

Prepared Exclusively for Charles Schwab

2024 Voice of the Advisor Insights

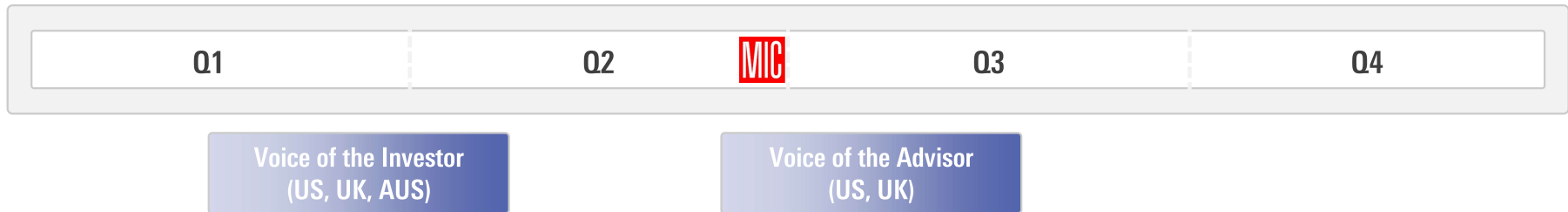
MORNINGSTAR®



Joe Agostinelli

Senior Director of Market Research, Morningstar

“Voice of” Research Programs Overview

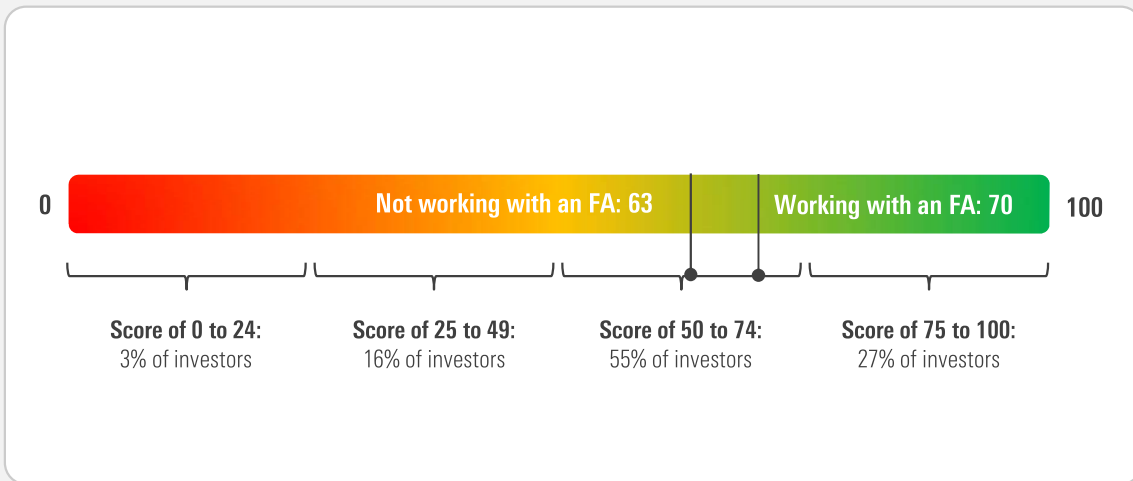


CONTENT

- [Investor Impact: How the U.S. Presidential Election is Affecting Investors \(Webinar\)](#)
- [A Crowded Marketplace: Why Factsheets and Sandwiches Have Grown Stale for Asset Managers \(Blog\)](#)
- [What Makes a Good Financial Advisor? \(Blog\)](#)
- [Voice of the Advisor: Insights Shaping Advisor Strategies and Opportunities \(Webinar\)](#)
- [Advisors Face Evolving Expectations Around Fee Structures \(Blog\)](#)
- [Four Opportunities to Elevate the Advisor-Client Relationship through Personalization \(2023 Report\)](#)
- [5 Things Advisors Need to Know About the Evolving Investor \(Blog with link to Report\)](#)

Voice of Insights

Investor Engagement Index – Advisor Relationship



INDEX COMPONENTS (in equal weights):

- **Feel informed about composition and performance of investments**
 - Frequency of investment portfolio review
 - Involved in investment decision-making
- **Understanding of investment concepts and financial markets**
- **Frequency of investment goals review**
- **Clarity of investment strategy aligning to long-term goals**
- Frequency of engagement in financial education activities

Source: Morningstar's 2024 Voice of the Investor Research Program

Advisors and clients are generally aligned on how advisors add value, but some gaps exist

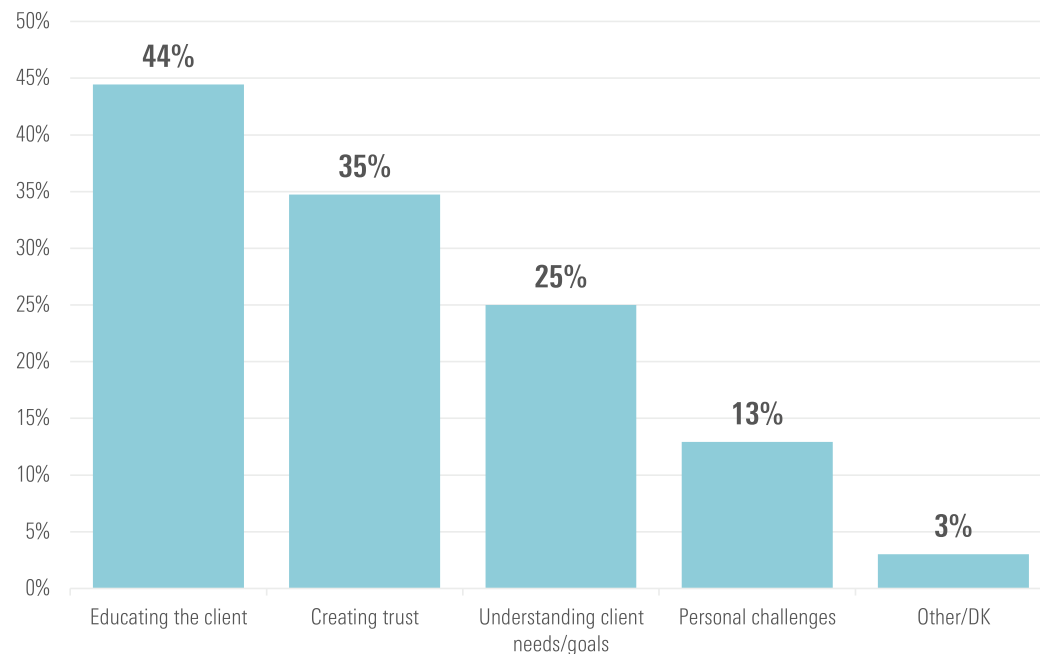
Ways Advisors Add Value to Client Relationship	% Chosen as Top 3	
	Client Perspective	Advisor Perspective
Manages my investments with expertise, optimizing for growth and risk management	53%	54%
Makes me feel more secure about my financial future	34%	46%
Educates me on financial concepts and investment options	32%	32%
Tailor financial plans to my unique needs and goals	29%	49%
Offers peace of mind and relief from the stress of money management	28%	37%
Minimizes tax liabilities through strategic planning	22%	19%
Boosts my confidence in making informed financial decisions	22%	19%
Advises on strategies to manage or reduce my debt in a financially efficient manner	21%	6%
Fosters trust in their professional knowledge and commitment to ethical principles	18%	22%
Offers emotional support and guidance during financial or personal hardships	11%	14%

Q10. (From VOTI) How do you believe your financial advisor provides value to your household? Please select the three ways your financial advisor most helps your household.

Q15. (From VOTA) Please select up to three ways you most bring value to your clients.

Education, particularly managing expectations and around the basics of investing, is the most crucial focus with new clients

Most significant challenges or concerns to address with new clients



Educating the client

1. Managing expectations
2. Teaching them how money/investments work; interest rates, debt, products available, risk involved
3. Understanding the fees/costs of investing/the difference in fees between online investing and financial advisors

Creating trust

1. Building complete trust that we will invest their money wisely/client seeing the value of my advice
2. Clients letting go of decision making/handing the reins to the advisor/being open to change
3. Making sure we are a good fit/defining how we are different from other advisors

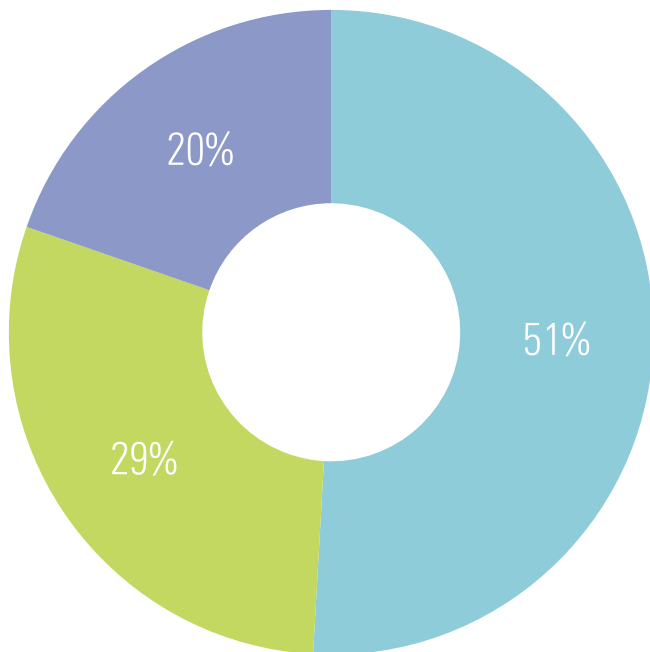
Understanding client needs/goals

1. Understanding their level of risk/making them understand it's long term/they must stay the course
2. Addressing all of the needs throughout retirement (healthcare, 401k conversions, life insurance, asset management)
3. Helping clients achieve their goals through investments

Q17. What are the most significant challenges or concerns you must address when new clients begin a working relationship with you? Please be as specific as possible.

