Navigating the Client Lifecycle in Financial Advice

As your value proposition evolves, how do you better attract and engage clients?

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Table of Contents

The Future Is Human (Centered)

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The quality of advisor-client relationships determines the success of an advisor's practice, but advisors face a conundrum: The expectations of what builds a strong advisor-client relationship today are different from what they were 10 or 20 years ago. Previously, the relationship was mostly evaluated according to the functional value the advisor brought their clients, like returns; if investment products delivered good returns, they could expect their clients to be happy. Now, advisors are being pushed to extend further and provide emotional value as well—thus expanding their role to one of a behavioral coach, financial expert, and advocate (not a stock-picker nor a portfolio-builder).

This evolution has pushed advisors to focus more on *investor management* than on traditional *investment management*. As such, advisors must be able to recognize and uncover who an investor is as a person and tailor offerings accordingly at each stage of the relationship. This involves understanding an investor's financial wants and needs, anticipating future planning aspirations based on that knowledge, and helping clients connect their financial decisions today to their long-term life goals. In other words, the financial advice industry is evolving, gravitating more toward the human side of investing and expanding the definition of what constitutes good advice.

Given this fundamental shift from a focus on *investments* to *investors*, it is more important than ever for advisors to have a clear sense of what investors value in the advisor-client relationship throughout the client lifecycle. This entails understanding what motivates a person to hire a financial advisor, to keep working with their advisor, and (sometimes unfortunately) to fire their advisor. We examine all three stages of the client lifecycle through the lens of behavioral science.

A Nonexhaustive List of the Growing Services Provided by Advisors

Financial Planning Then

Functional Services
- Portfolio construction
- Portfolio rebalancing
- Debt management
- Retirement planning
- Insurance
- Estate planning

Financial Planning Now

Human-Centric Services
- Goal generation assistance
- Financial counselor
- Behavioral coaching
- Life value fulfillment
- Relationship management
- Communication
- Financial wellness
- Personalization

Functional Services

Source: Morningstar.

What Investors Seek Through the Client Lifecycle

Collecting Investors' Responses in Their Own Words

To understand how advisors can grow their practices and nourish existing relationships, we conducted a series of research studies in which we collected open-ended responses from investors on why they chose to hire their advisor, continue working with their advisor, and (when applicable) stop working with their advisor.

To analyze the data, we identified common high-level motivations behind each of the responses, 10 of which were consistent across all three studies. These motivations tended be more emotional (☻) or financial ($) in nature, depending on the need that is being addressed.

Using this master list of common motivations, we manually categorized client response into one or more of the 10 motivational categories. For example, a client might have reported verbatim, "I did not feel confident to make a decision here," which we designated as being in the category "Comfort handling financial issues."

Each response was assigned to one or more categories depending on how many topics were reported. The next step in our analysis involved counting the frequency of the different categories and then comparing those results across each stage in the client lifecycle.

Common Motivations Behind Hiring, Retention, and Firing Decisions

Emotional ☻	*Comfort handling financial issues* Advisor was hired/kept/fired because of the client's confidence (or lack thereof) in their own skills needed to reach their financial goals or their knowledge regarding finances.
	Quality of relationship with advisor Advisor was hired/kept/fired because the client felt they had a good (or bad) relationship with their advisor owing to any number of factors, such as a match in values, having trust in the advisor, and having a good rapport.
	Quality of communication with advisor Advisor was hired/kept/fired because of the communication they had with their advisor regarding financial services.
	Self-presentation of advisor Advisor was hired/kept/fired because of how they presented their business (for example, office, staff, and so on) to their client.
	Recommended by friends/family Advisor was hired/kept/fired because client was encouraged to do so by trusted individuals.
	Behavioral coaching Advisor was hired/kept/fired because they could (or could not) provide sufficient support to help the client act in ways beneficial to their finances, such as explaining the financial plan, motivating the client to stick to the plan, or providing guidance on what not to do in certain financial situations.
Financial $	*Specific financial needs* Advisor was hired/kept/fired because the client had a specific financial issue that needed to be resolved such as planning for retirement, handling the loss of a spouse, or tax planning.
	Quality of financial advice and services Advisor was hired/kept/fired because of how well their financial services and advice were perceived as being able to help the client achieve their financial goals.
	Return performance-driven factors Advisor was hired/kept/fired because of client expectations for returns.
	Cost Advisor was hired/kept/fired because of the price associated with their service.

