

# The changing role of advisers through proactive behavioural coaching

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# Agenda

- The changing advice landscape
- The evolution of advice
- Adviser's Alpha
- Proactive behavioural coaching
- Questions

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## Key takeaways

- The best providers of advice articulate and execute on a value proposition that is framed around relationship management, not portfolio management
- With behavioral coaching, and a focus on the '3 Ps' (planning, proactivity, and positivity) advisers can add considerable value to their client relationships
- Our research suggests relationship management is a clear driver of client satisfaction and referrals, good for clients *and* good for advisory businesses

# The changing advice landscape

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# The advice industry is undergoing significant change



Regulation



Fees



Technology

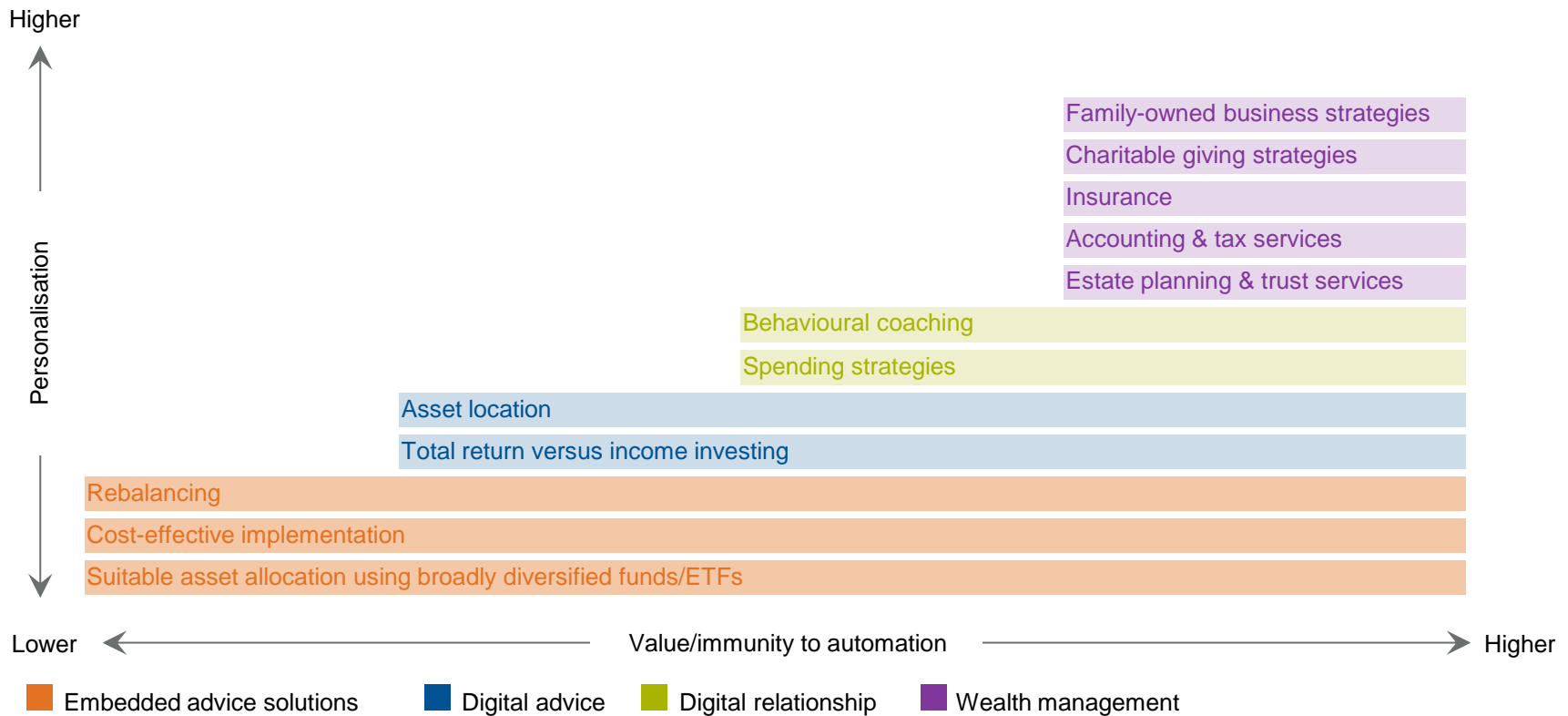
# Advanced skills remain uniquely human



# The evolution of advice

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# Not all advice can be automated