Overall, advisors (only) spend half their time on client-focused activities

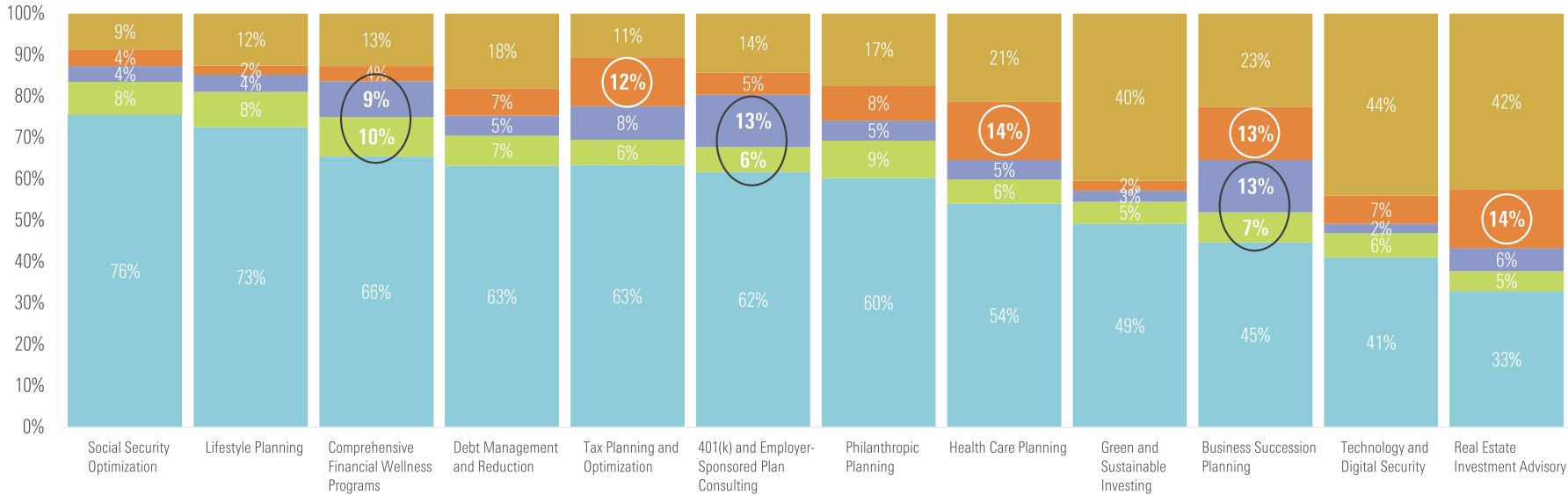
Time Spent in Different Activity Areas



- **Client Focused** - The ongoing and interactive relationship between the advisor/client, a focus on helping identify and achieve client's specific life goals, and customizing an investment strategy to a client's goals, risk tolerance, tax optimization, and time horizon
- **Investment Strategy** - gathering and analyzing relevant information to make informed decisions and provide tailored financial advice, selecting suitable investments and diversifying assets — evaluating the performance, risk, tax implications, and composition of an investment portfolio, and developing a comprehensive document that outlines investment recommendations and strategies
- **Operational/ Strategic** - strategies to promote services, build your brand, interact with potential and existing clients, through traditional/ digital channels, interacting with portfolio managers, wholesalers, and portfolio strategists, and interacting with your home office (if applicable)

Q14. What percentage of your time in an average workweek do you personally spend on each of the following activities?

Around 1 in 5 advisors currently charge, or plan to charge, separately for certain services in addition to asset-based fees

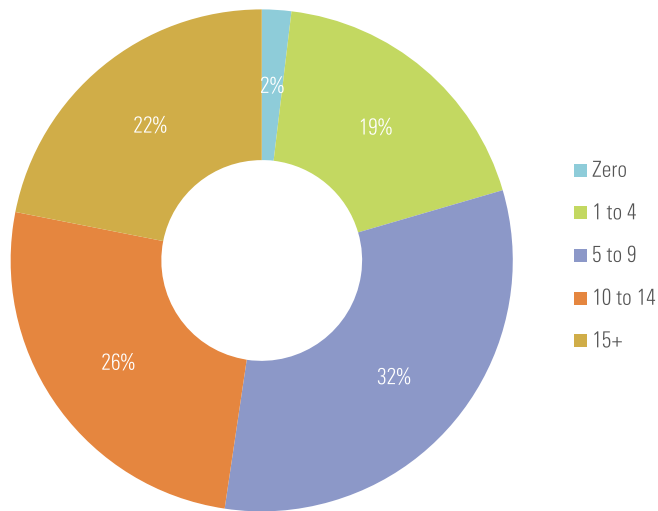


- Do not offer this service at all
- Do not offer this service, but have a referral partner outside of my practice who does
- Charge a separate fee for this service
- Included in the standard fee now, but plan to start charging as a separate fee in the next 12 months
- Included in the standard commission/fee my clients pay

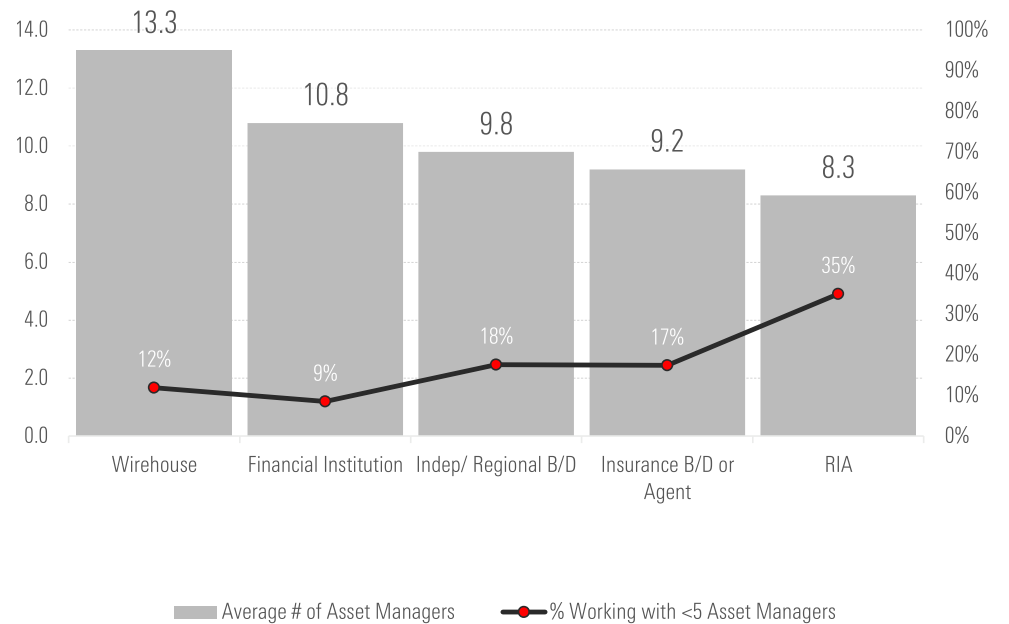
Q13. For each of the following services, please indicate which statement best describes how you offer and charge for these services. Please select one response per row.

Roughly half of advisors work with 10 or more asset managers

of Asset Managers Advisors Work With



Asset Manager Relationships by Firm Type



Q20. In your practice with your book of business, how many different asset managers/wholesalers do you currently work with?

Slide 9

MS0 [@Joseph Agostinelli] , [@Maeve Doonan] , I am working on a blog and thought this insight might be valuable. "Morningstar's recent Voice of the Advisor survey revealed that about half of advisors work with 10 or more asset managers, though this varies by channel. Wirehouse advisors, on average, engage with over 13 asset managers, while in the RIA channel, the average is just over eight, with 35% of RIAs working with fewer than five. The competition for advisors' time, attention, and allocations has never been more intense."

Maeve, perhaps ask the rhetorical question to the audience "think about your own practice, how many asset managers do you use? What is clear is that advisors expect more from the asset manager relationship. Could plug direct as an evaluation tool?

