Adviser Best Practices for Communicating Value and Building Trust

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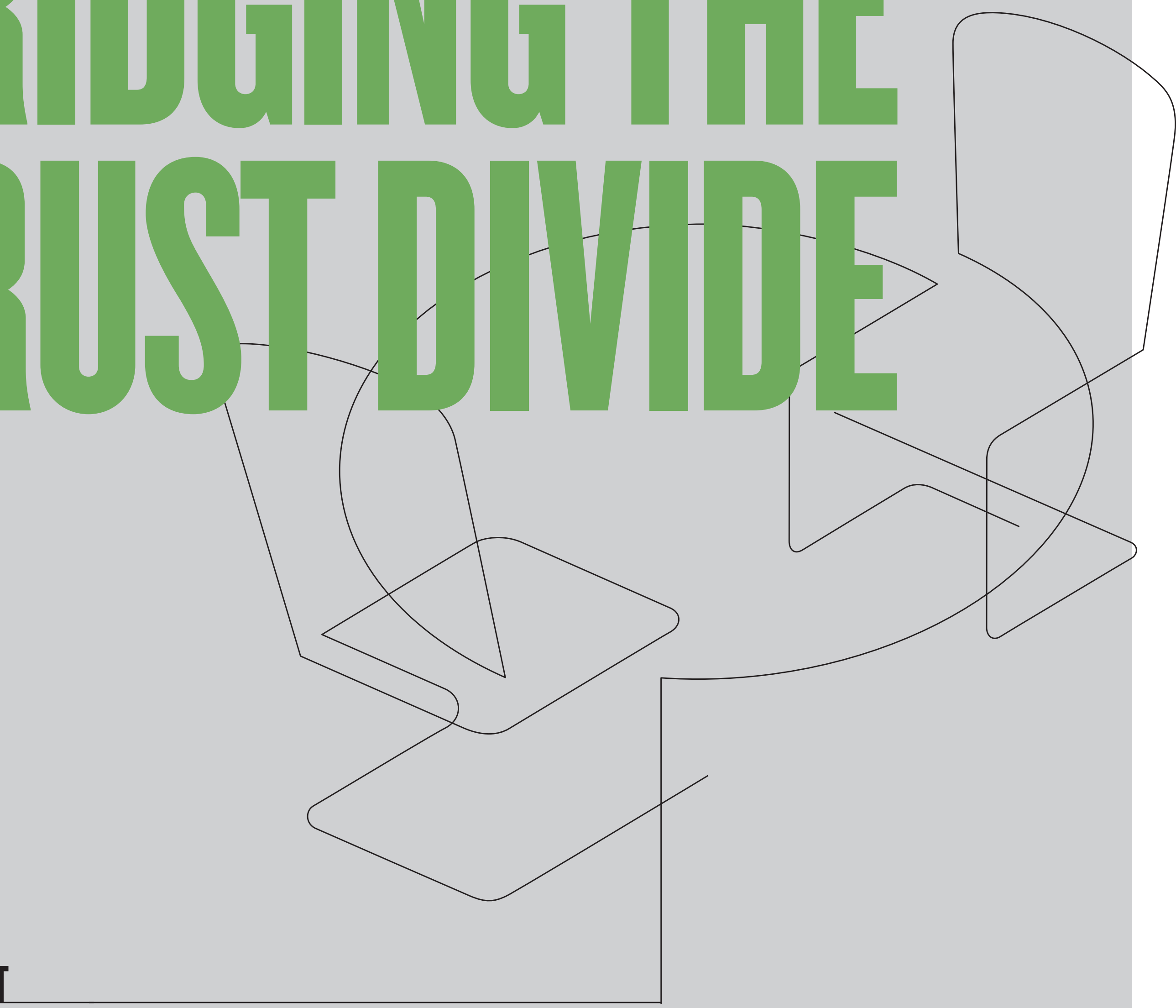
BRIDGING THE TRUST DIVIDE



STATE STREET GLOBAL ADVISORS

SPDR

COMMUNICATING VALUE, BUILDING TRUST

At a Glance

In this document, we look at how financial advisers are negotiating the boundaries of this evolving relationship, specifically examining how advisers can:

01 Strengthen relationships by engendering trust.

02 Understand their clients' needs.

03 Successfully discuss fees with clients.

Trust and value have always been at the heart of the relationship between financial advisers and their clients. And in an industry that's facing increased public scrutiny and Government regulation, the ability for advisers to earn and keep the trust of their clients remains a key factor in their ongoing success.

At one time, financial advice usually came folded into another service, sometimes in the form of suggestions from a tax accountant or stockbroker—or an employee from the local bank. Often, it was good advice. At times, however, it was conflicted, because moving particular products sometimes took precedence over doing what was right for the client.

In Australia, the switch to a fee for advice model, increased disclosure, and other safeguards in the Future of Financial Advice legislation, have shone a spotlight on less scrupulous practices and enforced a higher level of transparency across the industry.

This, coupled with a low interest rate environment that places a higher focus on the cost of advice, has created a new paradigm in which advisers will need to clearly articulate the value they provide in order to maintain and build their client base.

While this places more responsibility on the adviser when communicating with clients, it also presents an unprecedented opportunity to create mutually beneficial long-term relationships.

01.

A MATTER OF TRUST

Australian financial advisers already know that trust is the foundation of the adviser–client relationship, with a central role in the acquisition and retention of clients and the ability to access a greater share of wallet. Similar to selecting other service providers, like the family doctor, the choice of adviser often comes down to who the client trusts the most.

Three Levels of Trust

Trust in Technical Competence & Know-how

There are certain components to trust that every client, consciously or even instinctively, looks for in a financial adviser.

First, by and large, investors are looking for someone whose level of competence inspires trust. In other words, an investor generally seeks an adviser who is experienced and knowledgeable, one who can help the investor make, or single-handedly make on the investor's behalf, difficult financial and personal decisions.

But how do you convey expertise to a non-expert? Tim Mackay of Australian advisory firm, Quantum Financial, says that an adviser needs to not only be equipped with the right set of skills and qualifications, but also the ability to communicate that expertise.