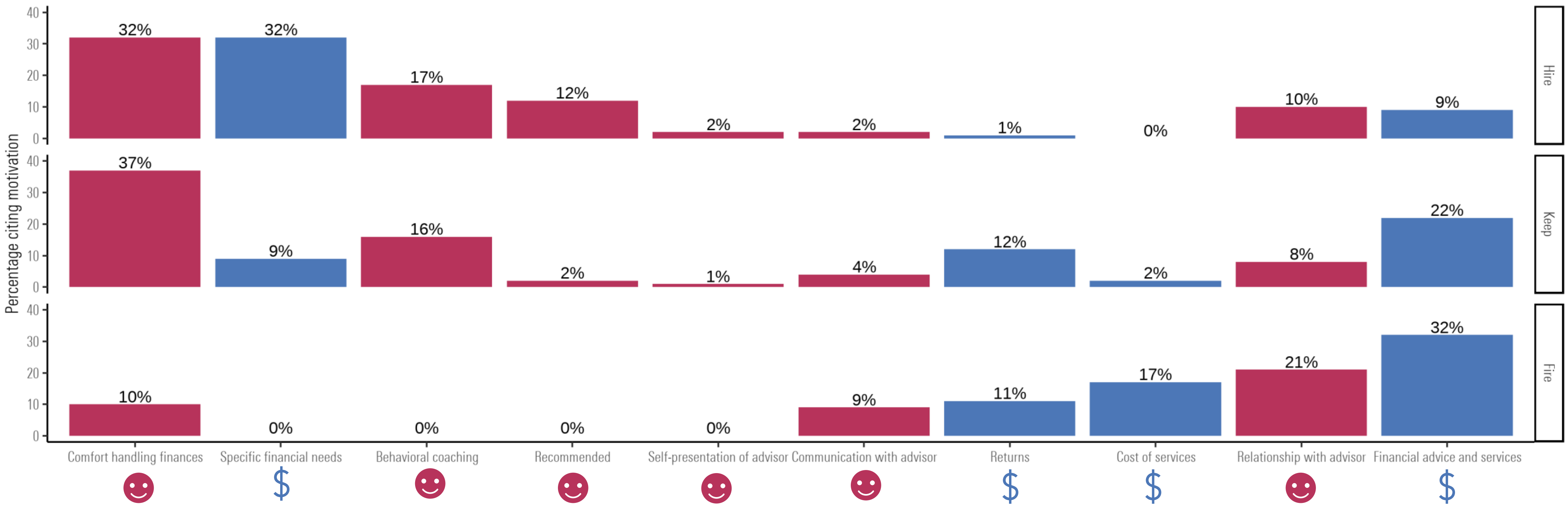
Source: Morningstar.

- We featured this question in three different surveys, which included a total of 3,003 people, conducted during specific periods of 2021 and 2022.
- To ensure the quality of the manual coding, we first established inter-rater reliability—as established by a Krippendorff's alpha ≥ 0.64—on 20% of the data.

Shifting Values Throughout the Client Lifecycle

The following exhibit shows the proportion of responses that were attributed to each of the most common categories. It also shows whether the category was related to emotional (☻) versus financial needs ($). Clients' motivations for engaging (or disengaging) with their financial advisor evolve over the entire lifecycle of advice.

Proportion of Responses Attributed to Each Motivation Category
Displaying Results for Hiring, Keeping, and Firing Decisions

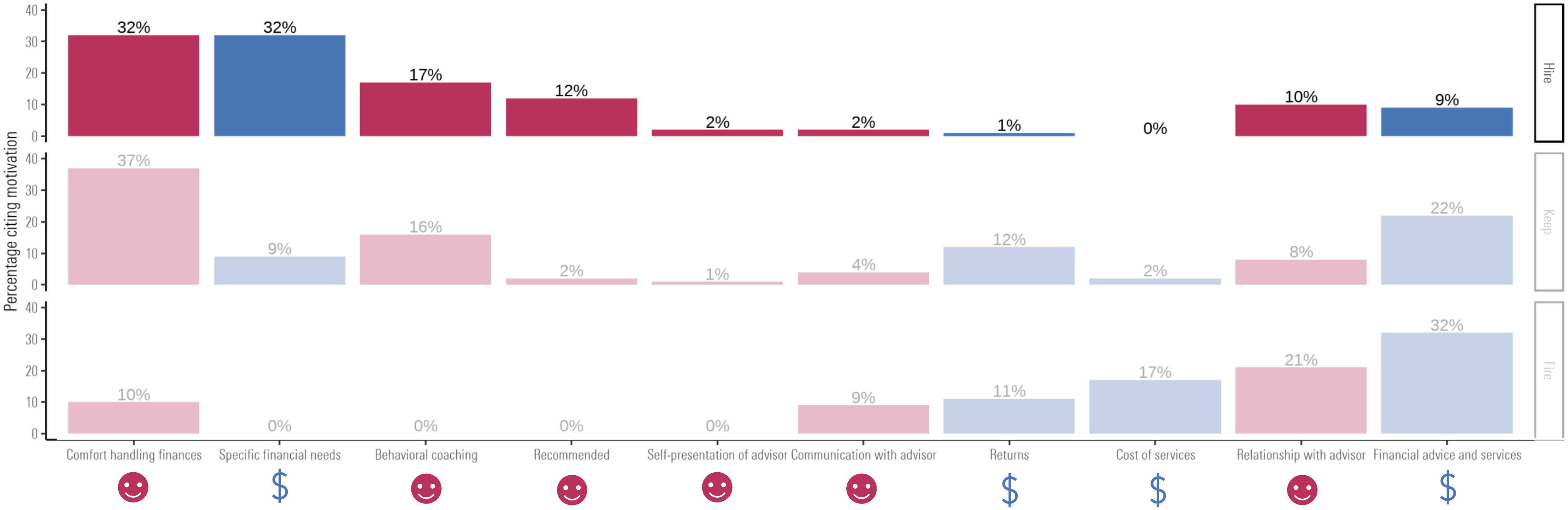


Source: Morningstar, 2023.

