



Inspire Client Trust by Delivering Clear, Insightful Investment Communications

By Ani Yessaillian
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Client loyalty is essential to sustainable growth. Studies¹ across a range of industries have shown that it is five to seven times more profitable to retain an existing client than to add a new one. To retain clients, you must cultivate loyalty. And to cultivate loyalty, you must build trust.

One of the best ways to build trust is to consistently deliver clear, insightful investment communications. This brief article will tell you how to make the most of your quarterly performance report and your off-cycle investment communications.



Data is essential, but data alone is not sufficient

Without comprehensive analysis that describes how your firm has delivered for clients, even the most data-rich quarterly performance reports produce limited benefits.

I learned the power of investment reporting and communications during my tenure as director of marketing for the fund analysis and research group at Fidelity Management & Research Company. The group's charter was to support Fidelity's investment consultants as they kept the firm's intermediary and institutional clients informed about Fidelity's funds.

In my role, I saw firsthand how clear and insightful analytical assessments of overall portfolio performance build high levels of client trust that withstand the test of time. Your high-net-worth clients will appreciate similarly accurate, informative, and transparent communications from you, and that appreciation will show.

To set the stage, write a cover letter that provides meaningful context

Your quarterly report's cover letter should be a synopsis of your story. I liken it to a set of CliffsNotes. From the cover letter, your clients should easily discern the following:

- What you consider to be the top two or three market and economic events of that quarter

¹ "Companies Don't Succeed People Do!", Graham Roberts-Phelps



- All significant or deliberate changes to asset allocation
- Any changes to positions and the reasons for those changes
- Performance for the entire portfolio, net of your fees, and how that compares to relevant benchmarks
- Highlights of what contributed to or detracted from overall investment return

Review your cover letters to make sure they address all five of these points.

Explain performance against expectations

It's often a challenge for investors to easily understand the role of specific funds in their portfolios and how they should expect them to perform in various market environments. Differentiate yourself from other financial advisors by providing the following explanations in your quarterly report:

- How each fund performed against your expectations, as well as against your stated benchmarks. Did the fund fulfill its intended role?
- Why fund performance exceeded or fell short of expectations, considering the recent quarter's market environment. What are the drivers of over- or under-performance, and do those drivers fit with your expectations for how the fund is managed?

Below are two hypothetical situations that will help you better understand how to build trust with clients by explaining performance.

Situation #1	What to include in the quarterly report
A relatively conservative international equity fund in your client's portfolio trailed the MSCI World Index by 150 basis points during a robust period of global stock market advances.	Remind clients why you selected this investment for their portfolio. Explain how the fund performed against your expectations, calling attention to its conservative charter.



Situation #2	What to include in the quarterly report
<p>The large cap value fund in your client's portfolio generated 300 basis points in excess of the S&P 500 during a quarter that witnessed a historic technology rally.</p> <p>During a conference call with the fund's manager, you learn that this outperformance compared to benchmark was due at least in part to the manager's straying from the fund's investment charter by purchasing several hot technology stocks.</p>	<p>Explain why the fund outperformed its benchmark and how this differed from your expectations given the recent market environment.</p> <p>Discuss the potential impact on portfolio risk if the manager continues to act opportunistically beyond the scope of the fund's charter, and explain how you typically address these types of situations.</p>

Make it easy for clients to interpret data

Include pie charts, well-designed tables, and clear graphics to help your clients follow your stories. When comparing results against benchmarks, show the differences between the two (e.g., +3 percent, -1 percent) along with the actual comparisons. Your client should not need to pull out a calculator to get the underlying message.

Use the delivery of client reports to demonstrate your commitment to the relationship

One week before sending out reports, contact your top clients to schedule conversations about the results. This provides three benefits:

- It demonstrates that you care.
- It builds trust through open and transparent communications.
- It gives you an opportunity to assess their needs.

Use off-cycle investment communications to further enhance trust

- **Deliver monthly educational pieces that communicate your point of view.** Avoid reiterating market commentary that clients can easily find in the media. Instead, deliver thoughtful educational pieces on investment topics relevant to your clients, such as the pros and cons of ETFs, strategies for managing investments during inflationary times, and when to use hedge funds.

Send these pieces via email, attached as a PDF file. Encourage clients to share your insights with friends and family members.



- **Formally and consistently communicate with your clients about all new funds you plan to include in their portfolio.** Explain your top three reasons for adding each new fund and your expectations for its performance.
- **Call clients in advance of any major portfolio shifts.** Most people dislike surprises, so inform them of the changes and the reasons behind them beforehand.

Take the extra effort to build trust

Implementing the recommendations in this article will entail some additional work and commitment of time in the short term. But over the long term they will engender greater trust from your clients, which will in turn result in greater, sustainable profitability for your firm.

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