"The starting point is meeting the minimum educational level of holding a relevant degree and the Certified Financial Planner professional designation, then proving you are a qualified expert in your chosen field, for example, by obtaining an SMSF specialist qualification. Once suitably educated and qualified, a trusted adviser should be prepared to answer a lot of complex questions."

Meanwhile, Australian adviser Fabio Ferro of WE Private says that being up-front about the skills you can—and can't—bring to the table is critical.

"As an investment specialist, if a client asks me about insurance, I will gather information and ask my colleague, an insurance specialist, to intervene. The client will generally appreciate that you can't do it all, so you need to be honest about your capacity and limitations."

Mackay says that the shift away from trail commissions to a true fee for service approach marks an important step forward in restoring trust in the industry.

"As more and more Australian's come to rely on independent advice that they can trust, the future of financial planning is incredibly bright. Already the Financial Planning Association is taking the lead in raising professional standards and we applaud this."

Trust in Ethical Conduct and Character

While many advisers tend to think of trustworthiness as simply a function of personal and/or industry ethics, some may believe consumers distil this level of trust into one basic yet critical question: Do I trust you not to steal money from me?

In recent years, Australian advisers have had to work harder to earn this trust, with revelations of unethical behaviour among some advisers tarnishing the reputation of the entire industry, says adviser Tim Mackay.

"In truth, the vast majority of financial planners we know are good people who are doing the right thing by their clients. They hold professional qualifications, relevant degrees, years of experience and put their clients' interest first."

"But there can be no denying that those who criticise financial planning have just cause. Australians have seen recurring examples of rampant abuse of consumers and a lack of professionalism shown by the advisers they trusted."

"Right now all financial planners are tainted with the same brush."

King Loong Choi, Analyst at Investment Trends, says that the research confirmed overcoming trust issues was essential for advisers to strengthen their client base.

"Almost a third of investors who haven't used an adviser in the past 12 months, and don't intend to use one in the future, cited lack of trust as a key reason — just behind not having money to invest and the cost of advice. This is clearly a significant barrier for advisers to overcome," he says.

Lack of confidence in adviser expertise was another major factor, cited by 22 percent of respondents. Meanwhile, conflicts of interest made it into the top eight responses. Put together, responses relating to cost and trust represented more than half of the reasons people were unlikely to ever use an adviser.

So how to challenge the perception that advisers can't be trusted? Australian adviser Paul Moran says that, for him, the first step is putting the client in control.

"We deliberately give the client the sense they can walk away when they want to. When we meet clients for the first time, we don't take their contact details, we won't call them—we want them to make that decision themselves. Then we provide multiple 'drop-out' points throughout the process, so the client understands that it's their choice to be our client. Every client leaves with a sense they're not being pushed into it. That sense of freedom is a huge opener in the trust relationship," he says.

Mackay says that being a vocal advocate for clients is another way to change perceptions.

"Consumers are sick and tired of the finance industry protecting its own vested interests. Advisers can stand out and take advantage of the opportunities these changes offer by loudly and actively taking a stand. Stand up for better protecting consumers and driving professionalism.

For Fabio Ferro, standing up for clients may sometimes mean walking away from employers who may not have their best interests at heart.

"I actually changed job a few years ago as the company which I was working for changed dealer group and the new dealer group was a vertically integrated business that I did not believe was objective. In that case, the only plausible choice for me was to get a different employer."

> The value of financial advice is not just managing the money, but in the softer advisory elements—personal counselling and instruction.

Trust in Empathic Skills and Maturity

The final element of trust focuses exclusively on the interpersonal relationship. Dr James Grubman, one of only a handful of specialised psychologists who provide wealth counselling and training services to financial professionals and their clients, confirms that there is a third dimension of trust present in every successful adviser-client relationship. This level of trust, which we might call relationship competence, may be the most critical because without it, as Grubman points out, the relationship is extremely fragile. Essentially, this trust is built on the client's premise that "if I tell you personal things about myself or my family, I need to trust that you, the adviser, will handle that well."

Grubman points out that because wealth brings unexpected stresses to many individuals and families, coping with money issues can be difficult. Many advisers struggle with the skills needed to solve the interpersonal issues associated with wealth management. Grubman's bottom line: clients are more comfortable and more likely to continue their relationship with advisers who are able to integrate the financial and the personal into their financial advising practices. Those advisers who don't will likely face limitations in the adviser-client relationship and may find that they are ultimately unable to satisfy the client.

Adviser Paul Moran agrees that building trust is largely about the interpersonal relationship, rather than technical skills. And to develop that, he says that advisers need to reveal something of themselves.

"Clients sense that the advisers need to be objective, but it's also essential not to be aloof—I need to put myself out there. Empathy is developed when you give something of yourself, when you're happy to talk personally about your life to your clients. Give them a sense of joining together— of being in a partnership," he says.

Without the personal dimension, or without the client's trust in the adviser to handle personal issues and sensitive information with empathy and tact, the client will not feel connected to the adviser. Consequently, the adviser is often unable to get to the heart of a client's financial situation—the personal issues that underlie our relationships with money.

Clients are looking for advisers who they trust enough—a trust grounded in the rapport established—to make difficult decisions for them. But with that trust comes a great deal of ethical responsibility, according to Mackay.

"A doctor's Hippocratic Oath includes the promise 'to abstain from doing harm'. Similarly, a good planner has the skills to ensure your family doesn't take any more risks than you have to."

In this way, with the right communication skills and tools, the adviser adds real value by focusing not only on a client's financial well-being, but on the underlying personal and familial issues that could further promote or cripple the client's financial health. These are often the issues a client is unaware of, or reluctant to face, due to anxiety or embarrassment.

Says Moran, "When you're not just listening but having a real, personal conversation with the client, that's when we can discover what their fears and aspirations are."

The value of financial advice is not just managing the money, but in the softer advisory elements—personal counselling and instruction.

How Advisers Can Damage Trust

Even once trust has been established between the client and the adviser, other variables can serve to compromise the relationship. As with any relationship, advisers must understand that trust is not a fixed quantity and is easily diminished. Weak investment returns might seem like the biggest way in which clients lose confidence in their adviser.