Shifting Values Throughout the Client Lifecycle

When hiring a financial advisor, a third of responders indicated they had a specific problem/need they had wanted addressed, but specific financial concerns were not the only reason investors chose to hire a financial advisor. Our results show that people value the combination of the emotional benefits and financial advice—things like a sense of comfort concerning one's financial issues, the support of behavioral coaching, and the quality of the relationship with the advisor—more than financial concerns. These findings emphasize the need for advisors to focus on the psychological underpinnings of financial decisions when speaking to prospective clients, maybe even more so than their financial expertise.

Percentage of Responses Attributed to Each Motivation Category

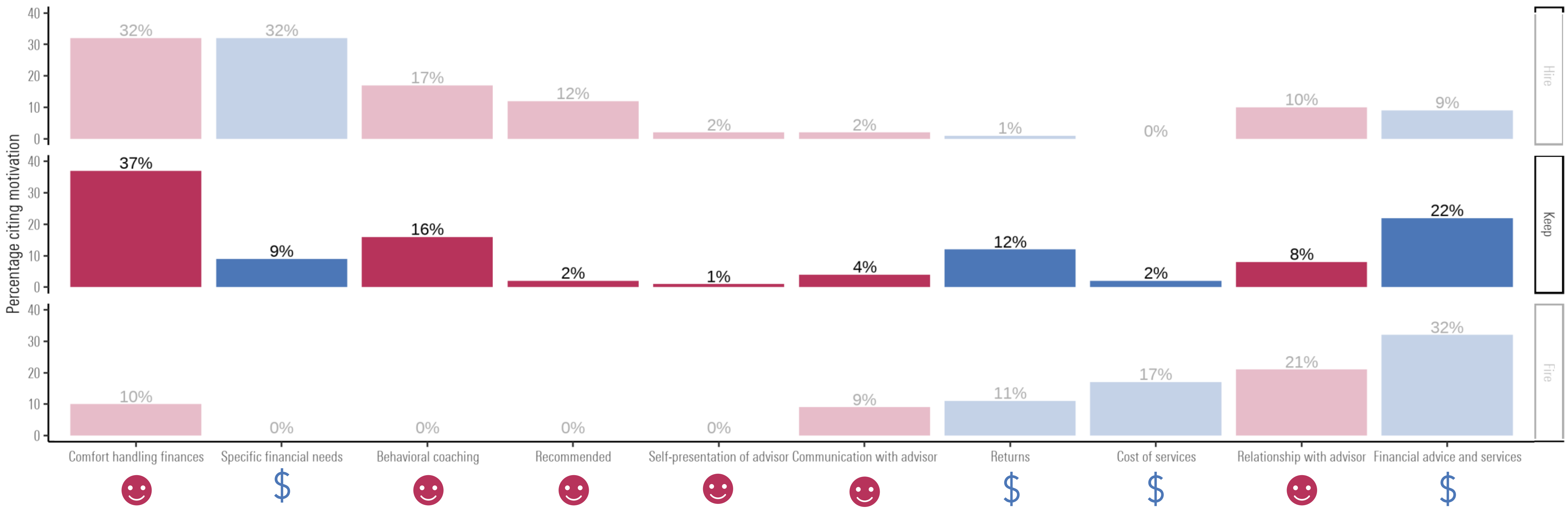


Source: Morningstar, 2023.

Shifting Values Throughout the Client Lifecycle

Moving further along the client lifecycle, retention choices require more from advisors, on both financial and emotional levels. On the financial side, investors require more than one-off guidance and are asking for personalized advice that can help them reach their financial goals. Responses that fit under the "Quality of financial advice and services" category often had an emotional component, as clients reported valuing the advice because it helps them achieve their goals and uncover unrecognized financial needs. On the emotional side, investors noted they stayed with their advisor because the advisor helped keep them on track as a "sounding board" when making decisions (that is, behavioral coaching) and gave them peace of mind (comfort handling financial issues). The prevalence of the latter category is telling, indicating the value advisors create by empowering and partnering with clients when making financial decisions and helping ameliorate the discomfort that many investors report feeling as they confront investing choices.