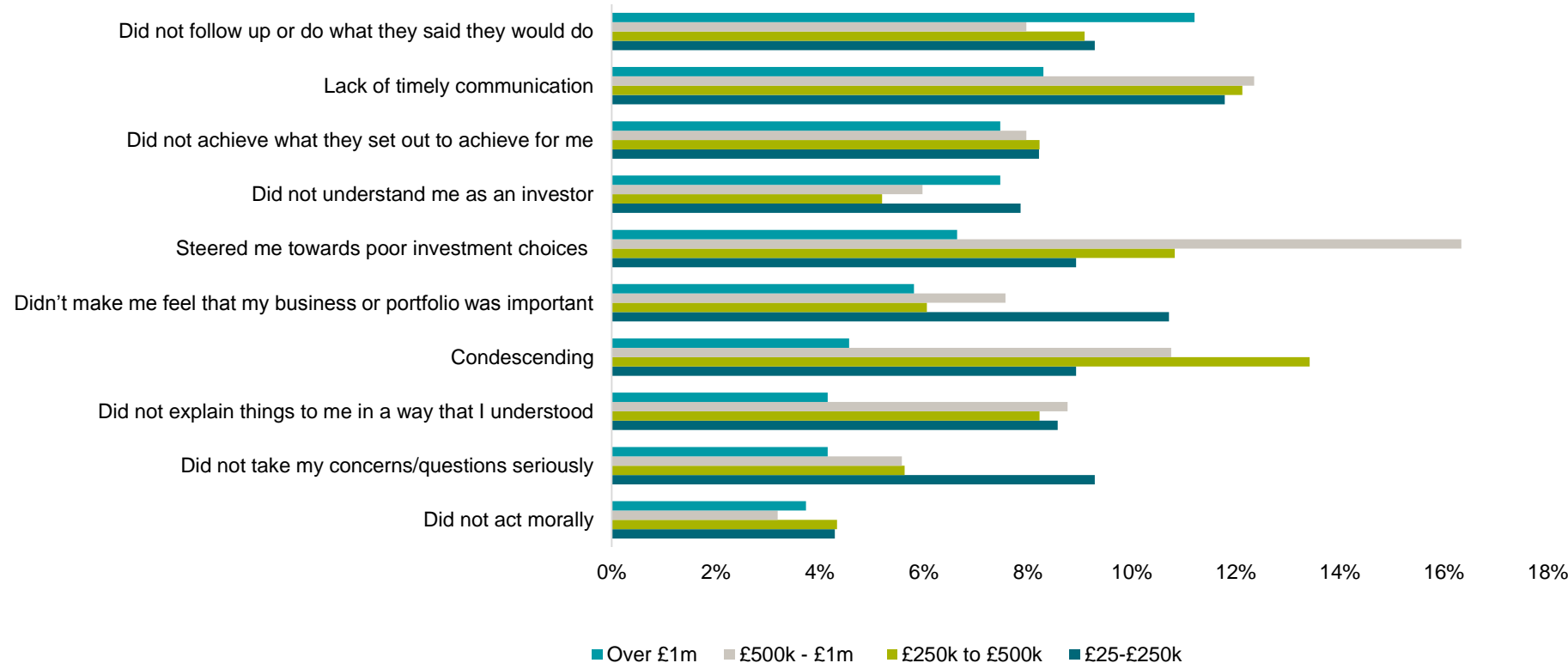
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# Evolution of the adviser

- Adviser's Alpha key takeaway: ***Focus on relationship management, not portfolio management***
- Need to use our knowledge and experience where it can do the most good
  - Behavioural coaching
  - Relationship management
- An adviser should be an investment professional, not a professional investor

