

How Advisors can Improve Client Returns

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There's a growing body of behavioral finance research on what investors can do to improve the performance of their portfolios.

But how about advisors – what can they do to improve investor returns?

Recently I came across research that answers that question. To my knowledge, this is the first time that the impact of advisor behavior has been quantified.



The results of this research were striking – six advisor behaviors were associated with better client performance, and one in particular stood out.

Research background

The study took place from 2001 to 2004, based on 22 advisors with Ameriprise Financial, each with at least 30 baby boomer clients with portfolios of \$100,000 to \$500,000. In depth interviews were conducted with each advisor, exploring their thoughts, feelings and behavior in client interactions.

The focus was on advisor behavior, not their expertise or investment approach.

Over the four years studied, 12 of the advisors' clients had first quartile returns, averaging total returns of 25% compared to 14% for the market as a whole. By contrast, the other 10 advisors had client returns in line with the index.

In the interviews, the 22 advisors in the study demonstrated 12 different competencies –of these, 11 related to behavior and one to the advisor thought process. Of these competencies, six were widely shared by all advisors; these were “threshold” competencies. The other six behaviors were demonstrated only by the advisors whose clients outperformed; these were “distinguishing” competencies.

These six distinguishing competencies accounted for 70% of the variation in performance of client portfolios. And of these, three especially stood out.



The traits linked to client outperformance

Here's where it gets interesting.

Below are the 12 traits that were identified in the research – remember six were threshold competencies common across all advisors, six were distinguishing competencies that only the advisors whose clients outperformed tended to share.

You can skip to the answers below to see which of these 12 competencies were the differentiators.

Or you could take a few minutes to go through the list and do two things:

1. First beside each trait, indicate if you think it's a threshold competency that all advisors shared or one of the things that set apart advisors whose clients outperformed.
2. Once you've identified the differentiating competencies, go back and tick off the three that you think were the most important.

Achievement Orientation: Threshold Differentiating
 Top three

Wants, plans, acts to meet or surpass a standard of excellence; measures outcomes against goals; innovates to improve; takes calculated risks to do something new or better.

Example: Advisor is instrumental in setting up a streamlined screening process to increase the likelihood that initial client contact meetings will be informative and productive. Successfully decreases the number of initial "no shows" and increases the ratio of initial contacts that eventually become clients.

Client Service Orientation: Threshold Differentiating
 Top three

Implies a desire to help or serve clients, to meet their needs. It means focusing one's efforts on discovering and meeting the client's needs.

Example: The advisor helps a couple by identifying several good attorneys to choose from to help with their estate planning needs. Through a series of probing questions the advisor demonstrates to the clients that what they want to have happen to their estate is not reflected in their current plans. The advisor continues to work in collaboration with the clients, their new attorney and their accountant to better understand and serve the needs of the client regarding estate planning.



Conceptual (Strategic) Thinking: Threshold Differentiating
 Top three

The ability to identify patterns or connections between situations that are not obviously related, and to identify key or underlying issues in complex situations. It includes using creative, conceptual or inductive reasoning.

Example: Uses complex learned theories and techniques to see patterns in clients' portfolios and identify discrepancies and opportunities. Applies specific tools and techniques to formulate and modify clients' financial plans based on several factors.

Concern for Quality and Order: Threshold Differentiating
 Top three

Reflects an underlying drive to reduce uncertainty in the surrounding environment. It is expressed in such forms as monitoring and checking work or information, insisting on clarity of roles and plans.

Example: The advisor designs and implements a system to help monitor client portfolio performance on a weekly basis. Maintains detailed records of all client contacts in the form a computer database that the advisor can easily access.

Develops/Teaches: Threshold Differentiating
 Top three

Involves a genuine intent to foster the long-term learning or development of clients with an appropriate level of need analysis and other thought or effort. Focus is on development and learning rather than on a formal role of training.

Example: In response to a client considering selling in a "panic" after a market downturn, the advisor shows the client a 50-year history of stock indices, demonstrating how sudden downturns can reverse quickly, even are buying opportunities, hence teaching the client the importance of long-term perspective vs. "panic" selling.

