A Wakeup Call for Advisors: Turmoil at the Top of the Market
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by Dan Richards

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

“Once an accident, twice a coincidence, three times a trend” is a rule of thumb among observers of political campaigns.

That’s why I was struck by recent articles in Business Week, the New York Times and the Wall Street Journal. These articles describe turmoil among high-net worth investors and have profound implications for financial advisors.

Business Week

First came a Business Week story in late June outlining how the number of affluent Americans looking to switch advisors has tripled in one year, leading to a spike in investors seeking out second opinions. (Links to all of these stories can be found at the end of this article.)

Many investors find this process excruciatingly difficult. “My planner was a friend, a good guy .... but I had to stop the bleeding” said one investor who had moved. “It was almost like a breakup .... you know - I’ll take the dog, you take the silverware.” Among the advice in the Business Week article was for investors to take any second opinion with a grain of salt and to work hard on the relationship before splitting, just as they would a marriage.

Wall Street Journal

Last Wednesday, the Wall Street Journal weighed in on how affluent investors are shifting from Wall Street brokerage firms to Registered Independent Advisors using firms such as Charles Schwab, Fidelity and TD Ameritrade to provide a back-office platform. The key attraction behind the move: The
perception that independent advisors will be more objective and more likely to put their interests first.

The article talked about the fact that RIAs are held to a “fiduciary” standard in the advice they provide, in which they are obligated to operate in their clients’ best interests; this is a higher level than is required of brokers at Wall Street firms, who are guided by “suitability rules” in which they are merely prohibited from recommending inappropriate products. (The Obama administration has made noises about extending the fiduciary standard to all financial advisors.)

Investors making a change struggle with the “Who Can I Trust?” question, plagued by the lack of consistent regulatory oversight and the alphabet soup of advisor credentials. In a sign of the times, the article’s closing piece of advice urged investors looking to move to hone in on potential conflicts of interest.

**New York Times**

And on Friday of last week, the New York Times focused on a Pricewaterhouse Coopers survey of 238 private banks and wealth managers serving clients with assets of $500,000 to $20 million. The study highlighted a huge gap in the training, skills and tools that client relationship managers are equipped with – driven in large measure by the priority these firms give to attracting new clients as opposed to serving existing ones.

One consultant quoted in the story summarized it this way: “In the past, people were incredibly loyal to their advisors even through periods of dissatisfaction. Today that’s changing.”

Given the level of paranoia that dominates the psyche of many American investors in today’s post-Madoff world, more important than advisors’ brand, performance or pedigree is the level of transparency in how they do business and how they manage clients’ money. “Even if you think you’ve found an advisor you can trust, check and check again” the article concludes.

**A five point response**

The fallout from articles such as those in Business Week, the New York Times and Wall Street Journal will include an increase in the number of clients exploring their options - some investors who have been on the fence about switching will conclude that if others are looking at moving, perhaps they should as well.

In some cases, disillusioned investors are going the discount broker route; the self-directed channel has picked up significant share over the last while. More often, they’ll be going to another advisor, asking tougher questions than ever before.

In light of the increasing media coverage on investor movement, you have two choices: You can fume about know-nothing journalists, ungrateful clients and “media whore” advisors seeking out the limelight. Or you can accept these articles as reality and focus on the things under your control.
The workshops I’ve been running since January have received the best response of anything I’ve done in twenty years working with advisors. Here’s a five point strategy you might consider, drawing on ideas from those workshops and bringing together some of the things I’ve been writing about over the past year.

**Step One: Revisit your value proposition**

In today’s value driven world, Americans are taking a hard look at the value they get from everyone with whom they do business. Like it or not, more and more investors will be pushing hard to understand how much they’re paying in fees and what they’re getting in return.

Historically, some advisors have promoted their investment and asset allocation discipline as their key point of differentiation – although for many, last year’s events have called into question the ability to define value in this fashion.

Another approach to value lies in the total wealth approach that more and more high end advisors are taking. Still another example is the peace of mind and sense of control that can come from a planning financial planning approach.

Or perhaps you have gone the route of specialization and built expert knowledge in a narrow product area or bring deep understanding and strong credentials in the needs of a defined niche market.

Whatever approach to value you offer, being able to clearly articulate your value proposition and what clients get from working with you will become the necessary cost of doing business going forward. Now’s the time to take a hard look at how you describe the value you bring.

**Step Two: Start with defense**

Identify your top clients - the ones most likely to be approached by competitors. Think about when you last met and consider whether a meeting is overdue.

What happens when you meet is key. In that meeting, you need to provide perspective on what you’ve learned from the events of the past year, a point of view on where we are today and clear guidance on what clients should be doing going forward.

