LORING WARD

White Paper:

Effective Client Communications for Today's Advisors

…"people" skills are just as important as "financial" skills.

Effective communications are the heart of every successful advisor and client relationship. From discovery to education to setting and managing expectations, communications play a vital role in shaping a client's experience.

But are your clients hearing and understanding what you are saying? Are you talking their language? Which messages work well with them and which don't? And just as important, are you listening to what your clients are really saying?

To better understand how advisors can more effectively communicate with their clients, Loring Ward enlisted the help of the noted research firm Maslansky, Luntz & Partners. Their team interviewed and videotaped several experienced advisors presenting information as if they were speaking to a client or prospect. The advisors discussed topics such as their discovery process, how they work with other professionals (such as CPAs) and their fees.

During Loring Ward's National Education Conference in June 2012, we showed these videotaped messages to a panel of investors to get their immediate feedback. CEO Michael Maslansky moderated the panel, while more than 90 advisors and Loring Ward employees looked on.

Investor Panel Profile

- Ages 55-70
- Half retirees; half pre-retirees (7 women/6 men)
- Financial decision makers for their household
- Investable assets of $500,000+ (excluding primary residence)
- Currently working with an advisor.

In this white paper, we will look at the most important findings from this investor panel and what they reveal about how you can communicate more effectively.

Summary of What We Learned

1. **Past performance really is no guarantee of future results.**

   While advisors believe that the financial markets have not really changed, our interviewed investors disagree. They DO believe that things have fundamentally changed and that it IS different this time. Therefore, investors are not impressed with long-term historical data, established theories or noted academics, even those who have won a Nobel Prize. They want to know what you are doing that is working right now. In their minds, since so much has changed, they are not interested in hearing about what worked in the past. This means that many advisor staples, such as charts showing the long-term performance of various indices, may no longer be as effective.

2. **Stop using jargon.**

   Many of the terms advisors use are unfamiliar — and even confusing — to investors. This means you must speak to clients in words they can understand. And choose your words carefully because what you say and how you say it really matter. For example, while investors do not like the term "outsourcing," they do like hearing about a team approach where you work closely with other professionals and firms.

3. **Don't be hesitant or embarrassed to talk about fees or referrals.**

   Be honest and up front about your fees. And instead of asking for referrals, offer a "complimentary hour" to provide a client's friend or acquaintance with a second opinion. Investors generally feel comfortable giving referrals in other areas of their life, but they hesitate to give referrals for financial advice since it's perceived as more risky (a bad investment experience is much more risky than a bad haircut).

How Investors Feel About the Market and Investing Today

To get things started, the panel discussed their feelings about the markets, their relationship with their current advisor and what they would like to change.

While most of the investors responded that their investment portfolios had recovered from the market crash of 2008-2009, only one investor raised his hand when asked, "How many of you feel like you are *'back'*?"

When Maslansky probed further to find out why there is a gap between what their financial statements say and where they "feel" they are, the panel's responses reflected fear and uncertainty:

- The media — I listen too much.
- Since the economy isn't back, I don't feel like I'm back.
- The dollar doesn't go as far anymore.
- It's scary that the volatility is daily. We didn't see that 10-20 years ago.
- So much information comes our way and it's not consistent. The analysts confuse me.
- I'm afraid to take on risk because I don't have time to start over.

When it comes to how these past events have shaped their current investing practices, most said they now are more cautious, and take more time to research before making decisions.

To feel more confident about investing, they'd like to see more stability in the world, along with improved job and housing markets in the U.S.

None of the investors are very satisfied with their current advisor. What they wanted was simple enough, but delivered poorly or inconsistently. For the panel, an advisor should:

- Provide guidance
- Communicate regularly and proactively ("I don't have to be your best friend…but rather than once a year, maybe quarterly pick up the phone and call me.")
- Be reassuring that what we're doing is OK
- Inspire feelings of trust — so that clients know your intentions are for their security and benefit and not just for yours
- Understand the client's financial and life goals and relate on a personal level
- Protect portfolios but provide cash flow

Each panelist was then given a hand-held dial, which allowed them to provide immediate feedback to the recorded advisor messages. Everyone started out with their dials set at 50, which indicated neutral. As they listened to the advisor's message, they turned the dial up if what they heard made them more likely to want to work with that advisor. They would turn the dial down if they had an unfavorable response. Scores above 50 indicated favorable responses, with scores above 60 reflecting a strong positive response from the panel. Scores below 50 reflected negative reactions.