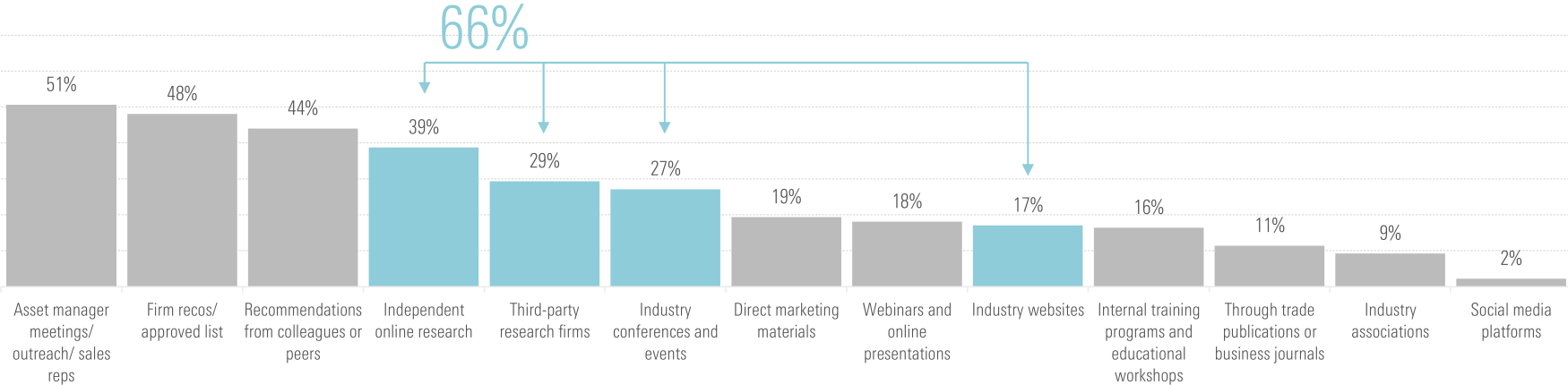
Matt Saunders, 2024-10-22T14:39:10.274

MS0 0 This feeds into the next slide

Matt Saunders, 2024-10-22T14:40:30.652

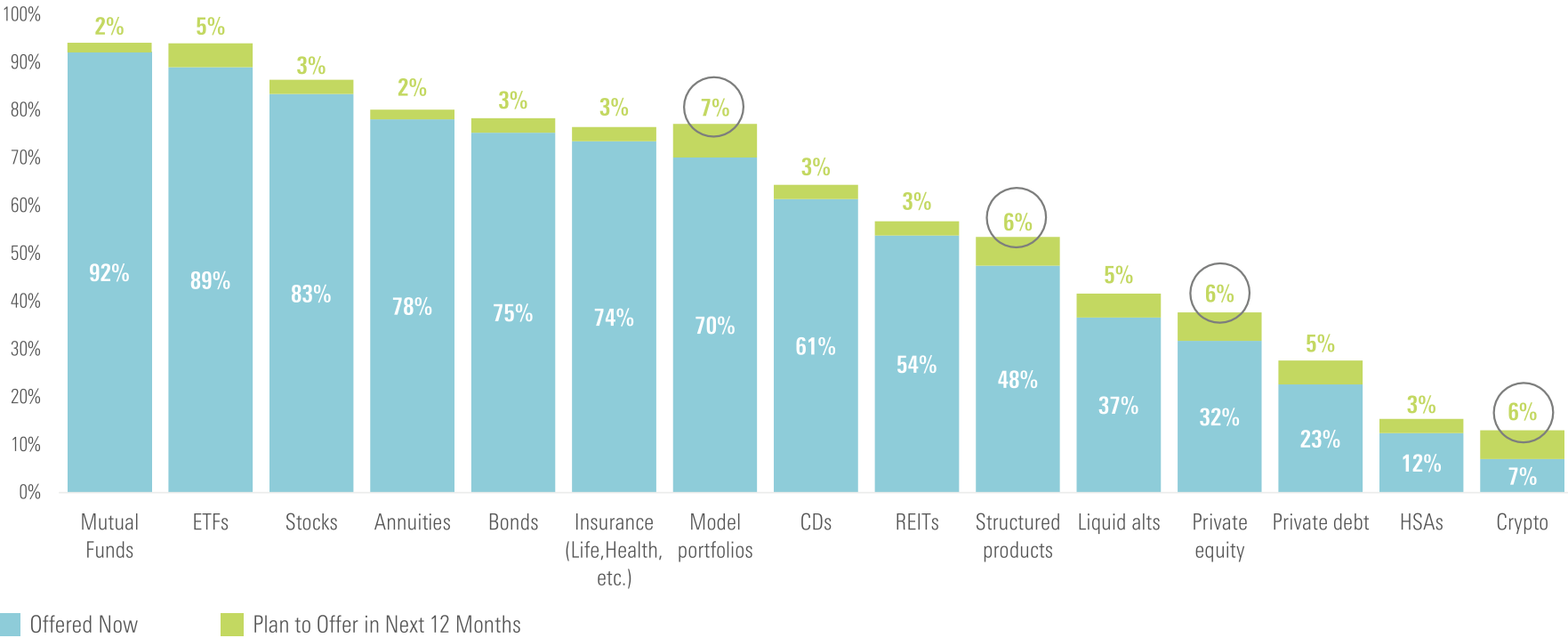
Direct interaction with asset managers and what their firms put forth are the top ways advisors learn about these firms

Ways Advisors Discover Asset Managers – Total



Q22. How do you typically discover asset managers/wholesalers and their products? Please select all that apply.

Advisors are eyeing alternatives

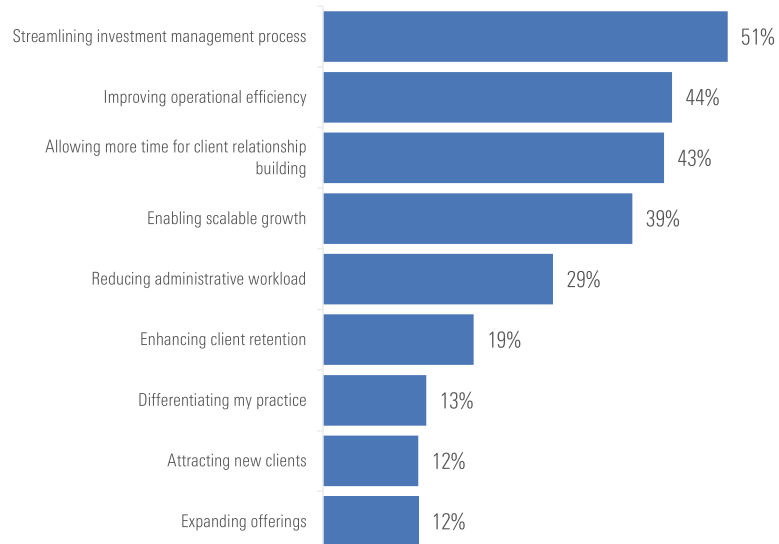


Q30. Which of the following products do you currently offer in your practice? Please select all that apply.
 Q31. Which, if any of these products, do you plan to offer in the next 12 months? Please select all that apply.

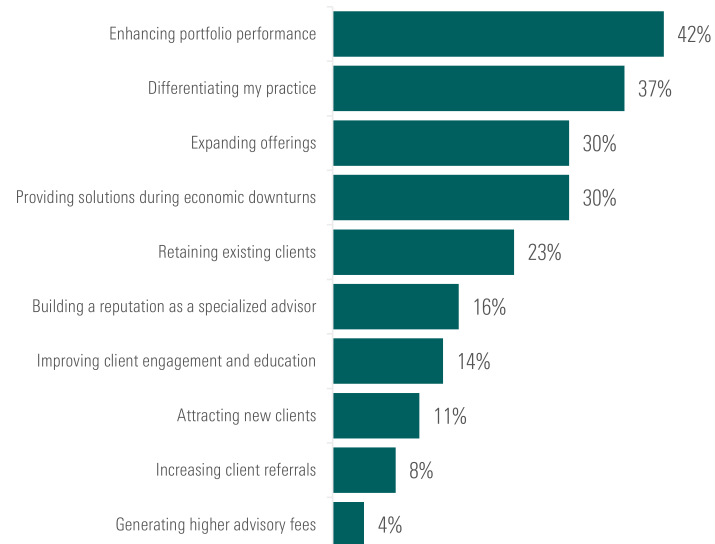
Model Portfolios

Models and alternatives serve quite different purposes in terms of how they can help grow an advisor's practice

Ways Model Portfolios Help Grow Practice



Ways Alternatives Help Grow Practice



Q20. How do you see model portfolios helping to grow your practice? Please select up to your top three reasons.

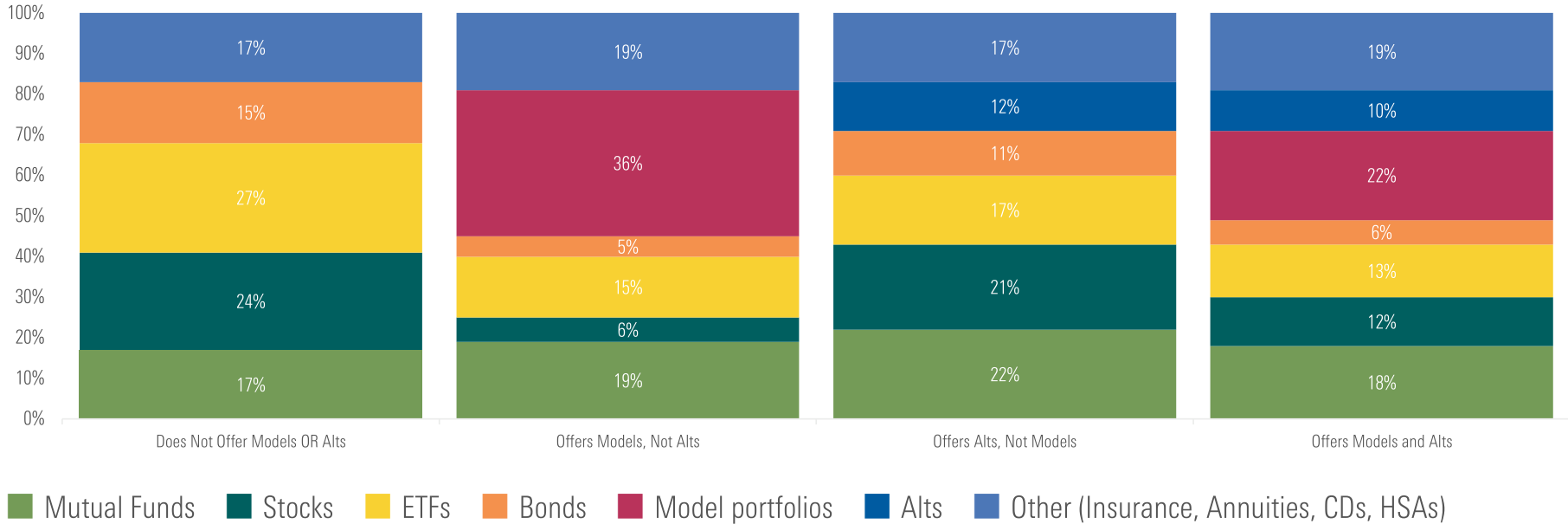
Q26. How do you see alternative investments helping to grow your practice? Please select up to your top three reasons.