However, the importance of professionalism among every person on the team of staff supporting the relationship is equally vital. Well-trained support staff is essential, especially with a relatively new client.

We believe that it can take between six months and a year for people to form a solid sense of an adviser's persona and brand, and that image can be shattered if multiple sources of contact introduce a view that is somehow incongruous or inconsistent with what the adviser has presented.

Moran agrees: "Consistent administration errors can damage trust—if they keep happening, no matter how good the relationship is, they will damage it."

He says that making the client feel valued is essential—regardless of their level of wealth. "People like to think that they're you're only client and all clients need to feel that they are equally important. If your clients feel that you're not interested in them because they don't have as much money as someone else—then that can be very damaging."

Moran also emphasises the importance of objectivity, particularly in the current environment where financial planning and sales practices have been under the spotlight.

"Advisers need to be able to demonstrate that their advice is not influenced by a third party product provider. There's a clear recognition between an adviser aligned to a bank or product provider, and those who are more independent. So for the 20-odd percent of advisers not aligned to a product provider, it's become easier to develop trust."

Tim Mackay agrees that the advisers who are tied to a product-linked dealer group face great challenges in gaining consumer trust.

"Consumers are rightly wary of any links between advice and product providers. They want advice in their best interests, not a sales pitch for products that financially benefit their adviser. Many of these advisers act in their clients best interests, but they operate within systems and processes that are designed to sell their own firm's financial products."

Fuzziness About Fees

Fees are another critical area where trust can be easily diminished. The challenges the industry faces with fees are well-documented but we simply believe that the credibility of many advisers may be hurt simply because of the way they are discussing their compensation.

When attempts are made to clarify fee structures, advisers shouldn't discount the potential for confusion or a lack of understanding of what the fees mean on the client side, either. In Australia where fee disclosure is now the norm, Investment Trends' Choi says their 2014 survey of SPDR investors shows that many clients still feel in the dark about the cost of their advice.

> "It has been long established that health and finance are the most important items for the client: would you choose the cheapest doctor? Or the best?"

"Of the clients we surveyed, one in five simply didn't know how much they had paid their main investment adviser in the past 12 months."

Some advisers believe that clients aren't all that concerned about the absolute levels of the fees. What they are concerned about is clarity: the issue isn't really whether fees are high or low, but that they know what they are.

Tim Mackay agrees, "Consumers don't want choice over fees, they want certainty of knowing upfront how much they will pay for advice and the reassurance they are getting value for money."

Paul Moran adds, "The great challenge is that until you see a good adviser, you have no sense of what the value is."

Transitioning to Transparency

In Australia, the transition to a fee for service model is leading a transformation of the industry, with better education for advisers and greater disclosure requirements. But it's not without its challenges, with up-front fees putting the onus on advisers to communicate how they're adding value—sometimes in the face of cheaper competition.

Australian financial planner Fabio Ferro says, "It's a much cleaner relationship—the only issue is that some funds have a lower level of disclosure. So often the independent adviser looks more expensive than the industry fund. But that's not by as much as generally thought."

"Industry Fund campaigns have encouraged clients to focus on fees and not the quality of advice. For me, this is detrimental to the client's interests. It has been long established that health and finance are the most important items for the client: would you choose the cheapest doctor? Or the best?

Communicating Value

One of the biggest hurdles is learning to articulate to the client what services they are actually getting in exchange for their fee or for an annual percentage of assets. This may be particularly the case in high-end accounts, if the adviser is no longer picking the stocks, but picking managers. If that's the case, what is the adviser actually adding?

Similarly, what if the adviser is just buying index funds or ETFs, which the client could buy through a broker relatively easily and cheaply? How can the adviser justify the right to an annual percentage of assets for as long as that relationship continues?

One answer is that a good adviser can create value simply by preventing clients from damaging their own interests—particularly when market conditions are tough, says adviser Paul Moran.

"When the market is volatile, we need to communicate and explain what's going on to clients. This is the most risky time for clients to be influenced by behavioural biases. For example, during the GFC, when the market was at its lowest point, clients wanted to sell."

"In some respects, periods of poor performance are a good show of trust. If you find you're losing clients when the markets aren't performing, then it's a sign that you don't have strong relationships in place."

At the same time, advisers shouldn't be afraid to alert their clients to the mistakes they may be making within the self-directed portions of their portfolios. This type of active engagement helps advisers show the true value of their service.

Tim Mackay agrees. "A trusted planner will create a barrier between emotions and investing, minimising mistakes and resulting in smarter investing decisions. They filter the 'noise' in the daily financial press to ensure you invest based on research-driven insights. And to do this, they not only need technical skills, but also inter-personal skills. You must 'know your client'—what makes them tick and what they are passionate about."

02.

WHAT CLIENTS REALLY THINK

While Australian financial planning clients are generally happy with their advisers, more than half say they have unmet advice needs. This means that advisers need to work harder to find out what their clients really think—and what they need—so they can build better and more rewarding relationships.

Research conducted by Australian research group Investment Trends, reveals that for many Australian investors, advisers are simply failing to meet their needs. While generally happy with their advisers, many say they would like additional advice, with offshore investing and ETFs particular areas of interest.

For advisers who can tap into theses unmet needs, there is significant potential for growth. But, to do this advisers need to make sure they are educating their clients through effective communication.

The Good News: Your Clients are Happy

Investment Trends research into SPDR ETF investors reveals that the majority of clients are happy with their adviser's performance. Of those who had used an adviser in the past 12 months, 77 percent considered them to be 'good' or 'very good', with only five percent rating them as 'poor' or worse.

Clients also ranked their advisers well on key attributes that are identified as central to the trust relationship: accessibility and independence, and transparency relating to fees—but perceptions of value lagged.

Accessibility and Indpendence

Advisers performed well in terms of client accessibility and understanding and meeting client needs, supporting the view that it's the softer skills that contribute to a positive client relationship.

