



Tackling Today's Number One Client Challenge

By Dan Richards*

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A list of Dan Richards' previous articles appears at the end of this article.

Talk to advisors about the challenges they face today and you'll get a lengthy list – often headed by unhappy clients, reduced income and a struggle to stay positive and productive.

While these are all serious issues, for most advisors they are dwarfed by the number one obstacle to getting business back on track – rebuilding investor confidence in our trust and integrity.

This is a serious problem – given the intangible nature of advice, it's impossible to have a functioning relationship without a minimum threshold of client confidence.

The good news? There are clear steps every advisor can take to begin the process of reestablishing trust.

Why the drastic drop in trust?

Rebuilding trust starts by understanding what's led to its decline.

While recent performance may have been the catalyst for consumer skepticism, this is far from the sole cause. At least five factors have contributed to the loss in trust that many investors feel towards their advisors.

The general decline in trust in institutions and authority figures. In the past twenty years, more assertive consumers (led by aging baby boomers) have become more skeptical about virtually every profession and institution ... doctors, lawyers, accountants, politicians, journalists, the clergy – the list goes on and on.

The proliferation of 24/7 news coverage and the explosion of the internet. Since Ted Turner's launch of CNN in 1980 and the growth of the internet, there's been an ever-expanding podium for fringe voices that tap into the discontent many consumers feel





about the way things are run right now. And this isn't just true of financial advice – if you feel under assault as an advisor, take a look at some of critics of the medical profession.

The indisputable reality that market performance in the last ten years has been the worst on record. Bubbles in technology, real estate and the financial industry have left investors poorer, with many wondering who is responsible and looking for someone to blame. Elliott Spitzer's assault on Wall Street's conflicts of interest in the post-tech crash period left many wounds unhealed.

A formidable antagonist in discount brokers. Not only do discount brokers provide a lower cost alternative to full-service advice, but some of their advertising has depicted investors who work with full-service advisors as little more than fools. (Remember the Schwab "let's go out and put lipstick on those pigs" ad?)

Short of the recent "Four Bucks is Dumb" attacks by McDonalds on Starbucks, there are few precedents for ads that portray consumers who opt for premium priced alternatives in such a negative light.

Finally, many investors feel let down by the communication from their advisor since last fall. In some cases they've heard little or nothing, in other instances they view the message they've received as lacking substance.

One investor's story

An article in the May issue of Atlantic Magazine, titled "Why I fired my broker" does an excellent job of capturing the broad sense of being unsure who to trust that many investors today share. This article is not a rant – far from it. It presents a rational recitation of some of the elements that have caused reasonable investors to become skeptical (and in some cases cynical) about the advice they've received in the past and are getting today.

Five of the key messages in the article:

1. The author, Jeffrey Goldberg and his wife are shell-shocked by last year's downturn. "I took a random walk down Wall Street and got hit by a bus."
2. Investors are interpreting messages about the need to focus on the long term as being a cop-out on the part of the financial industry. What Goldberg hears is "Give up – you're not going to make money for five, ten or twenty years, get used to it."
3. Many investors are paralyzed because of the level of uncertainty in which we're all operating. A Nobel prize-winning economist says "You no longer know the world you live in - it's unclear what rules apply."



4. Goldberg is unsure who to believe and who to trust. Bill Gross, America's best known bond manager, says "The system is rigged against average investors."

Goldberg goes on to say "My crucial mistake was believing that brokers, wealth managers and the cable TV oracles who make up the financial services industry complex had my best interests at heart."

5. Despite the title of the article, Goldberg says "I didn't fire my broker – he fired me, when I haven't heard from him since before September."

Goldberg is not alone – his views represent those of a great many investors.

Take twenty minutes to read this [article](#) – and think about whether some of your clients might be feeling the same way that this writer does.

The good news is that Goldberg is not giving up on investing or on working with a financial advisor. In his concluding remarks, he writes:

"Our main job now is finding someone to advise us. This is a very difficult task.

"This search is made more difficult because we don't have enough money to make ourselves interesting to most of the best advisors and the typical advisor is not sufficiently independent-minded to be effective.

"Unconventionality makes me nervous, but less so than conformity. I'm finished with conformity. In picking an advisor, I'm also looking for someone who is unleveraged; someone who is putting his own money into the investments he's recommending and someone who can explain to me, in a few sentences, in language easily understood by earthlings, his philosophy of investing."

Begin by taking responsibility

So that's the problem, how about the solution?

In many cases, rebuilding trust starts by accepting some level of responsibility.

It's not just financial advisors who have taken a hit in their trust level. A poll of Americans taken earlier this year showed trust in corporations at 38%, down 20% from a year ago and at the lowest level on record, well below where it stood in the post-Enron era.