Slide 13

MSO [@Joseph Agostinelli] , this is consistent with how I would position their advantages. Model Portfolios allow advisors to prospect more and spend more time with clients. Alternatives provide unique diversification opportunities, most advisors do not understand or can effectively evaluate them. Those that can add a lot of value.

Matt Saunders, 2024-12-04T22:05:12.486

Stocks and bonds lose the most AUM share when model portfolios are introduced



Q10. Which of the following products do you currently offer in your practice? Please select all that apply.
 Q11. What % of your practice's total AUM does each of the following products represent?

Slide 14

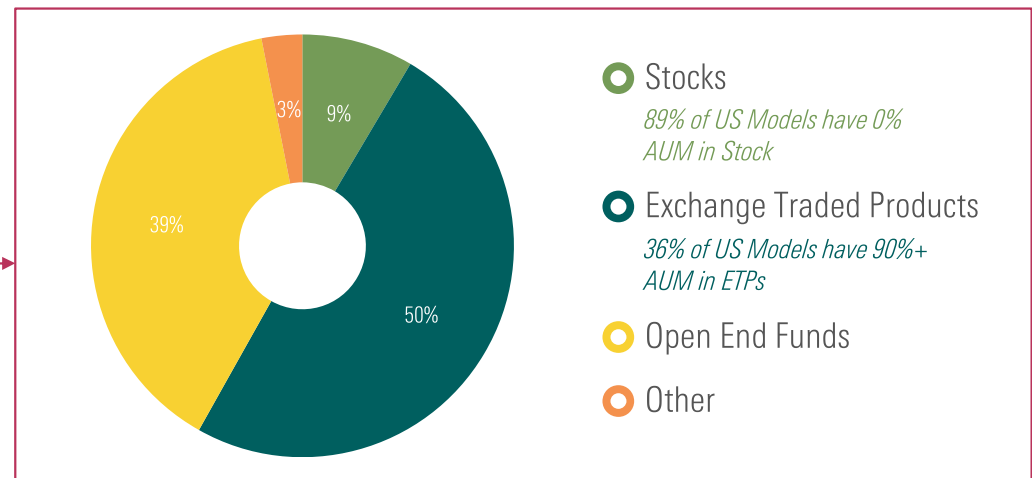
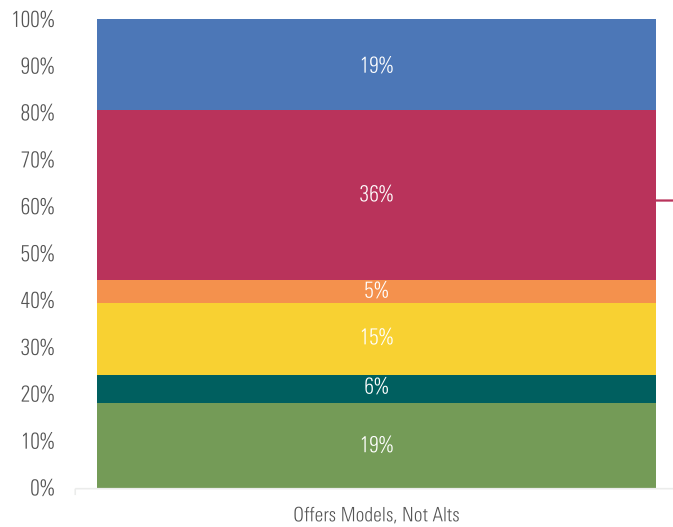
MSO [@Joseph Agostinelli] , does this mean individual holdings? What we are highlighting here is not that clear to me. I look at the most diversified option and the stock and bonds exposure increases over the just model portfolio addition.

What I take away is that when advisors offer model portfolios, they are creating portfolio management efficiency that requires less individual analysis from a stock and bond perspective.

Matt Saunders, 2024-12-04T21:45:04.734

Stocks and bonds lose the most AUM share when model portfolios are introduced

Public Model Underlying Instrument Composition (from Morningstar Direct)

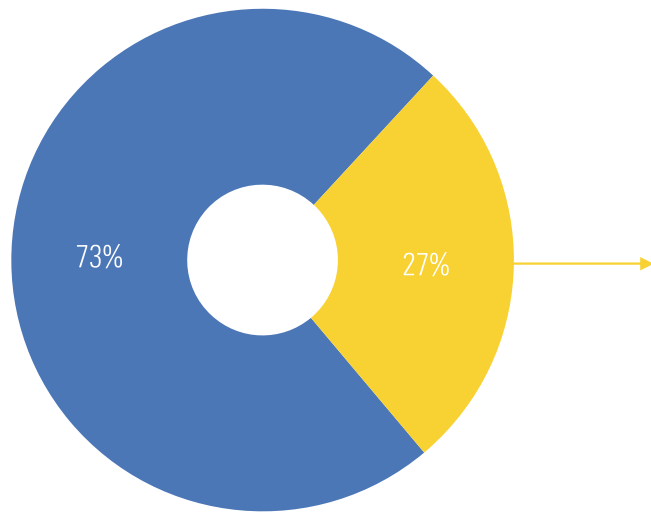


- Stocks
89% of US Models have 0% AUM in Stock
- Exchange Traded Products
36% of US Models have 90%+ AUM in ETPs
- Open End Funds
- Other

■ Mutual Funds ■ Stocks ■ ETFs ■ Bonds ■ Model portfolios ■ Alts ■ Other (Insurance, Annuities, CDs, HSAs)

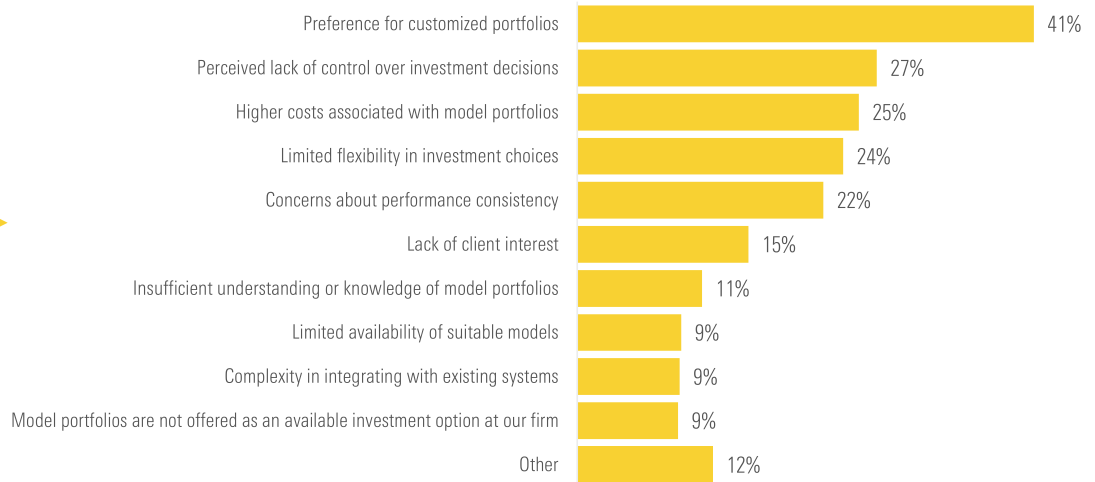
Q10. Which of the following products do you currently offer in your practice? Please select all that apply.
Q11. What % of your practice's total AUM does each of the following products represent?

Preference for customized portfolios is the biggest barrier to model portfolio adoption



Offer Model Portfolios Do Not Offer Model Portfolios

Reasons Not Offering Model Portfolios



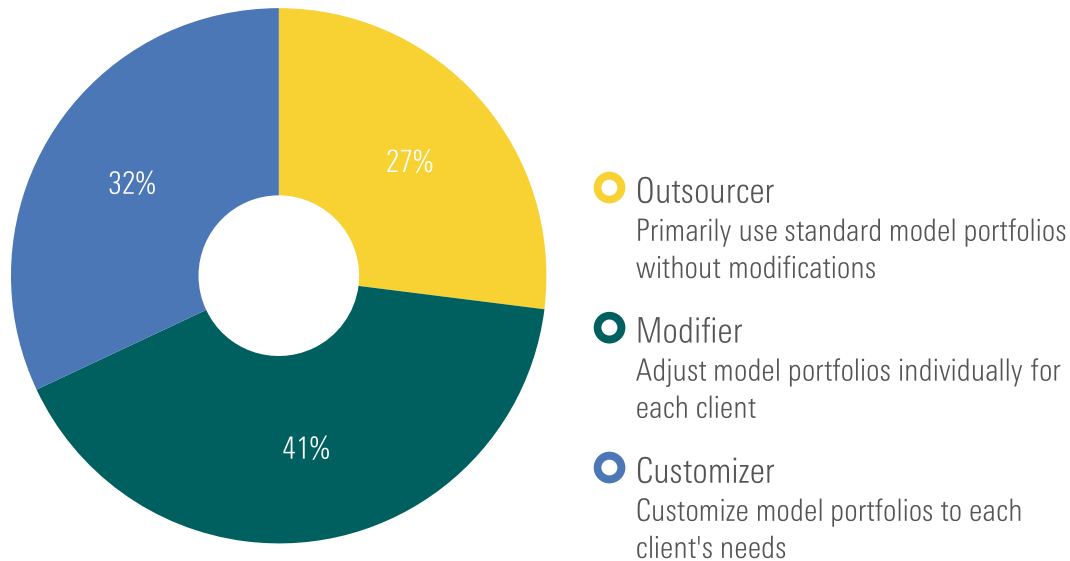
Q12. Why do you not use model portfolios in your practice? Please select up to your top three reasons.