Below are the actual transcripts of what the panel heard.

Sections highlighted in ***green*** reflect average scores above 60.

Sections highlighted in ***red*** reflect average scores below 50.

This allows you to quickly and easily see which phrases and concepts worked — and which did not.

Topic: Is Today's Financial Market Different?

Advisor A:

We just came off the heels of the Great Recession, and I think the biggest challenge is getting clients to understand that capitalism still works, that markets still work, and that it's not really different this time. And I think that's the real challenge that we are trying to convey with people is to say, hey, ***we are going to get through this, it's been a rough patch, this recession was deep. And we are still working through those challenges but that ultimately we will come out of it. And that this truly is a long-term plan that we are trying to put in place and trying to get them to think a little bit more in the long term sense, because inherently as humans we want to think short term.***

Average Score: 57

The investors are not convinced that "it's not really different this time." They do believe that things have changed since the financial crisis and that the markets are fundamentally different now. They liked his reassurance that they would get through it, since it made them feel encouraged. Most of the investors said they are optimistic about their futures, but only a few feel optimistic about their ability to get returns in the market.

Topic: Why Work with Me?

Advisor A:

Well I think that first, to answer the question, the first one I'd say is why should you work with an independent financial planner versus maybe some other type of an advisor. And I think it's important to work with someone who is independent that truly works for you, and not for some big company. And I think that's something that's important that you are going to want to seek out, whether it's myself or some other independent advisor because that takes all the bias out of it and makes sure someone is looking after your best interests. And that's what I do for my clients. ***I'm a certified financial planner. I've been in the business now since 2001 and I really care about my clients.***

Average Score: 57

Investors liked the "independent" aspect, and how the advisor seemed to take an interest in, and focus on, the individual. Not all investors understand the significance of the CFP® designation. If you use these designations, explain why that is a benefit to the client.

Advisor B:

In addition to that, not only do we put you first, but ***we also use a method that we believe in, that we have great conviction in. It won the Nobel Prize in 1990 for our investment method, and therefore we can have real confidence. It's been tested now for over 40 years. It's tried and true, and we know that it works. And therefore we can help you with a disciplined structure that's put together scientifically, in reality here.***

Average Score: 45

The majority of investors thought the advisor sounded too much like a salesman. And they don't care about a Nobel Prize or what happened 40 years ago. Since these investors believe markets are different now, they want to know what you are doing that is working right now. Investors would like to know specifically what he is going to do, instead of making a sales pitch about it.

In comparing the two advisors, they liked how Advisor A talked about the individual, and what he would do for the individual, but didn't like how Advisor B talked about the methodology rather than the individual.

Topic: Setting Realistic Expectations

Advisor B:

We're going to sit down and go over your investment policy statement. ***We've got to have a policy which becomes the blueprint. Think of the policy as the blueprint, or a map. We ended up building a house and we're really proud of that, and if I took a piece of paper and you were the person that's going to build the house for me — the contractor — and I put it on just a little piece of paper and handed it to you and said, "Go ahead and build my house for me." You'd say, "You know, we need a detailed blueprint."*** *And so we're going to do the blueprint, we're going to do the engineering and that's really what this investment policy statement is going to be. So I'm going to test your risk, we're going to go through the policy and set that up. The third meeting is to go through and actually go through that policy. We'll take about 30 minutes of our time. We'll establish realistic expectations. I do some counseling because that's some of my background, and the first thing we really want to do with counseling is start to establish some realistic expectations — how we see the problems, how we're going to tackle the problems.* ***So the expectations are absolutely critical, so we want to establish those expectations, and we're going to go through the policy, and set the foundation for your thinking.***

Average Score: 50

Investors liked the plan and the idea of setting realistic expectations. As one investor said, "My confidence in him went up because of the structure he put forth." They all want an advisor to speak candidly and not paint an unrealistic picture. Added note: Most of the investors do not have a written plan, but would like one if offered.

Topic: Advisory Team

Advisor A:

I have a lot of people on my team that are behind the scenes. And I think that when we look at trying to provide a comprehensive solution, I am not an expert in every area of finance. ***And so what we want to do is if you already have somebody like a CPA, or a tax professional in your life, we may bring that person and put them on the team. If not, I have a team of professionals that I work closely with. Trusted professionals, other trusted advisors in the areas of tax, insurance, estate planning, real estate, mortgages and so forth. Those individuals, we may bring to the table at any point in time to complement the other things we are doing.***

Average Score: 65

Many liked his "team" approach and that he had enough confidence to bring in other experts. Advisors need to beware of financial jargon: "When you're talking to somebody who is a little nervous about being there anyway because it's their money, you've got to stop using terminology that only you know and get down to common language that everybody understands."

