are not committing these errors. Also, sending the survey to a client digitally may help encourage honest feedback since they don't have the pressure of giving feedback face to face. At the same time, letting a couple hours pass may give clients the time they need to reflect on the meeting and provide comprehensive feedback.

In your conversation with the client, did you:

- [ ] Use any financial jargon? If you did, did you take the time to explain the terms adequately to the client?

  Remember, we are all prone to the curse of knowledge (for example, it is hard to imagine not knowing what you already know). For you, this is one of many conversations regarding financial matters. For your client, this could be the only financial conversation they had all year. Try to explain these concepts to clients as though you were speaking to someone you highly respect and who is an expert in a field other than finance.

- [ ] Have a conversation about your commitment to the best-interest standard?

  Consider discussing how you get paid and what happens if the client accepts your recommendations. Make sure to present the client with a breakdown of any costs/fees they may incur when working with you. Also, state how often you will be monitoring their assets and meeting with them.

- [ ] Address your client's values in their plan?

  To address your client's values in their plan, you must start by understanding those values. Although it may seem simple to just ask clients, research shows that when confronted with such a question, people may respond with what is top of mind and not what truly matters to them. Try using ready-made exercises and processes to help clients through this time of discovery.

- [ ] Explain your decision-making process and reasoning to the client?

  It's hard to explain to clients why you made a certain recommendation without overwhelming them with the complex details. To help make your decisions clear, try using visuals or comparison tables that display how certain investments or products compare on key features. Showing the information in this simple format will help clients see the pros and cons of different options.

- [ ] Set expectations about deadlines for tasks and explain why some tasks may take longer to accomplish?

  Many clients don't need an immediate response after every meeting with you. Instead, many just want to stay updated on your work. In other words, advisors should let clients know how long certain tasks should take and when they should be hearing back.

Meeting Feedback Form Template

To help us serve you better, we would greatly appreciate your feedback regarding our recent meeting.

1. In our recent meeting, were there any terms I used that didn't make sense?
   a. Yes
   b. No

2. Please list any that come to mind. [If "Yes" to previous question.]

3. Do you have any further questions about my fees?
   a. Yes
   b. No

4. Please list any questions that come to mind. [If "Yes" to previous question.]

5. Do you believe the plan we discussed aligns with your values?
   a. Yes
   b. No

6. Do you understand the reasoning behind my recommendations?
   a. Yes
   b. No

7. Do you have any concerns or questions regarding when you should expect to hear from me next?
   a. Yes
   b. No

8. Please list any questions that come to mind. [If "Yes" to previous question.]

For an online version of the survey you can duplicate and use in your own communications, click on this link.

Appendix

Exhibit 3 Average Reaction Per Behavior

Behavior	Average Reaction
My advisor did not provide a breakdown of fees.	2.95
My advisor took more than a week to get tasks done.	3.01
My advisor used financial jargon that I did not understand.	3.07
My advisor recommended investments without considering my personal preferences/values.	3.32
My advisor suggested investment options without going into the details.	3.34
My advisor asked me to complete long questionnaires and complex forms.	3.50
My advisor didn't provide holistic advice (for example, only focused on investment management).	3.53
My advisor provided a long report rather than simply explaining their advice.	3.95
My advisor requested a referral.	4.05
My advisor contacted me twice a year or less.	4.17
My advisor focused more on minimizing risk than maximizing returns.	4.35
My advisor emphasized a niche/specialization rather than a general advisory practice.	4.65
My advisor communicated via video calls versus in person.	4.71
My advisor offered me a lot of investment options to choose from.	5.48
My advisor provided an in-depth explanation of financial market current events.	5.63

Source: Morningstar.

Exhibit 4 Percentage of People Who Reported Experiencing Each Behavior

Behavior	Percentage Experienced
My advisor did not provide a breakdown of fees.	55%
My advisor took more than a week to get tasks done.	70%
My advisor used financial jargon that I did not understand.	72%
My advisor recommended investments without considering my personal preferences/values.	64%
My advisor suggested investment options without going into the details.	73%
My advisor asked me to complete long questionnaires and complex forms.	77%
My advisor didn't provide holistic advice (for example, only focused on investment management).	71%
My advisor provided a long report rather than simply explaining their advice.	79%
My advisor requested a referral.	47%
My advisor contacted me twice a year or less.	41%
My advisor focused more on minimizing risk than maximizing returns.	91%
My advisor emphasized a niche/specialization rather than a general advisory practice.	26%
My advisor communicated via video calls versus in person.	78%
My advisor offered me a lot of investment options to choose from.	94%
My advisor provided an in-depth explanation of financial market current events.	97%

Learn More About Morningstar

morningstar.com/company

22 West Washington Street
Chicago, IL 60602 USA