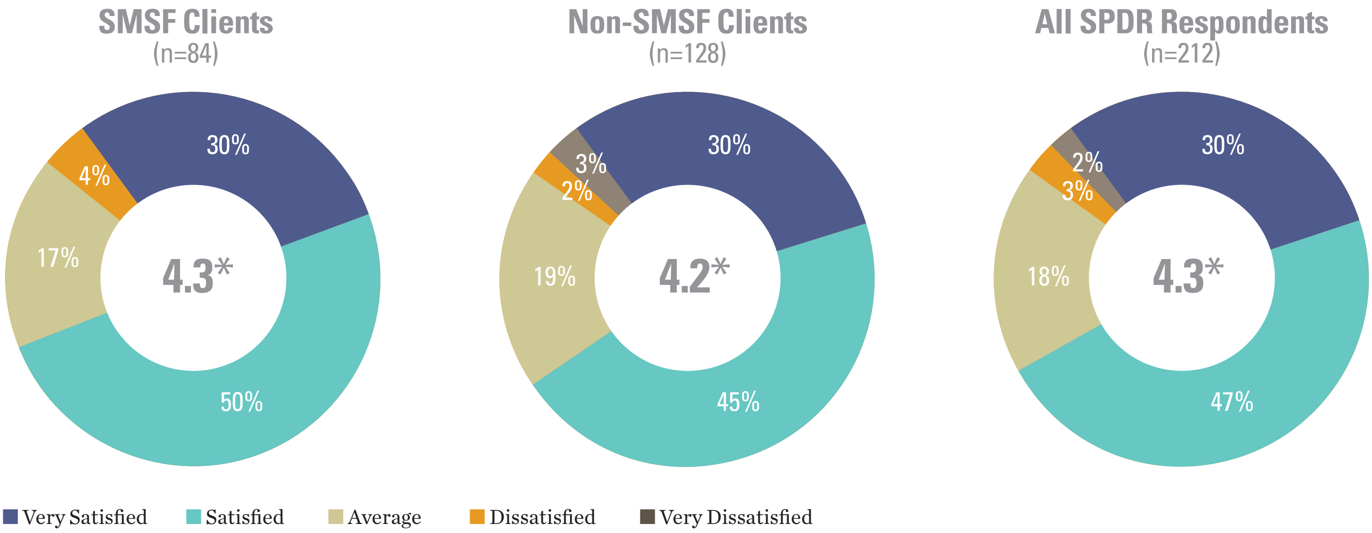
And despite ongoing negative reports of product-pushing among advisers, clients rated their adviser's independence highly, with almost 70 percent saying their adviser provided a 'good' or 'very good' degree of independence in product selection.

Fee Transparency and Value

Clients also ranked transparency relating to fees among their advisers' top skills (with 72 percent saying they were 'good' or 'very good'), ahead of other important skills including asset allocation, tax planning and sophistication of advice.

But, while clients felt well-informed about the fees they paid, they were slightly less complimentary about the value for money, with only 60 percent saying they were 'good' or 'very good'. The level of fees was even less well regarded, with only around half of investors giving a 'good' or 'very good' rating.

Figure 1: Adviser Performance



Source: Investment Trends, 2014 Investor Product Needs Report: Analysis of SPDR Respondents, October 2014.

*The composite score is a weighted score where: Very good=6, Good=4, Acceptable=3, Poor=1, Very poor=0

But More Than Half Have Unmet Needs

Despite clients showing a high level of satisfaction with their advisers, the survey revealed that more than half of of SPDR ETF investors would like to be receiving extra advice—with this need currently going unmet.

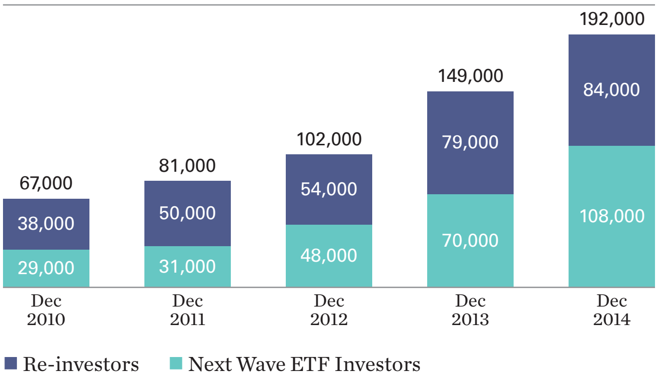
King Loong Choi from Investment Trends says that clients were particularly looking for advice on ETFs and offshore investing.

“ETFs ranked in the top five topics on which the investors would like advice, after investment strategy, tax planning and portfolio reviews. Offshore investing was also a priority, particularly among SMSF investors. And more than 20 percent said they would most likely seek this advice from a financial adviser, ahead of other advisers such as an accountant, investment adviser or stockbroker.”

While this represents an opportunity for advisers, it’s one that they’re currently not taking advantage of. Another Investment Trends survey of Australian investors showed that adviser involvement in ETF purchases in recent years has remained steady, at just under a third of all ETF investments.

That means there is significant opportunity to grow adviser involvement, even among those who already invest. And the opportunity doesn’t end there, with **192,000 Australians saying they intended to invest within the next 12 months—up almost a third on previous years.**

Figure 2: Investors Planning To Invest in ETFs Within the Next 12 Months



Source: Investment Trends, Exchange Traded Funds Report, November 2014.

The Opportunity: Filling the Advice Gap

For advisers, the ability to close the gap on unmet advice needs represents a sizeable opportunity, with current ETF investors wanting to double their allocation to ETFs from 6 percent to 13 percent.

And when investors were asked which investment type they would invest in in the next 12 months, ETFs were by far the most popular. Despite this, 57 percent of investors say are only willing to invest further in ETFs if the barriers to further investment are addressed.

While some of the main barriers to further investment—such as lack of funds and market conditions—are beyond an adviser’s control, lack of knowledge was revealed as a major barrier that exacerbated market concerns. In fact, when asked what would encourage them to invest more in ETFs, having more confidence in the market/economy (24 percent) was a leading factor.

This presents a great opportunity for advisers who can provide effective education and advice on these products, helping get them over the line.