Advisor B:

We believe it's smart to work with an outsourcing group. The reason why I use this outsourcing group is because they become kind of like co-ops. They're going to be my back office. They're going to do all my trades; they're going to do all my reporting. I partnered with them a long time ago in order to serve you correctly. We have a great relationship…I want to concentrate on you. I don't want to concentrate on having a staff that's doing all the trades, all the reports, when, quite frankly, I can bring in someone else and do it far more efficiently than the people working for me and [have to] charge you more. ***I want to keep my costs down for you as much as I can.***

Average Score: 54

Though they did not score it very poorly, the panel didn't like hearing the word "outsourcing." They were not opposed to bringing in other experts to help, but they didn't connect to this as "outsourcing." They prefer the word "team."

Topic: The 360 Approach

Advisor A:

The 360 is really taking a comprehensive view of somebody's life. And it's not just about looking at the investments. It's really taking a look at those other areas. Understanding, like I said before, the values that are important to you. ***What does money really mean to you and what do you want your money to accomplish for you? And then looking at all the other aspects: who is your family? Who are the people in your life who are important to you and how is that going to impact maybe your estate planning, the income tax side,*** *making sure we are mitigating the income taxes; looking at the other advisors in your life. Who should be part of our team?* ***If I'm part of that team, should we have other advisors that you are already working with, or do we need to bring in other people? It's really looking at every aspect of your financial life and not just the investments and trying to figure out how to build an investment plan.***

Average Score: 62

Investors liked the multi-faceted approach and how the advisor talked about who was important to the investor — that it's not just about the money. They also liked the idea of bringing in other experts and building a team. They want an advisor who has a comprehensive picture of their life, even if that advisor doesn't have all of their money. (Note that some investors don't want their advisor to talk to them about taxes or their family — they only want the advisor to manage their money and the investor will handle everything else.)

Advisor B:

You know, I was looking at a car recently, ***and some of the new cars out there are just amazing, what they're developing. They have this ability with the cameras that show the front, the sides, and the back. It's a 360 view which is just really incredible. And that technology is there because — you know, I have a new grandchild right now, and I think of it as that grandchild, if they're behind my car, I want to see every aspect around me because of the dangers that are there. So let's apply this into a 360 view, because when we look at your picture again, there are all aspects and values that you have.***

Average Score: 42

Investors thought the advisor sounded too much like a car salesman and spent too much time on the car analogy to explain the 360 Approach.

Maslansky's research has uncovered two important rules about using analogies:

1. Keep analogies short.
2. Use analogies to further clarify complex concepts, rather than using analogies to introduce concepts. First explain what it is, then if your audience needs clarification, use an analogy. Here Advisor B launches into the analogy before introducing the concept he wants to convey.

Advisor C:

Well the 360 approach is a more formalized approach than the approach I've been using since I've been in this business, which is close to 20 years now. It's a program that's come through my business partner, and through some consultants, and basically it's a formal process that will help me understand my clients' life circumstances, their financial picture, and will allow me to develop a more customized portfolio to meet those objectives and life circumstances. It really consists of five parts: lots of questions up front, where I need to understand what ***the client's unique situation is, goals, objectives, and life circumstances. The second part is total understanding of the client's financial situation and goals, financial issues. Third part is then developing a customized portfolio that matches that risk tolerance and financial goals. We implement it through various business partners I have. Then on-going monitoring. And so that's things I have done informally during my whole career. But this new structured approach, more formal approach, allows me to zero in on a much more effective basis and understand my client's unique situation and financial objectives.***

Average Score: 63

Investors thought he sounded very sincere, and they liked his organized process.