Percentage of Responses Attributed to Each Motivation Category



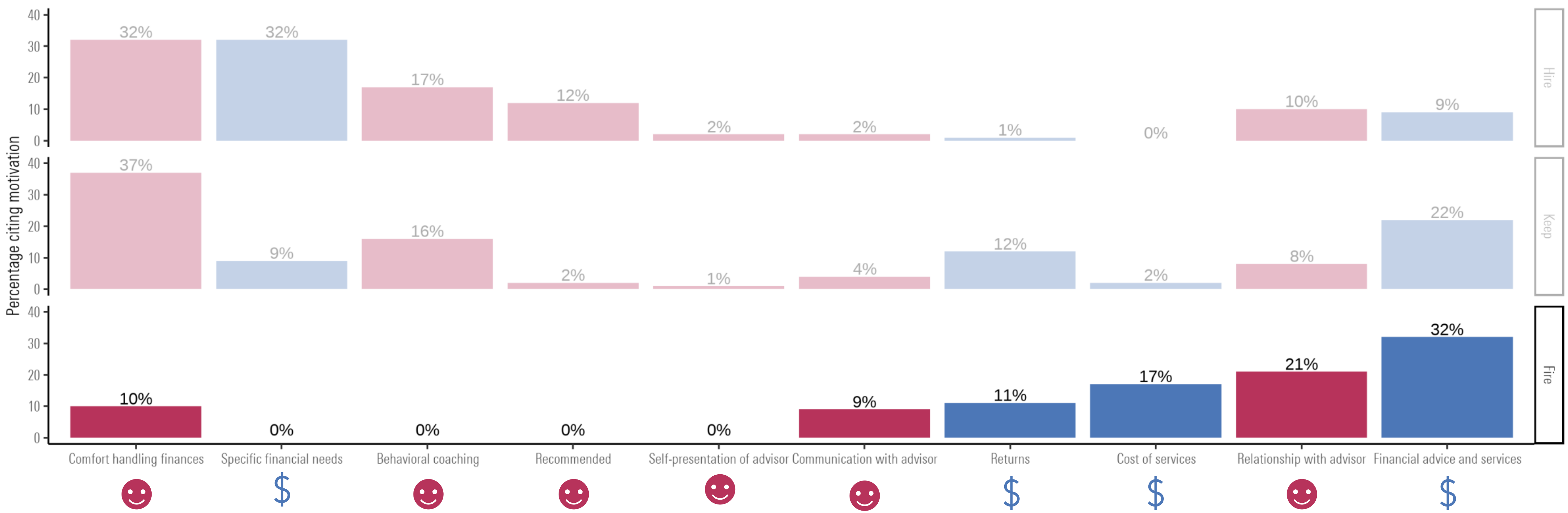
Source: Morningstar, 2023.

Shifting Values Throughout the Client Lifecycle

Termination decisions seem to have different drivers than the previous two questions. We found those clients who fired their advisors tended to focus on financial concerns such as the quality of their advice and the cost of services. In these cases, the value of the advisor was being questioned as clients could not see how the relationship was helping them make progress toward their financial goals and moreover that they do not feel supported in the process.

In the following sections, we will dig into each stage of the client lifecycle, giving a few examples of responses that fit into each high-level category and we also provide some actionable takeaways for advisors based on these insights.

Percentage of Responses Attributed to Each Motivation Category



Source: Morningstar, 2023.