In recent articles in Fortune Magazine, Indra Nooyi of Pepsico and Jamie Dimon of JP Morgan Chase both talked about how business needs to rebuild trust.



Dimon addressed the issue of accountability. He wrote: “In order to address the public anger and outrage over what has happened to our financial system, we in the banking community need to take some responsibility. Banks, including ours, should acknowledge that we made some mistakes.”

In my interviews with investors, one of the biggest irritants is the failure of their advisors to admit fault or take any responsibility for the meltdown of their portfolios. In some cases, all investors are seeking is for their advisor to say they’re sorry.

Here’s how a conversation might go:

“First and foremost, I’m truly sorry that I was unable to anticipate the events of the past year. I would have dearly loved to have been able to shelter you from the market downturn – unfortunately, this took just about everyone by surprise, me included. What I would like to talk about what we’ve learned from this and how these lessons are shaping the recommendations I’m making today.”

Four drivers of trust

Suppose you’ve let your client know that you accept some of the responsibility for the damage to their portfolio. What next?

One of the top researchers around building trust is the New Jersey-based consultant Charles Green.

He’s created a trust building formula advisors can use to determine where they stand with their clients:

$$\text{Trust} = (C+R+I) / S.$$

The first three elements above the line (or the numerator if you remember your high school algebra) are Credibility, Reliability and Intimacy.

Remember, there are two elements of trust – trust in your capability and trust in your integrity.

Credibility addresses the first issue. How much do clients trust your competence? How believable is advice you’re providing? Do clients view you as having real expertise? Does your track record build your credibility?

What are you doing to stay current on new developments? What kind of resources back you at your firm? Do you instill confidence in clients that you are providing the best possible advice?



Even clients who were comfortable with your competence a year ago may have had their confidence in your ability to provide good advice shaken, requiring it to be rebuilt.

Reliability speaks to whether you do what you say you're going to and deliver on your commitments. Those can be little things – if you say you're going to call, do you call? Or it can be big things – if you tell a client that their maximum downside risk in a 12-month period is 20%, does the portfolio you construct deliver on that?

Intimacy is the third factor above the line. Do you engage the client at a deep, personal level? Do you ask questions that tap into their emotions and feelings? Do they feel you are really listening to their answers – and is your relationship with them such that they are comfortable sharing those with you? Do you respond in an empathetic fashion? Are you prepared to open yourself up and be vulnerable when talking about your own feelings in response?

The most important driver of trust

The last driver of trust is the number below the line – and is as important as the first three combined. That element is *perceived self-orientation* – to what extent do clients suspect that you may be putting your interests before theirs?

There are a number of things you can do to address this concern:

Do you appear to be really interested in what clients have to say? Do you ever seem to be in a hurry – is there a point where you demonstrate impatience and the desire to move things along? Do you really seem to be listening? (There's that listen word again.)

Do you contact clients with ideas and advice even when there is no revenue opportunity for you? Whether it is for a personal or business matter, if every conversation has something in it for you, clients may be legitimately unsure about what drives those calls.

Do you ensure that your advice is understandable and presented in plain language? Do you present both sides of your recommendations, focusing on the risks and tradeoffs as well as the potential benefits? And do you truly invite questions and make it easy for clients to express their concerns?

And here's something that's especially problematic these days: are clients absolutely comfortable that your recommendations are not skewed by your compensation?

Recently, there has been extensive media coverage about how advisors' recommendations may be motivated by their interests rather than clients.



Short of doing something for free, compensation is always an issue. Even with accountants and lawyers, some consumers wonder whether all the time they were billed was necessary or actually spent.

Compensation is particularly problematic in the financial industry, whether it is commission based, embedded in management fees or billed as a percentage of assets. Even when the fees are transparent, clients sometimes wonder whether they are getting good value.

There is no perfect solution on compensation, other than being upfront and transparent – here's what I charge, here's why and here's what you get for it. As well, some advisors need to be more open about discussing available alternatives to how clients can pay for their advice.

What's your trust quotient?

Rebuilding trust won't happen quickly or easily – and it's easy to put this off as a result. Given its importance, however, it's essential that you focus attention on this. Now's the time and today's the day to begin the process of rebuilding client trust.

If you want to learn more, you can complete a twenty-question online diagnostic at no cost on Charles Green's website. You'll instantly receive a short online report that highlights potential weak spots and makes recommendations about how you can do a better job of inspiring trust.

Go to www.trustedadvisor.com and click on What's your TQ rating?

** Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries and to reach him, go to www.strategicimperatives.ca.*



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