Many clients are looking for a departure from the investment approaches that failed them in the past year and have frequently led to disappointing returns over the past decade. Given that many investors are looking for changes from the status quo, focus on modifications in the strategy you’re recommending. If you’re advising a stay-the-course approach, emphasize why it still makes sense and ensure clients understand the alternatives you’ve considered before arriving at a do-nothing recommendation.

When you meet, make it a priority to dig deep for how clients really feel and focus on hearing them out. This [article](#) sets out a five-step process to engage clients you’re meeting with.
And even if you haven’t conducted a formal client survey, consider asking key clients to complete a short report card before the meeting and use that as a jumping off point for your conversation.

**Step Three: Make trust your top priority**

At one time, trust was given by clients – increasingly today it’s earned.

Recognize that rebuilding client trust is your number one priority – erosion of trust is a cancer that inevitably undermines your relationship.

Research by consultant Charles Green has identified four drivers of trust – credibility, reliability, intimacy and client focus. For strategies on building trust, take a look at his [www.trustedadvisor.com](http://www.trustedadvisor.com) website – you can also read more about rebuilding trust [here](http://www.trustedadvisor.com).

**Step Four: Tackle perceived conflicts head-on**

Investors today are paranoid about conflicts of interest – in many cases the pendulum has swung from indifference about conflicts to fixation on them.

Consider publishing a code of conduct and sharing that with clients; this was an idea put forward earlier this year [here](http://www.trustedadvisor.com) by Scott Welch of Maryland-based Fortigent.

And think about being proactive in embracing a “fiduciary approach”, in which you commit to taking the initiative in disclosing potential conflicts and putting client interests first in everything you do. At one time, advisors would have been concerned that talking about a fiduciary approach would create suspicion among clients and raise concerns where none existed; in today’s hyper-vigilant world, we need to pre-empt the concerns that may be weighing on clients but that they aren’t comfortable raising.

**Step Five: Shift to offense**

No matter how good a job you do, today’s reality is that you will inevitably lose some clients.

You need to put steps in place to replace them. Start by carving out a regular time block in your schedule – say two ninety minute periods each week, during which you focus on one prospecting strategy.

You could use that time to meet with professional advisors of existing clients. Or systematically reach out to people you know, offering to send them the articles you email clients, with the goal of increasing the number of prospective clients in your pipeline.

Alternatively, you could focus on client development via the client sandwich lunch initiative outlined in...
this article.

Or you could seize on opportunities to position yourself as to the go-to resource for people who face corporate downsizing.

And don’t ignore planting referral seeds when meeting with clients. Here’s a recent article on this topic.

If you’re unsure about how to raise the topic of referrals, try this at the end of a meeting: “In the next twelve months, I have the capacity to take on 10 new clients. I have recently identified the profile of the clients I find I can help the most and work with the best – a profile that you fit almost exactly, by the way. I wonder if I could take two minutes to walk you through the qualities of the clients I work with best, in case you’re talking to a friend who is considering making a change.”

**In Summary**

The three articles that appeared in the last while and others like them are a wakeup call for advisors. The only question is whether you answer that call or press the snooze button.

If you decide to respond, schedule some time in your calendar right now, perhaps along with your team or colleagues. In that time slot, you might go through this article in detail and pick one or two areas to focus on in the period ahead, clearly defining the steps you need to take in the next 30 days.

Just remember: Advisors are no different than once successful automakers or retailers. Those who embrace fundamental change in response to an altered competitive landscape and shifting customer reality can position themselves for future success. Those who fail to do so risk being left in the dust.

**Links to articles:**

*Business Week* – June 25 Thinking of Switching Financial Planners?

*Wall Street Journal* – July 29 WSJ.com - Wary Investors Are Seeking Out Objective Voices

*New York Times* – Aug 1 Wealth Matters: In Search of Competent (and Honest) Financial Advisers

* 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](http://www.strategicimperatives.ca).

**Other Articles by Dan Richards**
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Building Personal Connections with Clients  
Five Steps to High Impact Client Meetings  
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In Search of Unconventional Thinking  
Lessons from the Loss of a Multi Million Dollar Account  
*Tackling Today’s Number One Client Challenge*  
Thirty Seconds to Better Client Conversations  
Three Powerful Words in Client Conversations  
What to Say When You’ve Said It All

**Prospecting**

A Prospecting Tip from Barack Obama  
Becoming the Fall Back Advisor for High End Prospects  
Getting Prospecting into First Gear  
Overcoming a Key Barrier to Moving Accounts  
Talking to Prospects about Last Year’s Performance  
The End of Prospecting  
Three Easy Steps to Effective Networking  
Three Steps to a Referral Conversation that Works Today  
Turning Corporate Downsizing into Prospecting Success

**Practice Management**

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Three Myths of Market Underperformance  
Twelve Pieces of Good News in the Gloom  
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