Slide 16

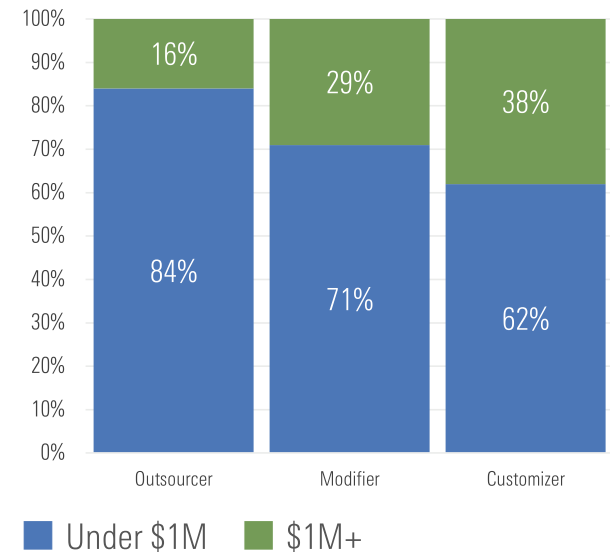
MSO [@Joseph Agostinelli] we can tie this to education.
Matt Saunders, 2024-12-04T22:09:08.758

Models are used in various ways by advisors, depending on factors like their level of comfort and where they can add the most value to their clients

Type of Model Portfolio User



Average Client Account Size by Model Portfolio User Type



Q15. How would you best describe your approach to using model portfolios? Please select one response

Slide 17

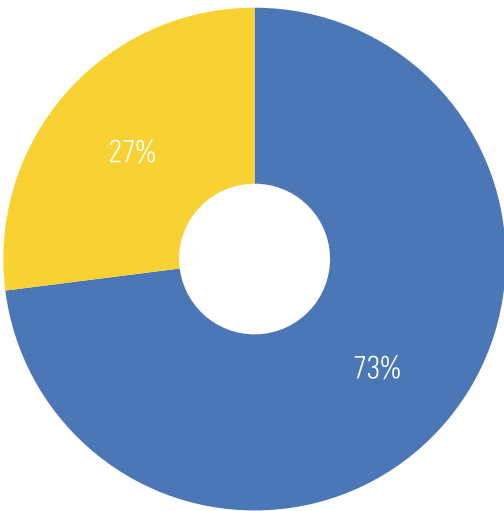
MS0 [@Joseph Agostinelli] , this is good because it shows that advisors can adapt to incorporating the level of model portfolio adjustments to suit client needs and what is best for their practices.

Matt Saunders, 2024-12-04T22:12:36.436

MS1 [@Joseph Agostinelli] , there is content opportunity to highlight model portfolio efficiency but if positioned the right way it might be a differentiator.

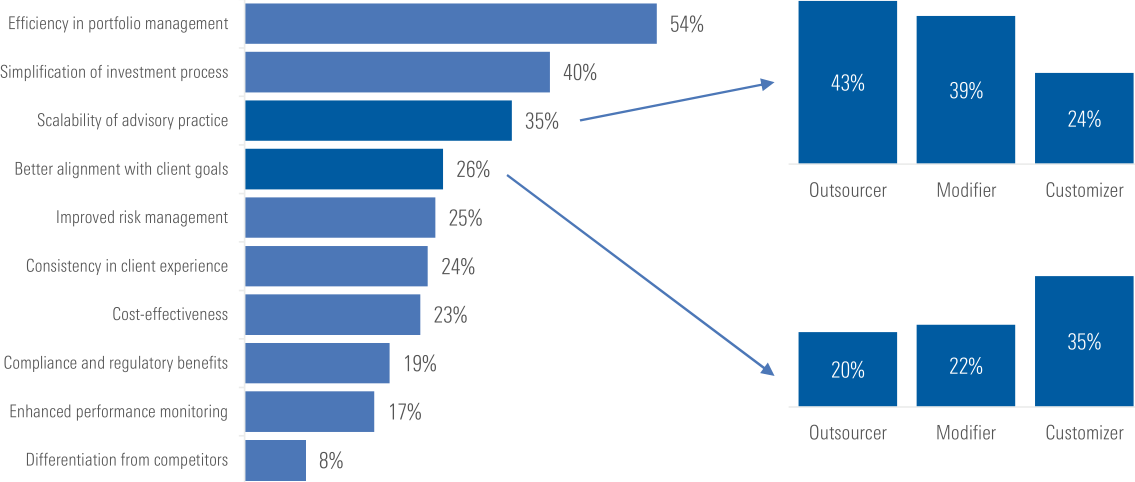
Matt Saunders, 2024-12-05T15:51:46.547

Models are not a differentiator, but they do make things easier/ more efficient for advisors



Offer Model Portfolios
 Do Not Offer Model Portfolios

Reasons Offering Model Portfolios

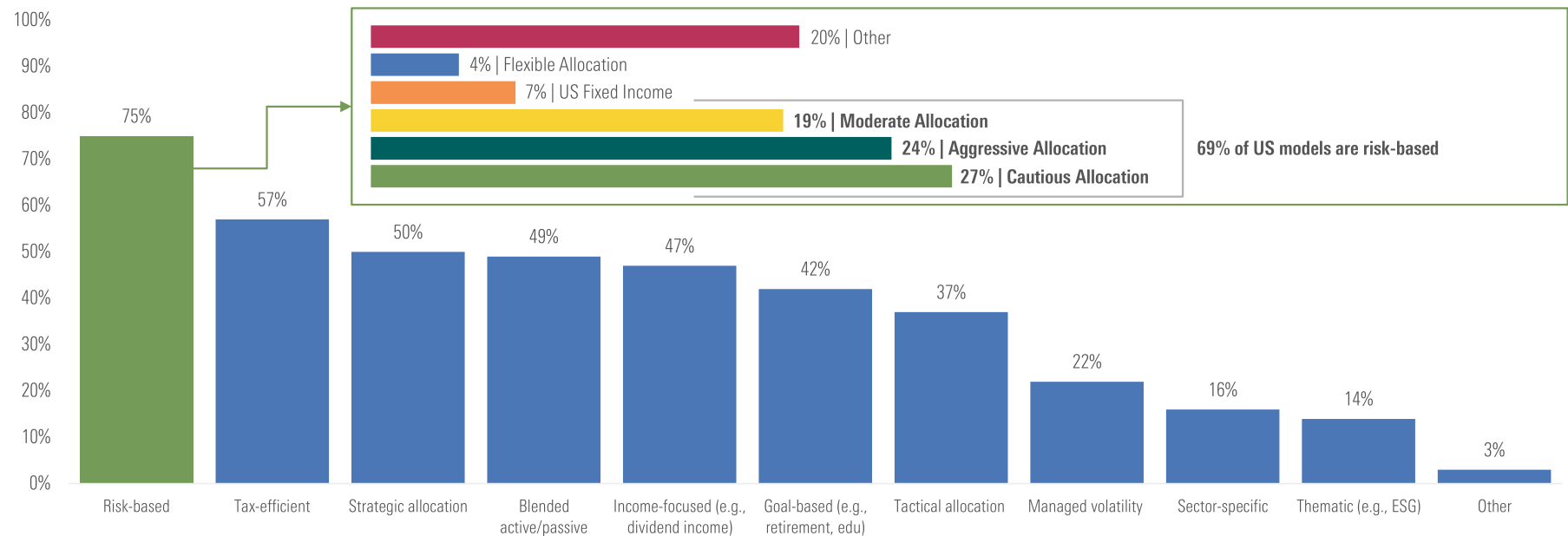


Q16. What are the main reasons you use model portfolios? Please select up to your top three reasons.

Model offerings are generally aligned around risk tolerance

Types of Models Used

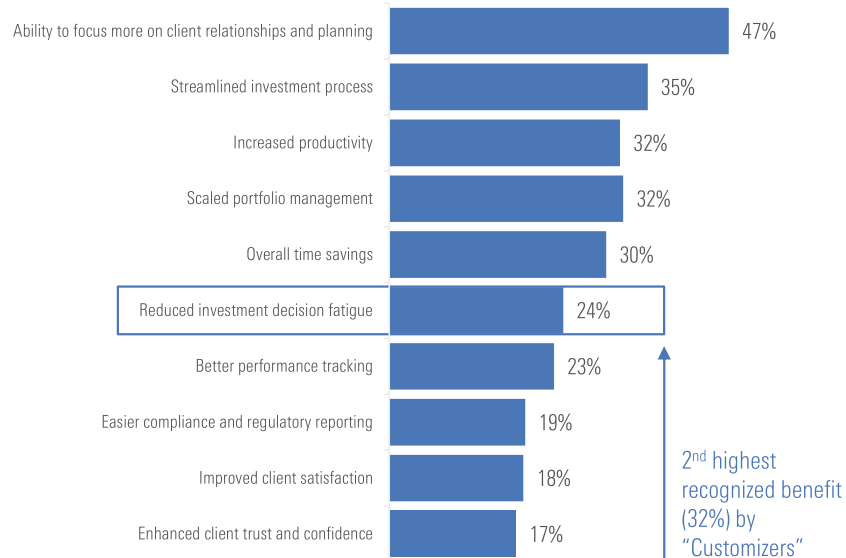
Model Global Categorization (from Morningstar Direct)



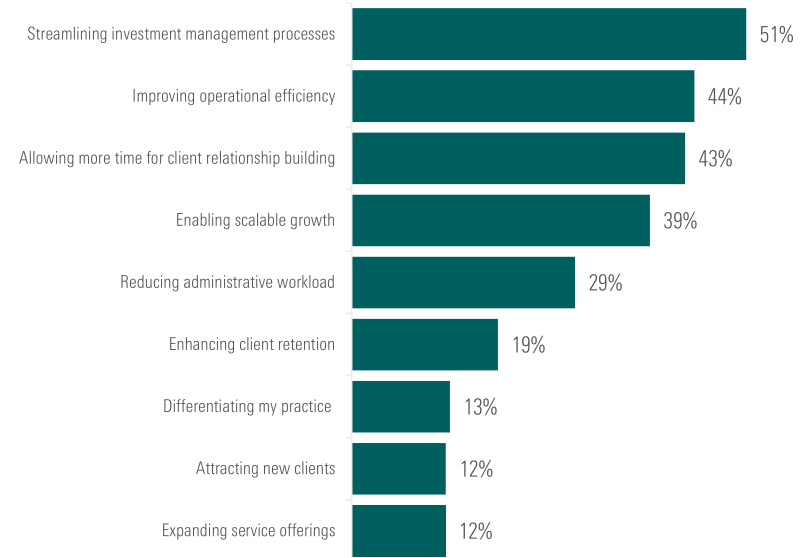
Q13. Which types of model portfolios do you use? Please select all that apply.