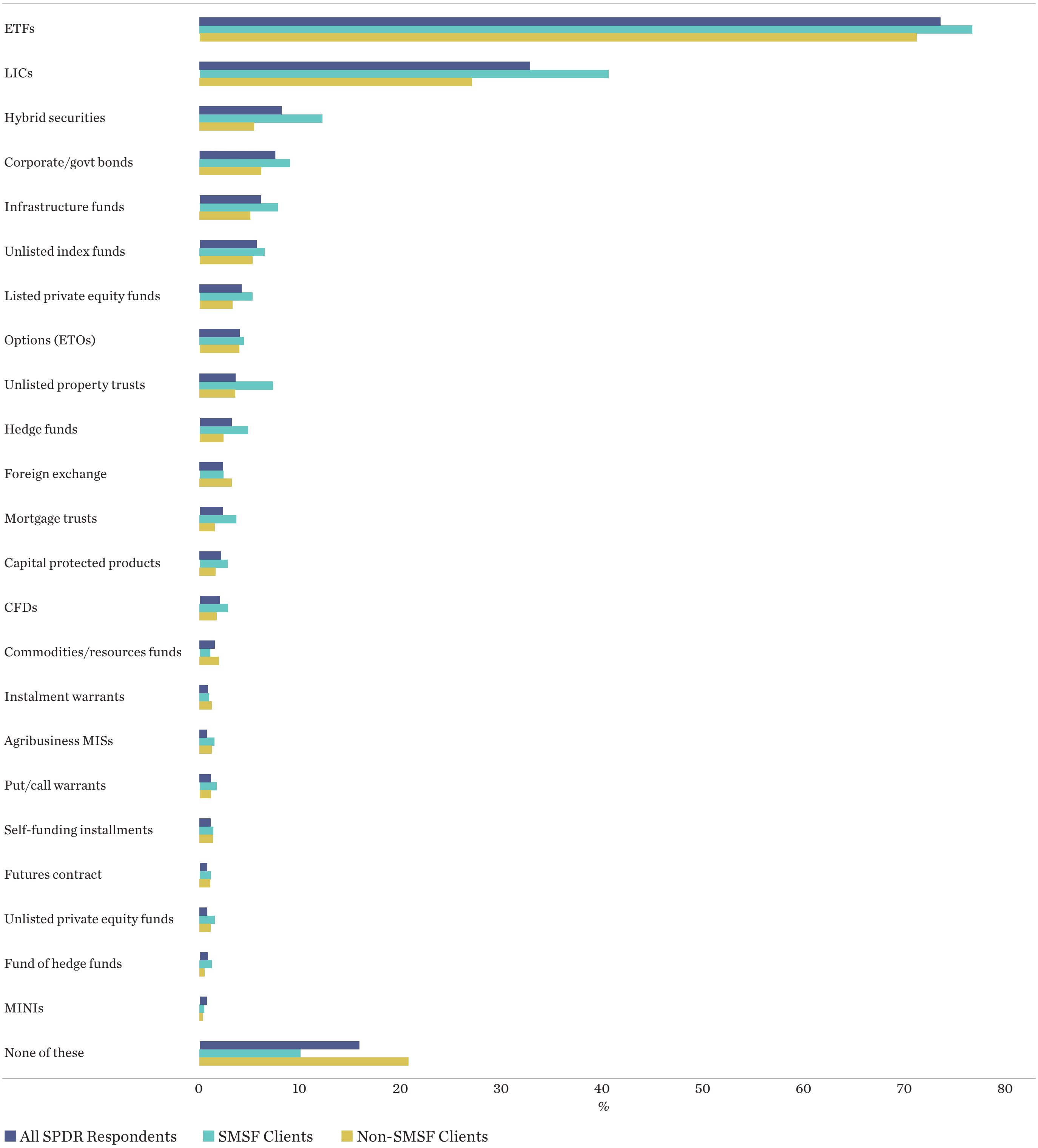
Leveraging the Popularity of ETFs

In closing the advice gap for existing and next-wave ETF investors, advisers have the opportunity to build stronger relationships with more relevant advice. But it may also have the added benefit of increased satisfaction within existing relationships, with advisers effectively leveraging the popularity of ETFs.

According to the Investment Trends research, ETF investors report a high level of satisfaction with their investments, more than a third (35 percent) saying they were ‘very satisfied’ with the investment and half saying that they were ‘satisfied’. In fact, a mere one percent of ETF investors reported being dissatisfied or very dissatisfied with their ETF experience.

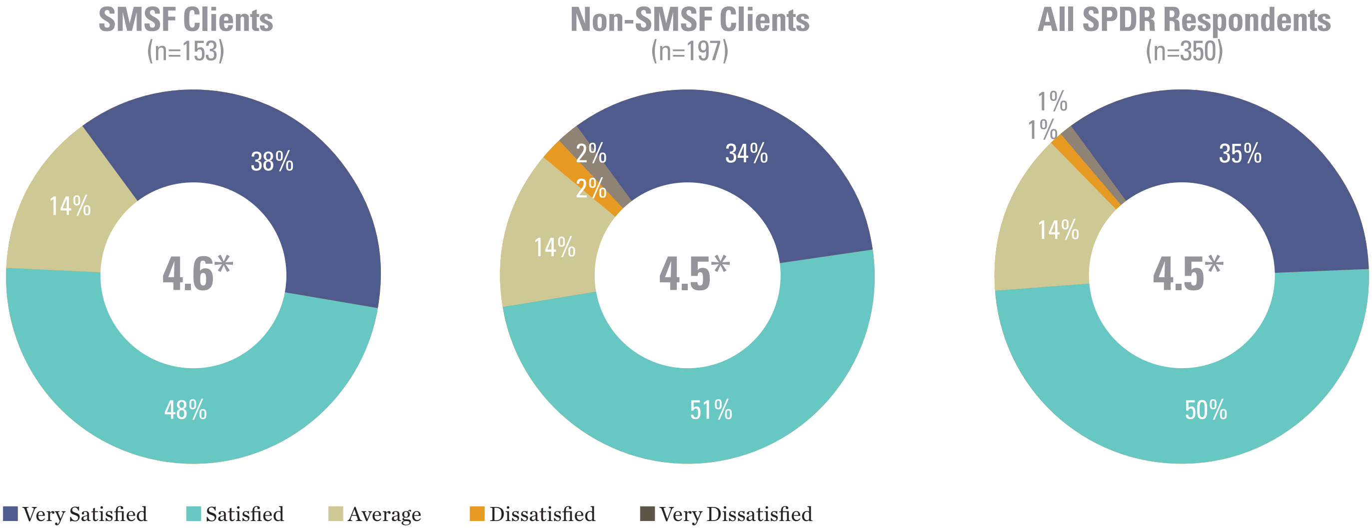
For advisers this presents a potential opportunity to tap into these high satisfaction levels—by offering these well-regarded products to investors, provided they suit their needs.