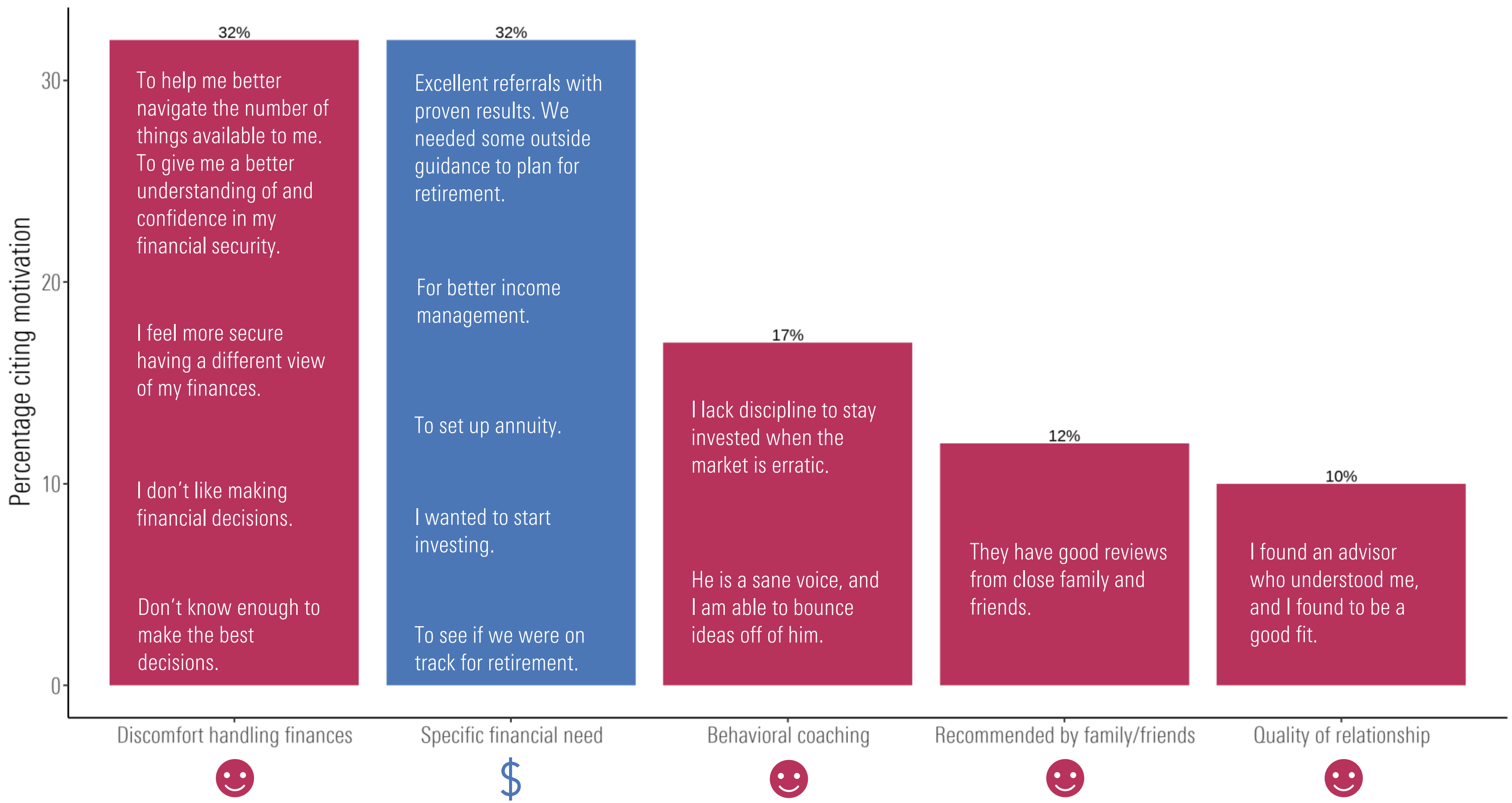
Grow Your Business — Get Hired

Grow Your Business—Get Hired

The next pages feature an exhibit that shows the percentage of responses that fell into the five most common topics driving hiring, retention, and firing decisions, along with a few examples of some associated responses. Following these exhibits, we highlight opportunities to improve your practice based on the empirical findings. To begin, let's dig into the most common reasons investors gave for hiring a financial advisor.

A substantial portion of investors hire an advisor to address a specific financial need, but the majority of reasons cited emotional drivers. At this early stage of the client lifecycle, people value an advisor who can address their lack of confidence and unease about making financial decisions (discomfort handling finances), help them [stay on track] during market volatility (behavioral coaching), and "really get them" them as a person (quality of relationship).

Most Common Reasons for Hiring a Financial Advisor



Source: Morningstar, 2023.

Grow Your Business — Get Hired

These results demonstrate the need to highlight the emotional support and guidance that advisors have to offer their prospective clients. The graphic below provides insights into how advisors can address prospective clients' three most important concerns.

How to get hired

Speak to the need for peace of mind.

- ❑ Highlight how your expertise can reduce decision-making anxiety by providing clarity on the pros and cons of different options.
- ❑ Provide examples of how previous clients have found better peace of mind in working with you.
- ❑ Emphasize your commitment to building a financial plan that will help them reach their goals.

Demonstrate decision-making support.

- ❑ Acknowledge that making good decisions about high stakes financial issues can be difficult for many people.
- ❑ Give examples of how you provide clients the education and guidance they need to stay on track.
- ❑ Affirm your commitment to helping clients through their individual financial journey.

Highlight ability to meet financial needs.

- ❑ Ensure clients are aware of the different services you provide.
- ❑ Demonstrate you understand potential clients by recognizing their specific needs and how these are driven by a person's deeper "why."
- ❑ Address your ability to reflexively respond to future financial needs that clients may have as their circumstances change.

Source: Morningstar, 2023.