Efficiency and time with client are reiterated with model portfolio benefits and the impact they can have on practice growth

Benefits of Model Portfolios to Practice



Ways Model Portfolios Help Grow Practice

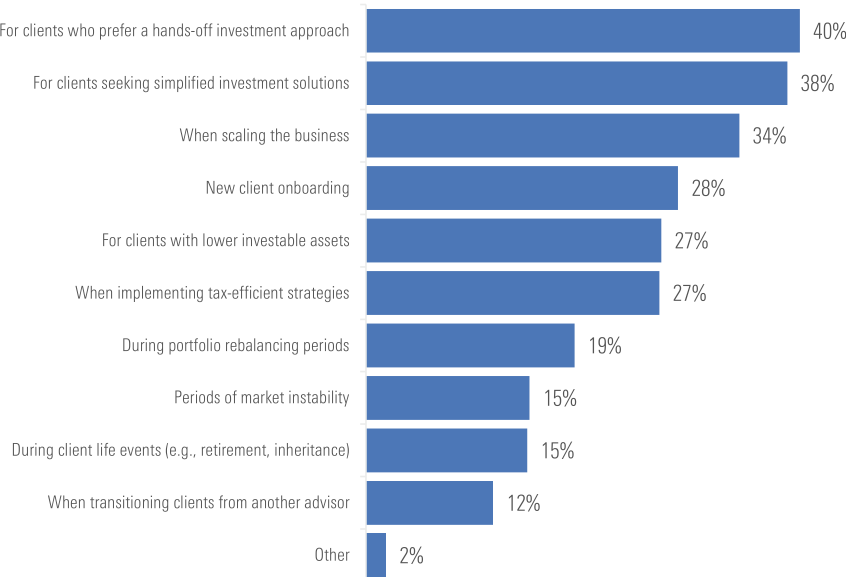


Q17. What benefits have you realized from using model portfolios in your practice? Please select up to your top three benefits.

Q20. How do you see model portfolios helping to grow your practice? Please select up to your top three reasons.

A client lacking required complexity or asset maturity tends to drive model portfolio usage

When Advisors Are More Likely to Use Models



Hands-Off or Delegator Clients

1. Comfortable trusting professionals to manage their investments
2. Not interested in regular updates or participation in investment decisions
3. Value automated processes like auto-rebalancing

Lower or Moderate Investable Assets

1. Assets typically under \$250,000 or similar thresholds
2. Clients seeking professional management due to limited capacity for diversification on their own

Goal-Oriented or Risk-Focused Clients

1. Investing with clear long-term goals such as retirement
2. Seeking straightforward and consistent investment solutions

MSO

Q18. Are there specific circumstances where you are more likely to leverage model portfolios? Please select up to your top three circumstances.
 Q19. How would you define a client who is a good fit for model portfolios? This could be things like being of a certain age range or education level, certain level of investable assets, etc. Please be as specific as possible.



Slide 21

MSO [[@Joseph Agostinelli](#)] , could be important to highlight tax-efficiency here for HNW, retirees, estate planning, taxable accounts that can benefit from incremental return improvement, wealth perseveration,
Matt Saunders, 2024-12-05T15:45:57.378

Alts

Complexity and fees deter the adoption of alternatives



Q21. Why do you not employ alternative investments as an option for the clients in your practice? Please select up to your top three reasons.

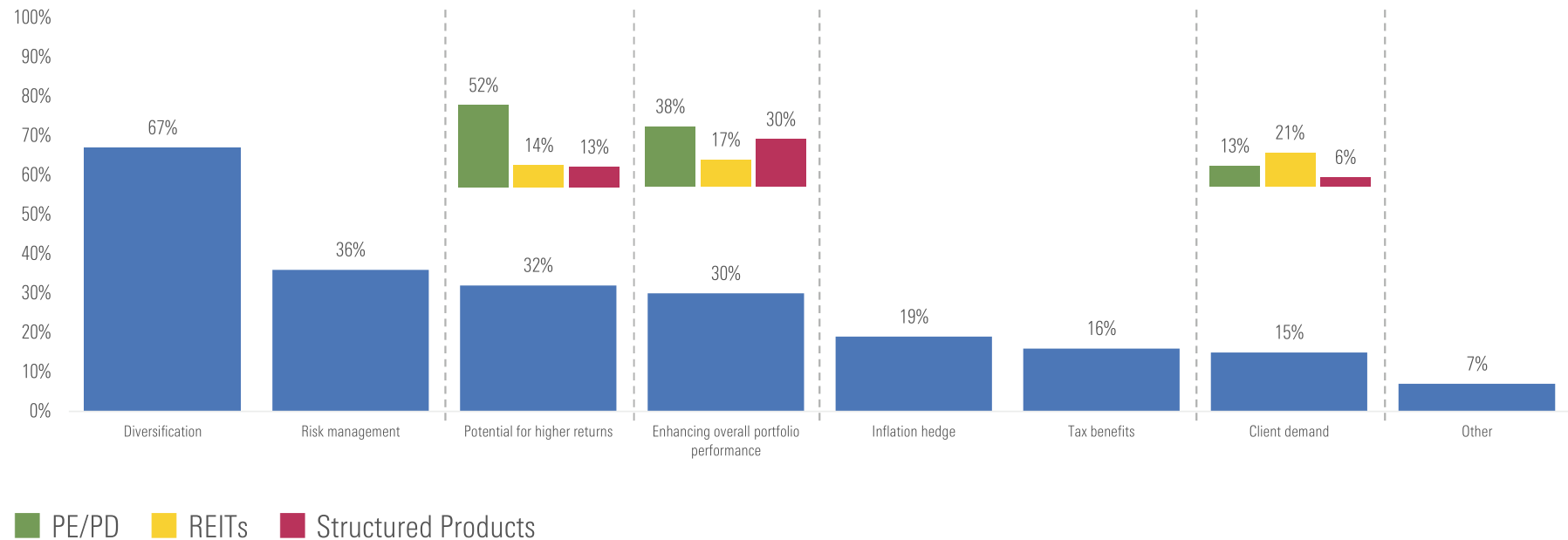
Slide 23

MSO [[@Joseph Agostinelli](#)] , there is often a disconnect on the value alts can bring. Liquid Alts have struggled to offer returns that expect when markets are going higher.

Matt Saunders, 2024-12-05T15:54:18.146

Diversification is the top reason for offering alternatives, with other motivations varying by the type of alternative offered

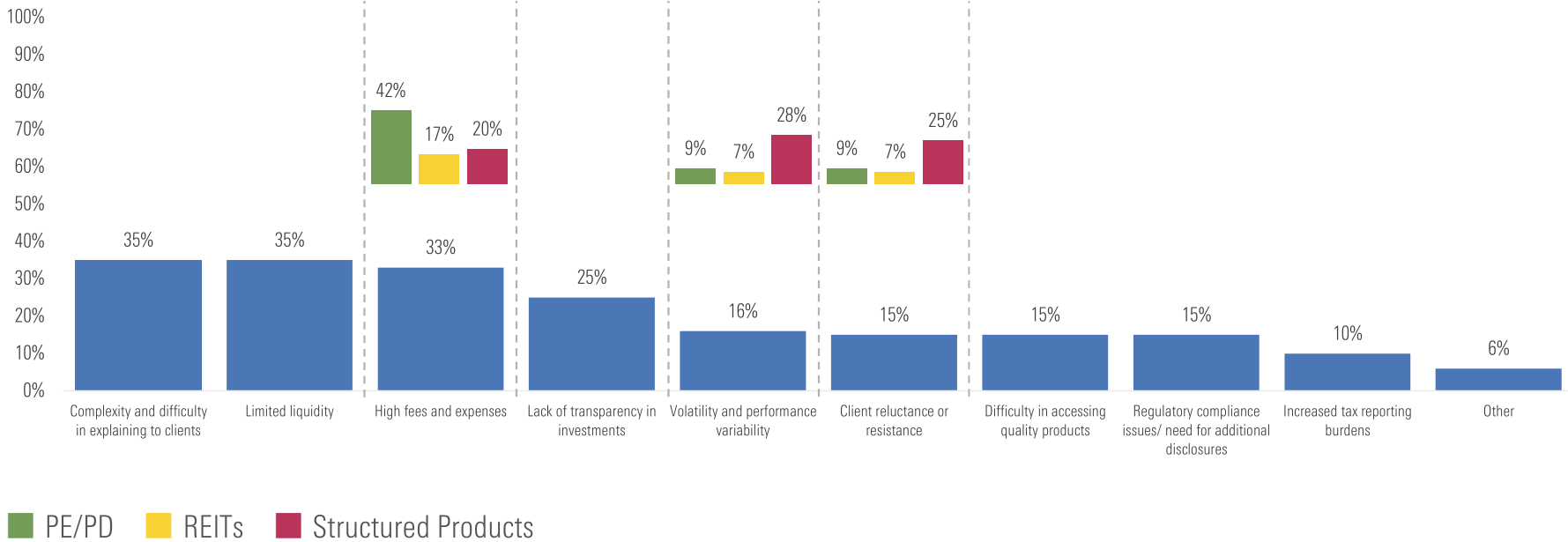
Reasons Advisors Offer Alternatives



Q22. Why do you employ alternative investments as an option for the clients in your practice? Please select up to your top three reasons.