Topic: Fees

Advisor A:

Part One:

I typically charge an advisory fee for the services that I provide and that advisory fee is typically a percentage of the portfolio or the assets that I'm managing for a client. ***And that usually starts at about 1% and can come down from there. So, the one most important part of the value that you get from our relationship and what I'm actually getting paid for with the advisory fee that's coming out of your investment account, is you're really paying me to help keep you from making a major mistake in the long run. You know, very few clients are calling me when markets are booming and the stock market is going up like crazy. Most of the work that I do and where I work the hardest is when markets are struggling, when there is a lot of volatility out there, when things aren't going so well. And so, that's really the value that you're going to get beyond everything else that we've already discussed, is making sure that I keep you disciplined, and really, frankly, keep you from blowing up this investment plan that we've just created.***

Average Score: 64

Everyone likes a straight answer to the fee question, and they felt this advisor handled it well. Investors don't want advisors apologizing for charging a fee for what they do. One investor expressed some confusion about when the 1% is charged – is it at the beginning of the year, the end or something different? It would be helpful to clarify that even further.

Part Two:

We're both on the same side of the table. You obviously want your account to grow over time and as do I because ***if your account grows my fee grows. For example, we have a $100,000 account and I'm charging you a 1% advisory fee, I'm making $1,000. If your account grows to $150,000, I make $1,500. The same thing happens on the other side. If we go through a rough patch and that $100,000 account goes down to $50,000 my fee has just dropped from $1,000 to $500. And so, you know, alliances are interesting, they keep us on the same side of the table and what I think is important about that question in terms of the downside, I'm still doing all of the other planning work for you in terms of, we're still working on your retirement plan, we're still working on your estate planning, your tax manager, I'm reviewing your returns, dealing with all the other goals that you've tasked me to help you accomplish. And so, it just so happens that the market's down. I'm getting paid less, your account's down, but we're still doing work and I feel I should still be compensated for all the other work I'm providing and all the other services that I'm giving you at that time.***

Average Score: 69

The investors liked the fact that the advisor really spelled out the fees in both up and down markets. He was honest and straightforward about the value he provides.

Advisor C:

Well it's kind of interesting. I'm paid only one way. I'm paid only by you. I'm a fee-only investment manager. I do not collect any money whatsoever from the custodian that you'll be using or the firm that will hold your money. ***I do not collect any money from my business partners, I do not collect any money from Dimensional Fund Advisors, I do not collect any money from any other firm we might use. So that should give you a high degree of comfort that I'm always acting in your best interest. And I do by law, since I'm a fiduciary.***

Average Score: 59

Despite an overall strongly positive response, the panel didn't like the negative references about everyone the advisor does NOT collect money from. This supports one of Maslansky's key communication points about keeping things positive (see more on page 8).

Topic: Giving Referrals

Advisor A:

I wanted to introduce something to you, something I just rolled out this year and I'm calling it my second opinion service and I'm really only rolling this out to my best clients, like yourselves. And what I'm doing is, I'm offering … for some of the people that you care most about, whether it's your friend, family member or a colleague, someone that you think could really benefit from the services I've been able to provide you over the years. And the second opinion service, what it allows is I'm willing to ***give an hour complimentary, to sit down with one of the people that you truly care about and just give them a second opinion on, you know, whether they're doing a good job of their planning or if there are some ways to improve.*** *And so I just rolled this out and definitely want to make sure that you guys have an opportunity to take advantage of it. Can you think of anybody that you might know that could utilize that second opinion?*

Average Score: 53

Advisor B:

Is there anybody that you have, that you're thinking of, that would be very very important for you to introduce me to because of what we've been doing? ***You know how we work. We know that there are a lot of people who are still confused out there. And they need a second opinion maybe. "Can you think of someone who you would like to sit down with, who you would like me to spend some time together with so I can get to know them?"***

Average Score: 47

Advisor C:

So what I do is with a client is I ***typically ask them at the end of the discussion, end of the meeting, if they have any friends or family that they believe could benefit from working with a fiduciary*** *who always acts in their best interest, who could benefit from this strategy. I say, I'm more than willing [to give] that friend or family member a second opinion to how they might be invested now with no obligation, confidential meeting. And I also say that you could be doing your family member or friend a big favor. You could do two favors, a favor to them and a favor to me.*

Average Score: 49

The investors felt that each of these advisors seemed embarrassed or hesitant in asking for referrals, which makes the clients feel hesitant to give one. They liked the offer of a complimentary hour-long consultation to provide someone with a second opinion with no obligation. The panel was more responsive to the idea of making an "introduction" to their financial advisor rather than making a "referral," which is perceived as making a recommendation.