Figure 3: Most Likely Investment Within the Next 12 Months



Source: Investment Trends, 2014 Investor Product Needs Report: Analysis of SPDR Respondents, October 2014.

Figure 4: Satisfaction with ETFs (current ETF investors)



Source: Investment Trends, 2014 Investor Product Needs Report: Analysis of SPDR Respondents, October 2014.

*The composite score is a weighted score where: Very good=6, Good=4, Acceptable=3, Poor=1, Very poor=0

Getting Your Clients Across the Line

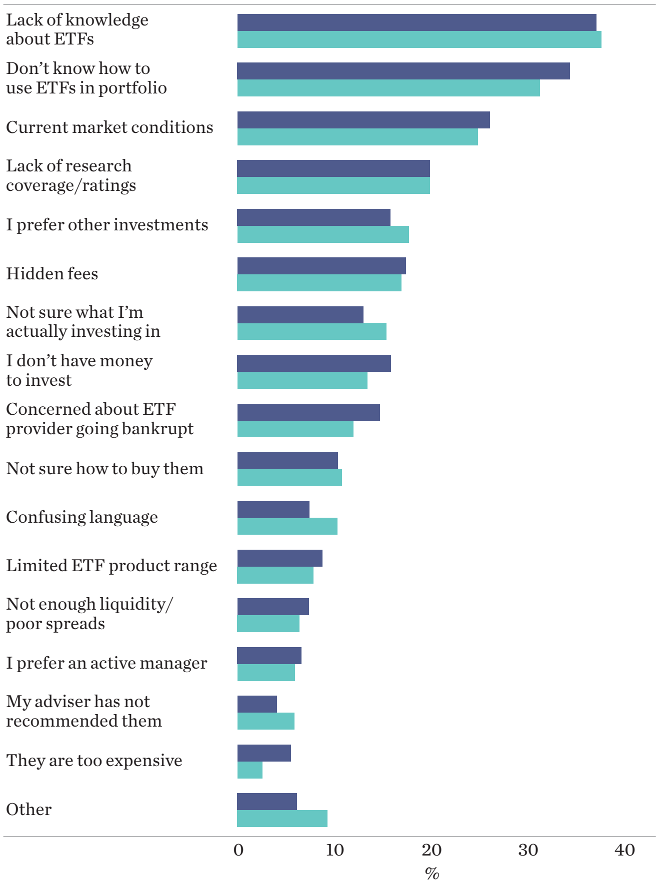
For advisers wanting to take advantage of the potential growth in ETF investment the path seems clear: by simply filling the advice gap and providing quality education and advice about these products you could not only grow the share of wallet you command, but also build deeper relationships with your clients through greater satisfaction.

The research showed that there's a sizeable next wave of ETF investors, predicted to grow to 84,000 within the next 12 months. Of these, 39 percent cited lack of education as the main barrier to ETF adoption, including uncertainty of how to use ETFs in a portfolio (32 percent), lack of research coverage/ratings (20 percent), perceptions of hidden fees (17 percent), lack of clarity about what they're investing in (16 percent) and concerns over provider bankruptcy (12 percent).

But the good news for advisers is that not only are they in a good position to provide this education, next-wave investors are keen to bridge this knowledge gap. In fact, next wave investors most commonly reported more/better education materials (32 percent) and more/better research on ETFs (31 percent) as catalysts to invest.

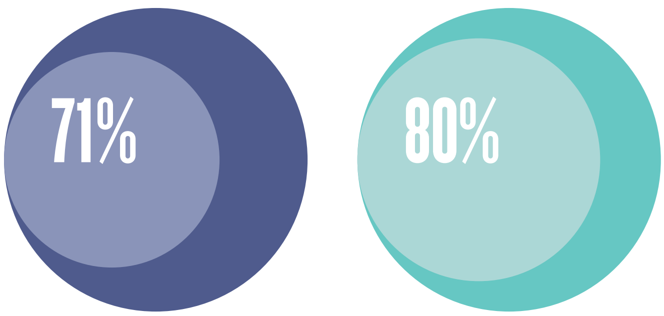
The research confirmed that next-wave investors are generally less informed about the benefits and cost advantages of using ETFs. So emphasising how ETFs can provide low cost access to diversification can help get these investors over the line.

Figure 5: Barriers To Investing For Next Wave Investors



Source: Investment Trends, Exchange Traded Funds Report, November 2014

Proportion Citing Barriers to Investing (More) in ETFs



2013 (n=314)

2014 (n=384)

03.

Adviser Best Practices

BUILDING TRUST WITH THE FEE DISCUSSION

Years of perceived conflicts of interest have made some consumers suspicious that their financial advisers are truly there to help them. And according to Dr James Grubman, psychologist and consultant to wealth managers and high net worth families, advisers sometimes avoid fee discussions due to their own anxiety about the outcome.

But there is a high price to be paid for avoiding the subject—not least the risk of failing to disclose. So, what is the right way to talk about fees with prospects and clients?

Four Steps to Success When Discussing Fees

According to Dr Grubman. "It's a matter of developing procedures that really work". Just as doctors can be taught how best to deliver difficult news to a patient, he says, so too can advisers be taught how to best talk about fees. "The discussion about fees has at least four components to it. If you don't follow these pieces, it can go badly. If you follow all the components, then it goes well," says Grubman.

He describes a recipe of sorts for the fee discussion, identifying the active ingredients necessary for successful conversations about fees that foster client trust.