Initiative: Threshold Differentiating Top three

Refers to the identification of a problem, obstacle or opportunity and taking action in light of that to address current or future problems or opportunities. As such, Initiative can be seen in the context of proactively doing things and not simply thinking about future actions.

Example: Advisor is proactive in communicating with a specific client whose portfolio is currently underperforming. Takes the initiative to call the client right after he would have received his most recent statement showing a significant drop in portfolio value... does so to reassure the client and address any questions and concerns he/she might have.



investing and financial advice as well as enjoying recreational and social activities together.

Self-Confidence: Threshold Differentiating Top three

A belief in one's own capability to accomplish a task and select an effective approach to a task or problem. This includes confidence in one's ability as expressed in increasingly challenging circumstances and confidence in one's decisions or opinions.

Example: Advisors demonstrate confidence in their advice and knowledge by constructively challenging clients regarding inconsistent and irrational beliefs and behaviour, which potentially affects their portfolio performance. Advisor speaks up when in disagreement with the client instead of "rolling over" and taking the path of least resistance and clearly articulates rationale for advice.

Teamwork & Collaboration: Threshold Differentiating
 Top three

Implies the intention to work cooperatively with others, to be part of a team, to work together, as a member of a group

Example: Solicits feedback from colleagues and other professionals to help inform how they view the client's current financial situation. Shows a willingness to partner with other professionals such as client's accountant or lawyer to better service the client.

The differentiating qualities:

Here are the six differentiating qualities, grouped based on the extent to which their presence correlated with client outperformance.

Remember, this research measured the qualities that differentiated advisors whose clients outperformed the market and which were missing in those whose clients had merely average returns – if a trait was displayed by all advisors, it would not be on the list.

Tier one – the highest correlation with portfolio outperformance:

1. Integrity

Actions are consistent with what one says is important, that is, he or she "walks the talk." Communicates intentions, ideas and feelings openly and directly, and welcomes openness and honesty, even in difficult discussions with clients.

Tier two – next in terms of driving portfolio outperformance:



2. Client-service orientation

Implies a desire to help or serve clients, to meet their needs. It means focusing one's efforts on discovering and meeting the client's needs.

3. Concern for order / quality

Reflects an underlying drive to reduce uncertainty in the surrounding environment. It is expressed in such forms as monitoring and checking work or information, insisting on clarity of roles and plans.

Tier three – correlated with portfolio outperformance at a lower level:

4. Teamwork

Implies the intention to work cooperatively with others, to be part of a team, to work together, as a member of a group

5. Self-confidence

A belief in one's own capability to accomplish a task and select an effective approach to a task or problem. This includes confidence in one's ability as expressed in increasingly challenging circumstances and confidence in one's decisions or opinions.

6. Achievement orientation

Wants, plans, acts to meet or surpass a standard of excellence; measures outcomes against goals; innovates to improve; takes calculated risks to do something new or better.

Moving forward

The authors of the study made no attempt to analyze why particular behaviors emerged as important. Intuitively, however, it does make sense that demonstrating integrity and client orientation build trust and as a result lead to clients accepting and sticking to your advice.

One limitation with this research is the small sample size; my hope is that larger studies will follow.

In the meantime, this research could be the starting point to reassess how you interact with clients. Consider whether it makes sense to concentrate on one of these competencies in the next quarter, and discuss this with other members of your team and consider focusing on one of these competencies as a group.



The goal is to integrate this behavior into the way that you and your team work, so that it becomes automatic. Having done that, then focus on another competency for the next quarter. In this fashion, you can change your behavior over time in a way that better serves your clients and positions you as a more effective advisor.

For more information on the research study, click [here](#).

Dan Richards is a top-rated presenter at advisor conferences and an award winning instructor in the MBA program at the University of Toronto, as well as author of Getting Clients Keeping Clients: The Essential Guide for Tomorrow's Financial Advisor. To learn more about his conference keynotes and workshops, email dan@clientinsights.ca.

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