Different types of alternatives present unique challenges, but overall they are seen as complex product offerings

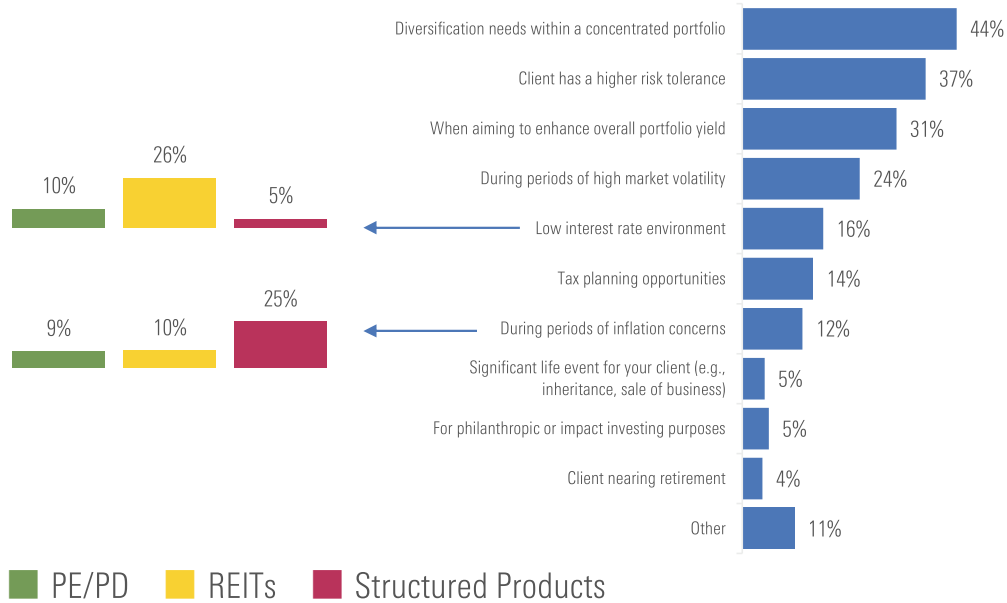
Challenges Faced in Offering Alternatives



Q23. Which of the following challenges, if any, have you experienced by offering alternatives to your clients? Please select up to your top three challenges.

A certain level of sophistication is usually needed for advisors to bring alternatives into a client portfolio

When Advisors Are More Likely to Use Alternatives



HNW and Accredited Investors

1. \$1M+ in investable assets
2. Meeting regulatory standards for investment sophistication
3. Solid understanding of financial markets and alternative investments

Diversification Needs

1. Desire for assets that do not move in tandem with traditional markets
2. As a small sleeve within a broader portfolio
3. Reducing volatility or hedging against market declines

Risk Tolerance and Liquidity Requirements

1. Willingness to take on higher risks for potential returns
2. Sufficient liquidity elsewhere to meet short-term needs
3. Suited to clients with patience for long-term growth

Q24. Are there specific circumstances where you are more likely to employ alternative investments? Please select up to your top three circumstances.
 Q25. How would you define a client who is a good fit for alternative investments? If you have a Standard Operating Procedure (SOP) for determining this, please describe it. Otherwise, feel free to outline factors such as age range, education level, investable assets, or other criteria. Please be as specific as possible.

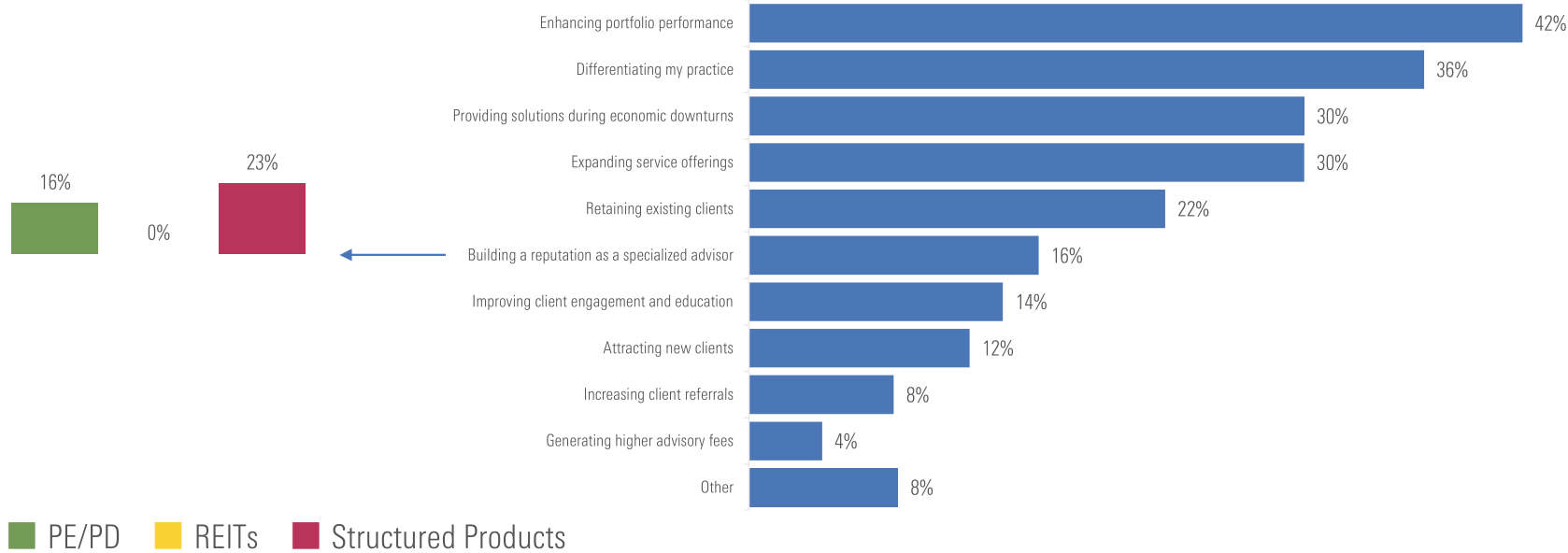
Slide 26

MSO [@Joseph Agostinelli] , this is a interesting point. Should be careful how we position as to not offend. Alts offer a unique practice positioning opportunity to attractive HNW and UHNW clients that are critical for quick AUM growth. Tracking, evaluating and reporting are key challenges.

Matt Saunders, 2024-12-05T16:07:57.425

Alternatives enhance advisors' self-perceived value to their clients, through expert investment management and tailored plans

Ways Alternatives Help Grow Practice



Q26. How do you see alternative investments helping to grow your practice? Please select up to your top three reasons.

Appendix

Methodology – Voice of the Advisor

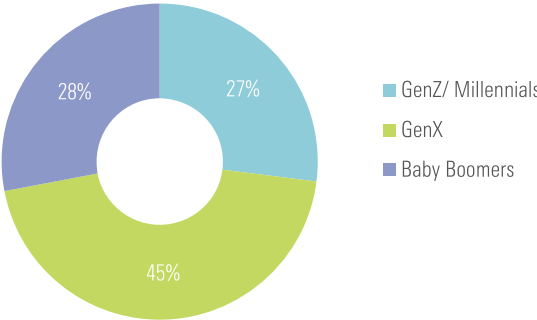
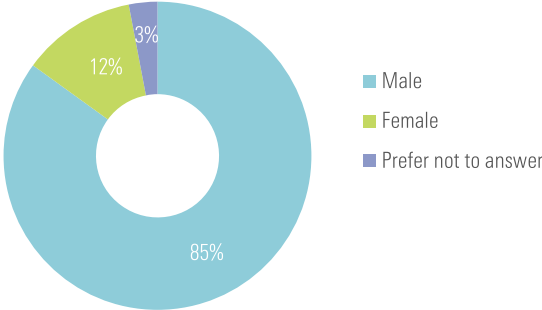
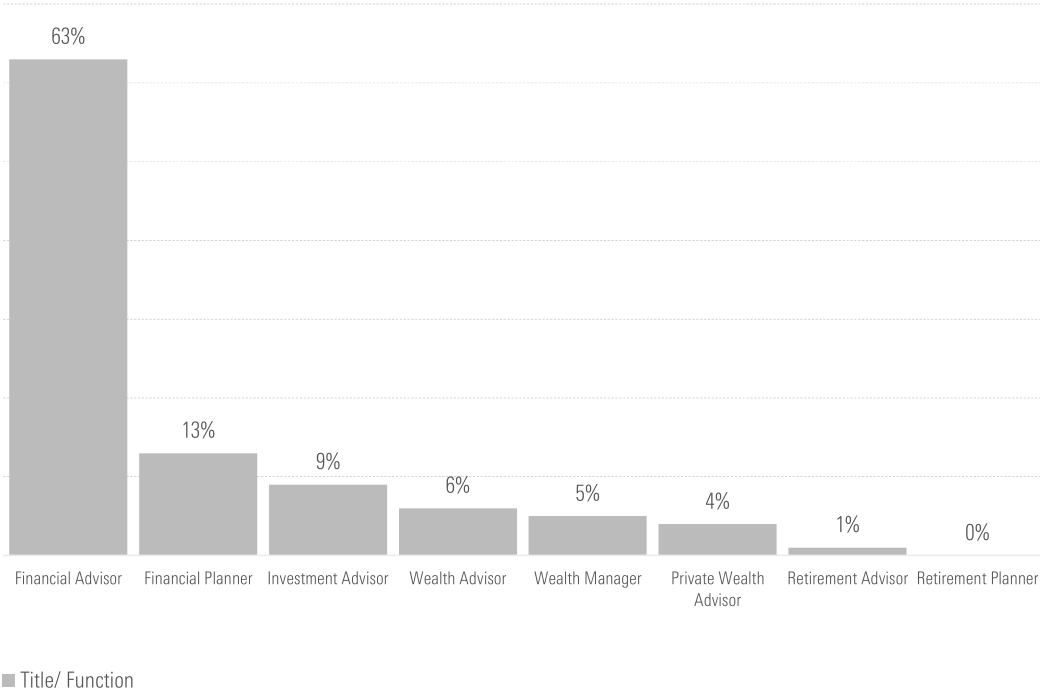
Morningstar in conjunction with Zeldis Research conducted a 15-minute online survey among financial advisors working with individual and/or retail investors across the United States.