1. Don't Procrastinate

One key ingredient is to simply disclose. Advisers would do well to tell clients what their fees are in as straightforward a manner as possible. "The reality is," says Grubman, "many advisers are really nervous about this." They fear that they will be put in the position of having to deal with a negative or contentious response from the prospect or client. He often finds that advisers don't tolerate their own anxiety all that well and this causes them to avoid the fee discussion as long as they can.

In the Australian context, of course, non-disclosure is not an option, with every Statement of Advice required to fully disclose all fees and costs associated with the advice. Advisers are also required to provide full fee disclosure statement relating to ongoing payments, such as trail commissions (now largely obsolete, with the exception of insurance commissions) as part of the Future of Financial Advice (FOFA) provisions.

A fee disclosure statement must outline the fees paid by the client, the services they were entitled to receive, and the services they did receive during the previous 12-month period. So for Australian advisers, there's nowhere to hide when it comes to disclosing how much the client will pay.

Adviser Paul Moran says that makes the discussion around fees—and the value they represent to the client—even more critical to maintaining strong relationships.

"I think a lot of advisers still have trouble explaining fees effectively. For some, particularly those in long term relationships that may be because they're uncomfortable with the fees they charge, and run the risk that when the client understands the fees, the trust will be broken. But if you're having upfront discussion about the fees and the value proposition, it's less of a problem."

Tim Mackay agrees that greater disclosure represents a real shift in perceptions when it comes to cost. "Consumers expect advice in their best interest, and they expect value. The problem is that for so long we've been allowing consumers to believe advice was free. It's never been free, but it's been perceived to be free under the commission model. This is significant cultural change."

> "The problem is that for so long we've been allowing consumers to believe advice was free. It's never been free, but it's been perceived to be free under the commission model."

2. Describe Fees With Clarity

Setting up fees simply and describing them clearly is a critical second ingredient, asserts Grubman. "Advisers often mess this up, because out of their own anxiety or their own issues about fees, they will obfuscate. They think that they are being specific in showing all the shades of grey with fees. In reality, clients do not want shades of grey. They want it pretty black and white."

For many reasons, advisers often get incredibly detailed when it comes to describing fees. Instead of clearly stating a fee of 70 basis points, for example, they'll talk about the ranges in fees they charge for various types of clients. They may then further cloud the fee discussion by talking about an array of special circumstances that may or may not drive further modifications in fees.

Though the adviser may be well-intentioned in doing so, Grubman says that offering an excessive variety of contingencies actually erodes trust. What advisers perceive as detailed disclosure of shades of grey, explains Grubman, "is experienced by clients as loopholes, fudging and being untrustworthy."

Intricately detailed fee menus just contribute to ambiguity and generate mistrust, warns Grubman, so communicate fees directly with clarity.

Even in a fee for service environment such as Australia, Moran says that there is still room for confusion.

"The issue is what does this mean: for some it's an hourly rate, for others it's a fixed amount per annum, for others a percentage of funds under management. There are lots of variations. In our practices we charge a fixed fee for SoA and implementation, with a minimum and maximum fee."

But whatever the model, he agrees that clarity is important for helping clients understand—and accept—the fees charged.

"My experience is that clients appreciate being told the cost up front. My definition of 'fee for service' is when clients know what the cost is going to be before they do anything or make any decisions."

But he adds, part of this equation is making sure that the advice being provided for the fee is free from real or perceived conflict of interest—such as commissions or incentives from the product provider. "When it's based on what I can sell you—that's not fee for service."

3. Provide Context—Benchmark Fees

Advisers are acutely aware of industry fee schedules and what their competitors may be charging. However, many wealthy individuals do not know whether a fee being charged "is good, bad or indifferent," according to Grubman, and that is unsettling for them. Money and the fees charged for money management are not a water-cooler topic of conversation for most wealthy clients. For a host of reasons, people can be rather secretive, preferring not to talk with friends or acquaintances about their wealth or what they pay for services. Context is key, particularly for those clients who are working with a trusted adviser for the first time.

There are ultimately a huge number of ways advisers can communicate fees to clients these days. The ideal manner, contends Grubman, would be to very clearly present up-front what the typical industry rates are for the adviser's type of firm, for a client's particular net worth, or for a specific category of client, etc. As Grubman points out, advisers who are adept at the fee discussion don't just tell clients what their firm's fee is—they present the fee in context with the range of fees industry-wide. "Yes, this is scary," recognises Grubman.

> What advisers perceive as detailed disclosure of shades of grey, is experienced by clients as loopholes, fudging and being untrustworthy.

"You may have to justify your fee to the client if it is on the high side. But, ultimately this is better than hiding behind a lot of figures and then having the client find out later anyway."

"So when we talk about what my fee is compared to others, I've told the client many things. I've said 'Look, I'm honest. Look, I'm consistent with industry rates.' Plus, I've educated you," states Grubman. By providing the client with information in context, he says, the adviser conveys trustworthiness and provides real value to the prospect or client.

Moran agrees that, as for any product, there's a need to clearly articulate the value of the underlying advice cost, going beyond the concept that it's simply another investment cost to be measured by investment return.

And he says that in some ways Australian advisers have it easier than some of their US counterparts.

"In the US, the actual investment costs are much lower than in Australia. So the client sees a significant part of the cost of investing as an adviser fee. We have higher underlying investment costs. We're working to separate out our investment costs, and articulate the value we provide."

"We need to explain that the advice fee relates only in part to the investment. It also covers the cost of the advice provided for full range of advice we provide, such as their estate planning needs, insurance strategies, cashflow management strategies, budget strategies and planning for their parents' aged care—all the things that we do as part of the advice process, that aren't built into the investment costs."

4. Put It On Paper—Give Clients Something to Refer Back to

Finally, advisers would do well, Grubman adds, to put their information about fees in writing, because generally people don't retain information all that well in a face-to-face meeting. "We know people simply don't remember half of what goes on", he says. So, what an adviser says to a client is almost never what the client walks away remembering.