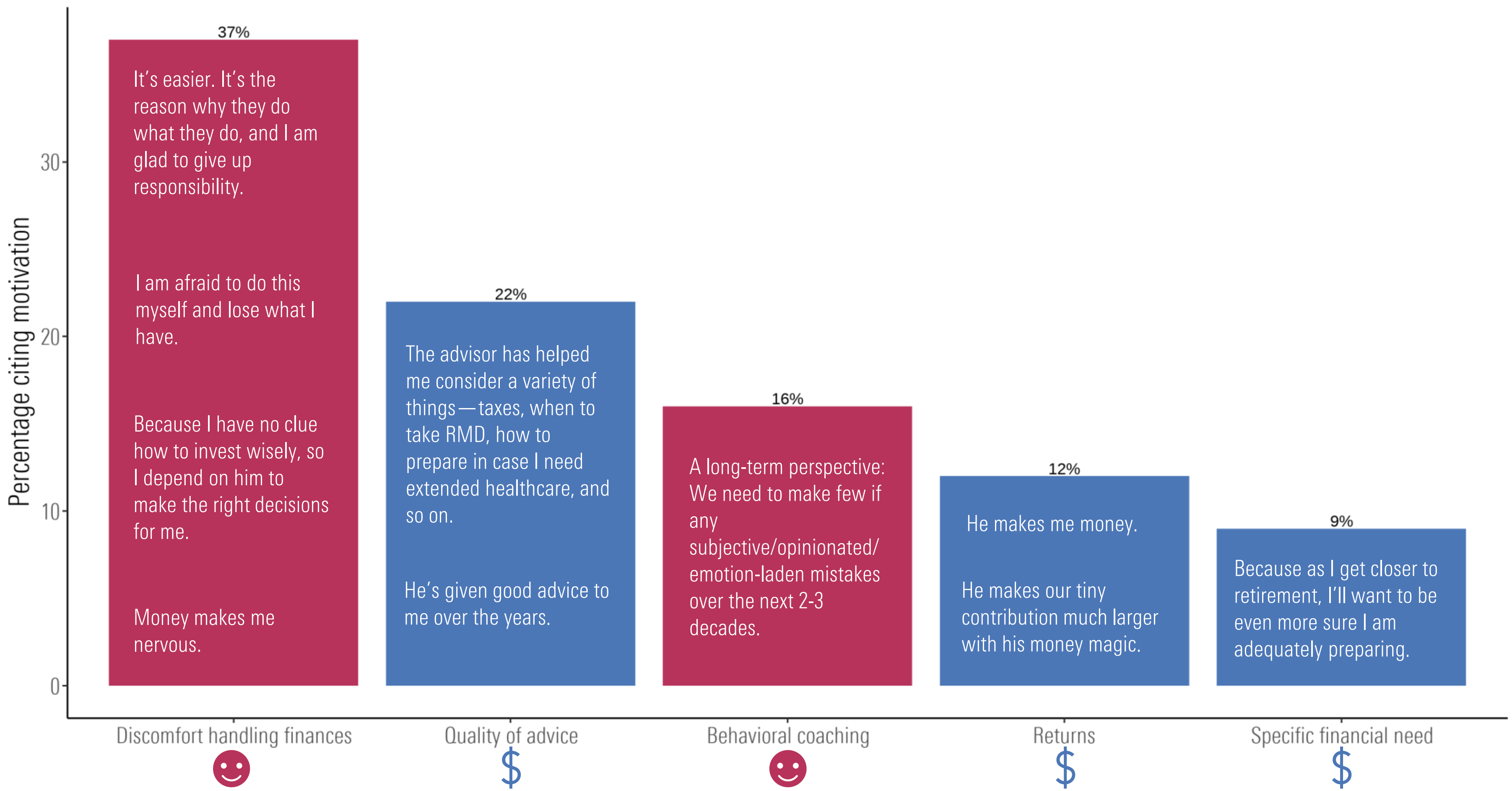
Nourish Existing Relationships–Earn Your Keep

Nourish Existing Relationships—Earn Your Keep

Clients are not just staying with their advisor because the professionals are helping them generate returns. Rather, we find that clients are keeping their advisor because their emotional concerns about finances are being met.

To reliably meet investors' needs, advisors must cultivate comfort to ensure that clients feel supported when making financial decisions; in a sense, advisors can act as a buffer from the "overwhelming" world of finance (discomfort handling finances). Advisors also help investors see how their advice is valuable to their financial needs (quality of advice). Finally, advisors must act as the voice of reason for investors, helping them maneuver erratic markets and overcome the otherwise debilitating complexity (behavioral coaching) that can emerge when making long-term financial plans.

Most Common Reasons for Keeping a Financial Advisor



Source: Morningstar, 2023.

Nourish Existing Relationships—Earn Your Keep

To keep clients happy, our results suggest that advisors must address both emotional and financial needs. The graphic below provides three overarching lessons from the data and shows how advisors can address each.

How to earn your keep

Cultivate comfort by fostering trust.

- ❑ Talk with clients about your best interest duty and what that means for your relationship with them and their money.
- ❑ Guide your clients toward more meaningful conversations by asking the right starter and follow-up questions that help the client think at a more abstract, high level.
- ❑ Check in with clients in times of uncertainty and stress to reassure them that they are still on track.

Provide and demonstrate goal-oriented advice.

- ❑ Help clients identify true investing goals using a goal-setting exercise that circumvents their biases when goal setting.
- ❑ Reframe quarterly check-ins as progress check-ins, emphasizing that, during these meetings, you will discuss the client's progress toward goals (not investment performance).
- ❑ Explain how portfolio decisions connect to goal progress.

Guide client decision-making.

- ❑ Educate clients on technical terms that are relevant to their portfolios. They don't need to be financial experts, but they should know enough to be engaged in decisions.
- ❑ Address proactively topics the clients may be interested in but hesitant to discuss.
- ❑ Work with clients to develop a plan for making better decisions under stress.