A total of 577 responses were collected between July 8 and August 1, 2024. Financial advisors were sourced via Discovery's database and were required to have a minimum of \$10 million total assets under management (AUM) within their clients' book of business.

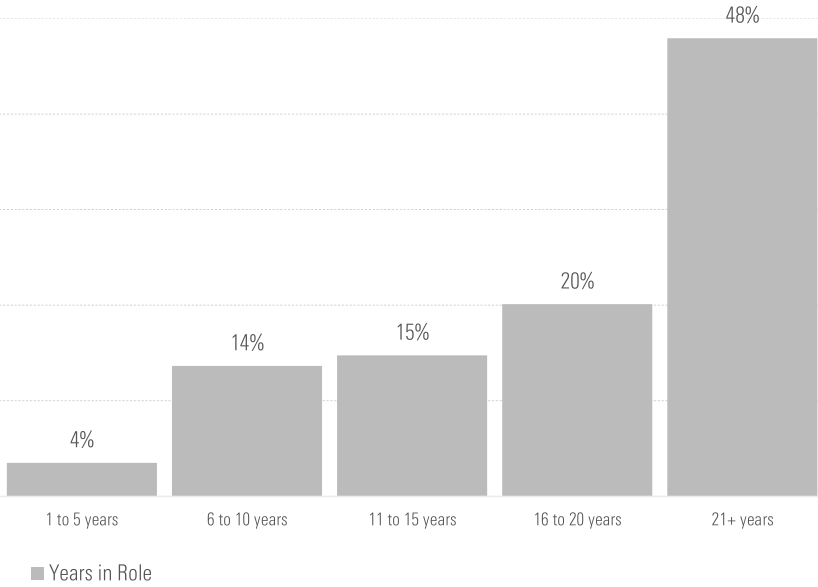
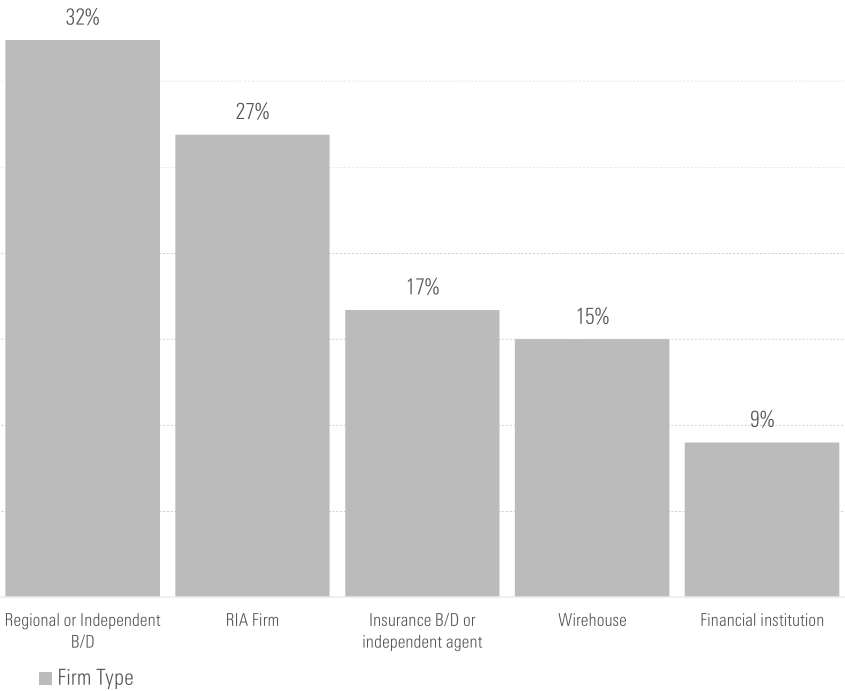
Quotas were put in place to ensure the overall sample matched the current makeup of the U.S advisor population across the different distribution channels (independent broker/dealers, registered investment advisors, wirehouses, insurance broker/dealers & retail/bank broker/dealers).

Morningstar was not identified as the sponsor of this survey.

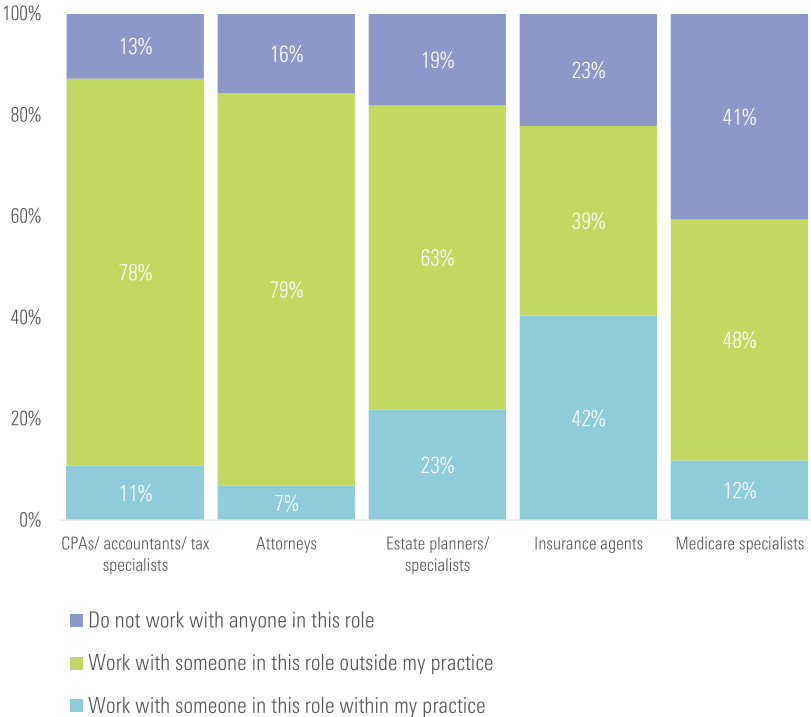
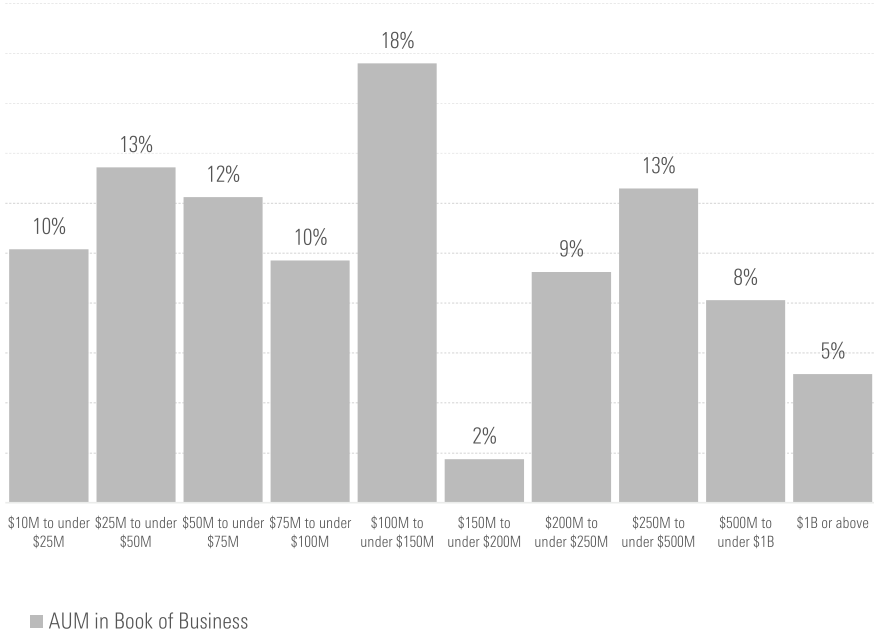
Advisor Respondent Profile



Advisor Respondent Profile

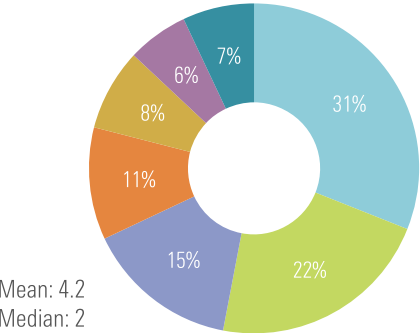


Advisor Respondent Profile – Size of Practice

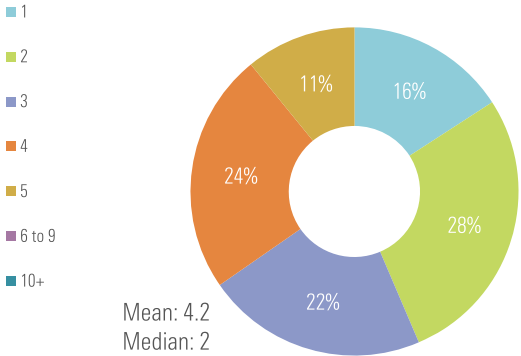


Advisor Respondent Profile – Size of Practice

of Licensed Advisors/ Planners in Practice



of Additional Staff in Practice



of Clients