This phenomenon explains both the discrepancy in perceptions about fees revealed by the survey, and also where mistrust can sneak into the relationship. An adviser may know he told a client the fee was 90 basis points with one exception. The client remembers it as 90 basis points, no exceptions. Both parties, then, begin to think that the other is being untruthful or trying to get away with something should a disagreement arise.

Grubman points out that there are a lot of lessons to be learned from the medical field and that a host of similarities exist between the adviser-client and doctor-patient relationships. In the medical field, for instance, a lot of procedural training takes place around how to prescribe medications. Doctors are being trained to ask patients to repeat back instructions regarding when and how to take their medications, for the reason that patients simply do not retain information well.

If advisers want people to retain important information in detail, says Grubman, they must write it down: "Written and visual lasts. Oral and verbal flies away."

Again, the legislative framework in Australia is intended to help financial planning clients understand the cost of advice, with the Statement of Advice required to set out information about remuneration or other benefits which may be received by the adviser, related body, employer, director or any associated person that may influence the provision of the advice

But while the requirement is standard, the implementation is not—with each SoA provider free to present this information in the format they see fit. And while they may be strictly complying with the letter of the law, that doesn't necessarily mean it's the best layout for the client. So while putting it on paper is essential—it's not enough on its own. Communication through the advice process is essential in ensuring fees are understood—both at face value and in terms of the client value they provide.

> According to Grubman, competence in the fee discussion can be achieved easily when there is a well-defined, repeatable roadmap for the conversation.

Focus On The Process, Not the Final Conversation

Ultimately, where many advisers fail in building trust about fees, says Grubman, is by focusing only on the end of the discussion—or on the confrontation they fear will ensue once they tell the client what the fee is. "Everybody is focused on that last segment of the conversation," says Grubman. "In actuality, if you haven't done the component pieces the correct way leading up to that point, how are you going to have that last bit of the conversation? It's liable to go wrong.

By following the aforementioned steps, which are independent of who the client is, says Grubman, advisers build trust and place themselves in a more capable place from which to address client-dependent variables, such as the client's personality or situation in life. That is the bottom line in the relationship: responding well to a client's concerns.

CONCLUSION

Ultimately, the financial advisory business is changing and becoming more transparent. In a world where investment solutions and services are becoming increasingly commoditised, the extent to which advisers can act as trusted counsellors and educators to their clients will be the real differentiator or measure of value.

In the Australian context, the additional challenges presented by the damaged public trust, in the industry as a whole means advisers will need to work harder to overcome negative perceptions and build and maintain client trust.

Despite this, the advisers we spoke to were unanimously optimistic—saying that increased technical competence, through better adviser education, independence and transparency would inevitably lead to better outcomes for clients and planners alike.

This positions Australian advisers well to take advantage of the opportunities presented by unmet advice needs, as the industry's credibility rebounds. By focusing on building genuine personal relationships and effectively communicating the value of their expertise and service, advisers can create relationships with their clients that have the resilience to weather market volatility and negative press.

For advisers who can make the most of personal relationships, be up-front about fees, and effectively communicate the value of their expertise and service, there's great potential to build more enduring and rewarding client relationships.

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ABOUT THE RESEARCH

This paper is based on the findings of Investment Trends research conducted in Australia alongside insights from US family wealth consultant Dr James Grubman.

Investment Trends Research

The Investment Trends research is drawn from three separate reports:

- October 2014 Exchange Traded Funds Report
- 2014 Investor Product Needs Report: Analysis of SPDR respondents
- 2014 Advice & Limited Advice Report

October 2014 Exchange Traded Funds Report

Surveys conducted: September – October 2014
Report released: December 2014

This report details the responses from two separate surveys.

The ***Investor Product and Marketing Needs* survey**, conducted between September and October 2014 among two main groups of investors, including:

- Respondents from Investment Trends' opt-in panel who had taken part in previous investment related research.
- Investors recruited from Investment Trends' institutional clients, including a diverse range of investor information providers, product providers, private banks, advice networks, and online brokers.

10,530 valid responses were received, including 799 respondents who were currently using exchange traded funds (ETFs), with a further 481 next wave ETF investors (who were currently considering, but not yet using ETFs).

The ***Adviser Product and Marketing Needs* survey** was a detailed quantitative survey of financial advisers, dealer group managers and RG146 compliant accountants conducted between July and September 2014.

The survey was conducted in two phases:

- Core sample: Invitation emails were sent to advisers who had previously participated in Investment Trends research. This was supplemented with invitations sent by Financial Standard to their full databases of financial advisers and associated professionals.
- Additional sample: Once the core sample was completed, a number of individual fund managers, ETF providers, and platform providers also invited advisers on their own databases to participate. These responses have been utilised where appropriate.

There were 768 responses from financial advisers, including RG146 compliant accountants, and dealer group managers who personally provide advice.

2014 Investor Product Needs Report: Analysis of SPDR respondents

Survey concluded: October 2014
Report released: January 2015

This report shows the results of 747 respondents invited to take part in the survey by SPDR. Of these, 223 were SMSF clients, while 524 were non-SMSF clients

2014 Advice & Limited Advice Report

Survey concluded: August 2014
Report released: December 2014

The seventh edition of the August 2014 Advice & Limited Advice Report is based on a detailed online survey of a representative sample of the Australian adult population conducted from July to August 2014.

The survey focused on consumers' attitudes towards financial advisers, as well as exploring their expected advice needs and how they would like these fulfilled in the near future.

A total of 6,256 valid responses to the survey were received after data cleaning and de-duplication. The maximum sampling error (centre of the range) at the 95% confidence interval for this sample is +/-1.2%. Note that analysis of smaller subgroups will have a higher sampling error.

The survey was conducted in two parts:

- Part 1: A main industry-level survey of Australian adults sourced from a broad-based survey of the Australian adult population, supplemented with respondents recruited from the Investment Trends opt-in panel (n=2,393).
- Part 2: Respondents invited to the survey from a range of Investment Trends' institutional clients. These respondents reflect the demographic profile of members holding an account with these institutions. As such, their responses were not used to form views of the total Australian adult population. They were included, where appropriate, to conduct additional detailed analysis of particular subgroups of the Australian adult population (e.g. individual super fund analysis) for which they are representative.

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