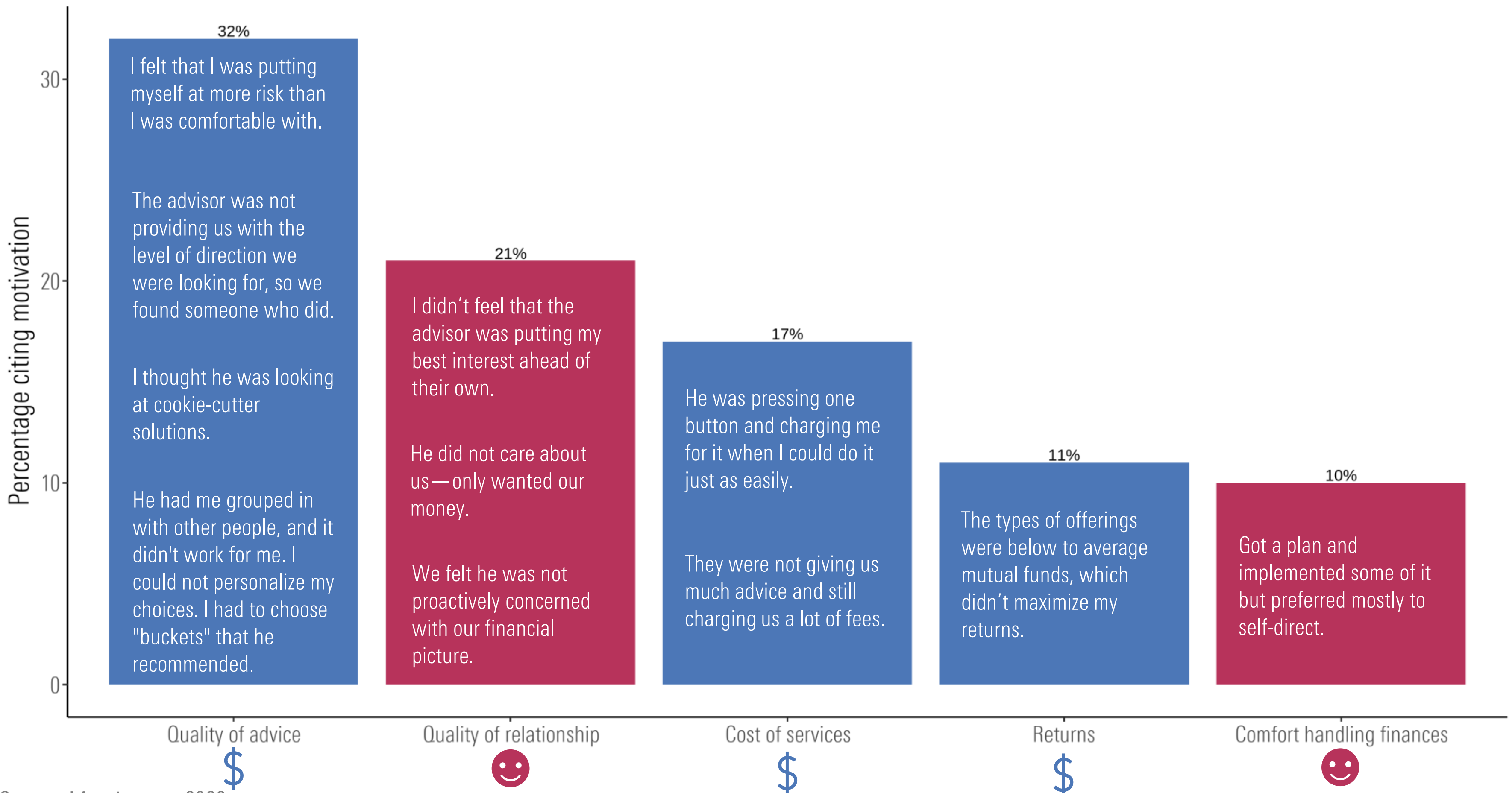
Source: Morningstar, 2023.

Revive Struggling Relationships–Don’t Get Fired

Revive Struggling Relationships — Don't Get Fired

It's clear financial issues matter — quality of advice, cost of services, and returns seem to dominate firing decisions. However, these results do not suggest advisors are at the mercy of the markets when trying to avoid getting fired. That's because these responses also touched on more emotional issues and centrally (mis)aligned expectations. For example, reasons pertaining to quality of advice often stemmed from an advisor not dedicating enough time to understand and uncover a person's financial needs/goals and, as a result, not recognizing the client's need for a particular service. Investors who referred to cost often mentioned that the value the advisor provided did not warrant the cost, not that the services themselves were too expensive. Lastly, issues related to returns seem to stem from mismatched expectations due to an advisor not adequately preparing clients for the inherent ups and downs of investing.

Most Common Reasons for Firing a Financial Advisor



Source: Morningstar, 2023.

Revive Struggling Relationships—Don't Get Fired

Overall, each of these categories can be addressed by three key lessons. Advisors must emphasize the relationship, communicate their value, and set expectations early on. The graphic below provides a few tips on how advisors can act on these lessons in practice.

How to not get fired

Emphasize the relationship.

- Help clients connect their financial goals to their life values using the PERMA-V framework. Making this connection can help clients identify gaps in their financial plans and define their priorities.
- Check in regularly with clients regarding their financial goals. As investors' lives change, so can their financial goals and needs. Staying ahead of these changes with simple reminders or regularly conducting goal-setting exercises is key.
- Conduct future visualization exercises with your client. This process can help you better understand who they are as a person.

Communicate your value.

- Walk clients through the financial planning process and help them understand their options and what trade-offs they should consider. Even though you are the financial expert, they should be in the driver's seat when it comes to their financial decisions.
- Reach out to clients proactively to stay top of mind. Don't be afraid to use different communication channels to be accessible.
- Keep clients updated on the actions you take with their account as well as what market insights mean for them.

Set expectations early.