Effective Communications Best Practices

The reality today is that the financial services industry is suffering from a reputation crisis. There have been so many stories of advisors who gave bad advice or who did not act in the client's best interest that investors are wary. So even though the negative press has nothing to do with you and how you treat your clients, those who come to you are skeptical. The only way to overcome that skepticism is through trust. Here are some ideas from Maslansky's research on how to build trust through the way you communicate:

Five Principles of Credible Communication

1. **Understand the client's perspective**

   As advisors, you have a set of beliefs about the markets based on facts from credible sources. But your clients' perspective is usually not the same as yours. You may have a client who finds some investment on the internet and decides it is just as credible as something backed up by significant research. If you want to build trust, you must understand their perspective, their experiences, their truth.

   Most advisors believe that the market is cyclical, that it's come back. And even if you think some things are different now, chances are you believe most investing fundamentals have stayed the same. But as the panel demonstrated, many investors will say they think that some investing principles have stayed the same but most things are different. While Maslansky talked with the panel of investors backstage, many expressed a belief that the market is just a scam.

   Advisors need to talk about more than a client's goals and needs; they also should discuss the client's experiences with the market and with other advisors. If investors typically believe that advisors only recommend a product if they're getting a special incentive for it, then no matter what you're doing and how you're presenting your solutions, investors are going to assume that you're just another sales-focused advisor.

2. **It's not about you, it's about them (the Personal Principle)**

   Although this may seem obvious, when many financial advisors speak with clients the conversation ends up being much more about the advisor than it is about the client. The more time you spend talking about the client and the less you talk about the product, the better off you are, the more you build trust. Use the word "you" to make things feel more personal and make your communications more effective.

3. **Replace jargon with words everyone understands (the Plainspoken Principle)**

   There is so much jargon that advisors don't even recognize it as jargon. People don't know what you think they know. That doesn't mean you can be condescending to clients or prospects, but it does mean to think about all the terms that you're using and whether or not people actually understand them. Use language that is familiar to everyone. (See "How (Not) to Talk to Investors" on page 10.)

4. **Word things positively, not negatively (the Positive Principle)**

   We ask what investors find more appealing: an investment that (1) "helps them avoid the risks and threats to retire any way that they want," or one that (2) "helps them take advantage of opportunities." Investors always go for the second response which is more positive. If you're trying to motivate people to act, make sure you do it with a positive solution, rather than a problem. Be careful when talking about risk. People become much more engaged in the conversation when there's a "risk protection and growth opportunity" side to the conversation as opposed to just "protecting against risk."

5. **There's no such thing as a "perfect" solution (the Plausible Principle)**

   Nothing in life is perfect. Everything has pros and cons and every benefit has a cost. When we try to present perfect solutions we lack credibility. When we temper our promises, we become more credible and actually more attractive. This particularly applies to retirement. When you say, "I'm going to help you achieve your dreams," people are skeptical. But when you say, "I'm going to make sure you have a comfortable retirement that lets you live the lifestyle that you've become used to" — that becomes a much more compelling value proposition.

Conclusion

So now that you have a better idea of the investor's perspective, what will be your next step? You may find it useful to write down, audiotape or even videotape some of your standard "speeches" and then analyze them in light of this new information, trying to imagine how the panel might have responded to your message.

We believe that for financial advisors, "people" skills are just as important as "financial" skills, and that more effective client communications make for a better client experience. The world of investing is already confusing enough.

Talk to clients in their own language and help them truly understand the long-term plan you've built together.

How (Not) to Talk to Investors

In keeping with **The Plainspoken Principle**, we've assembled some of the terms financial advisors commonly use that investors don't always understand and suggested other options using more familiar language.

Instead of saying…		*Try saying…*
Accumulation Phase	⇨	Saving and investing for retirement
Active management	⇨	Buying and selling stocks to try and beat the market
Asset Allocation	⇨	Mix of investments
Distribution Phase	⇨	Living off your savings and investments in retirement
Diversification	⇨	Invest in many different companies/categories
Estate Planning	⇨	Decisions about how you want your family and resources cared for after your death
Equities	⇨	Stocks
Expense Ratio	⇨	Costs of owning a mutual fund or other investment
Fixed income	⇨	Bonds
Large Cap	⇨	Large company stocks
Longevity Risk	⇨	Possibility that you outlive your money
Passive management	⇨	Way of investing that attempts to match entire markets, countries or industries
Risk Tolerance	⇨	How much risk are you comfortable with?
Small Cap	⇨	Small company stocks
Trading Costs	⇨	Costs of buying and selling investments
Volatility	⇨	Ups and downs in the market

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