- Act as a financial coach and help clients understand the value of long-term goals-based investing.
- Remind clients that the metric for success is achieving their long-term financial goals, not a return percentage. Clients may need more reminders during times of volatility.
- Communicate with clients about your timeline for tasks. Clear deadlines will keep them in the loop of your actions.

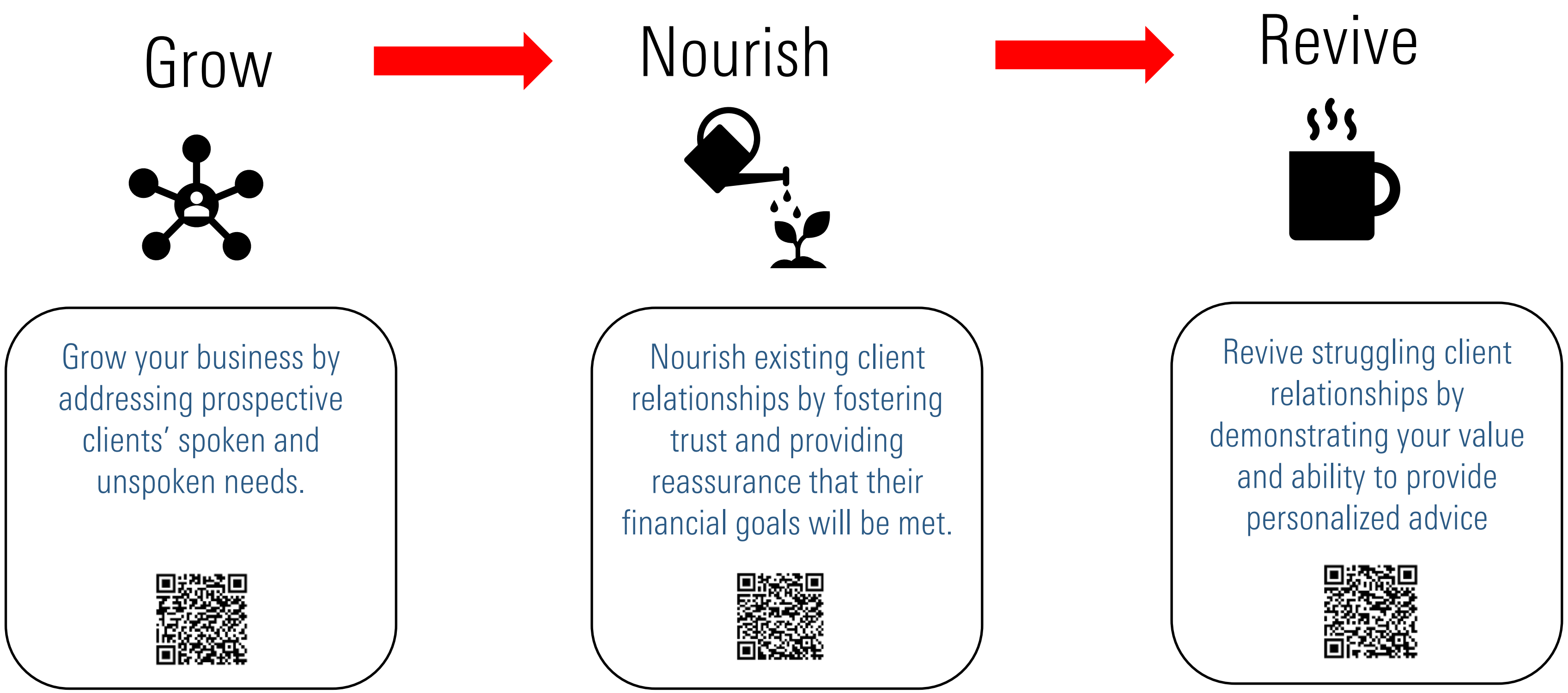
Source: Morningstar, 2023.

Conclusion

Navigating the Client Lifecycle in Financial Planning

Although it can feel unmooring when there is a fundamental shift in the industry, clients' growing desire for human-centric advice is in many ways good news for advisors. Advisors are uniquely positioned to address clients' desire to have goal-centric personalized advice, feel peace of mind about finances, and receive help in avoiding behavioral pitfalls, but this shift may require advisors to adapt their practices. More investors are seeking a relationship with an advisor for emotional reasons, and advisors' initial interactions with prospective clients must address this need. Once a client is in the door, an advisor must address both their emotional and financial needs. In other words, "good" financial results are often no longer enough for the modern investor. It is clear that financial motivations drive firing decisions, but even these can be circumvented with the proper emphasis on the human side of the relationship.

Learn More About Each Step of the Client Lifecycle in Financial Planning



Source: Morningstar.

About Morningstar Behavioral Insights Group

Morningstar's Behavioral Insights Group researches how people make decisions about risk, money, and investing. We use our results to better understand and empower investors and the advisors who serve them. We produce original research, processes, and tools, that investors can use on their own or with the guidance of a financial advisor. We are an interdisciplinary group bringing together methods and expertise from psychology, economics, and finance. Our current work centers on the intricacies of the client-advisor relationship, personalization, goal-centric investment planning, and the impact of new investment products and technology on investor decision making.

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