# Why relationship management matters

## Reasons for loss of trust by wealth segment

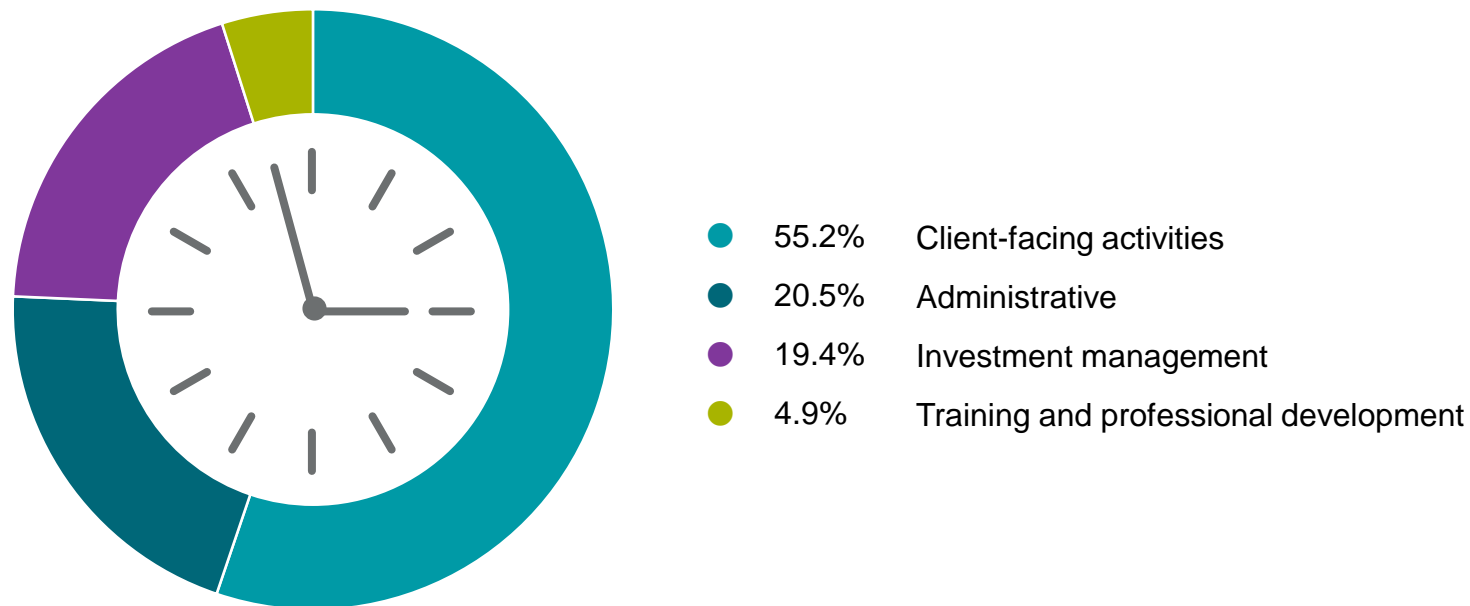


Source: Vanguard and Opinium.  
 Note: Proprietary research conducted by Vanguard and Opinium, a market research and consulting firm. Research conducted between April and May, 2018.

# Time is an asset to be invested, not spent

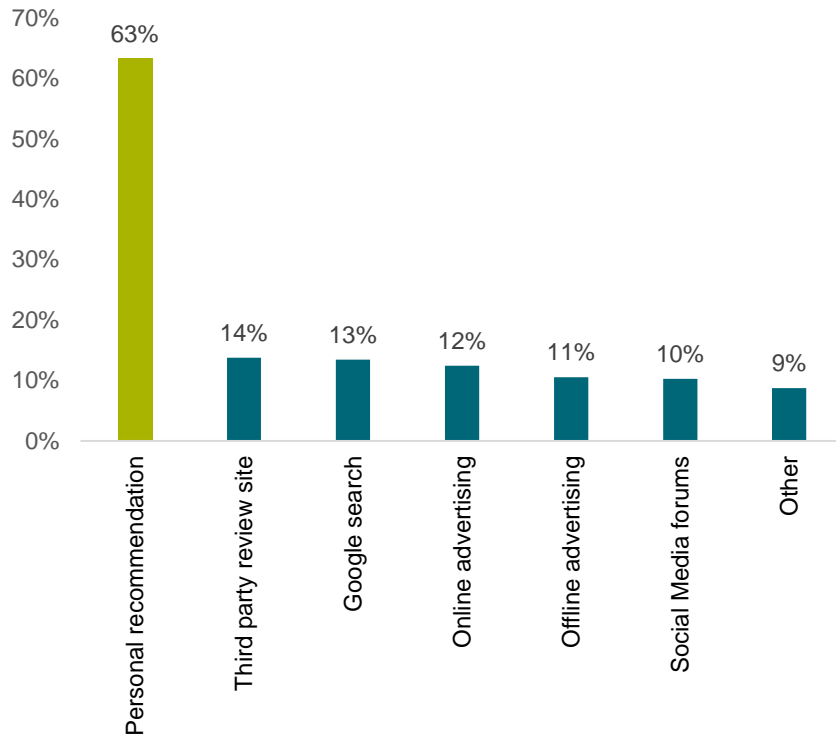
Technology-enabled efficiencies could provide more time for clients and trust-building

Adviser time allocation by activity

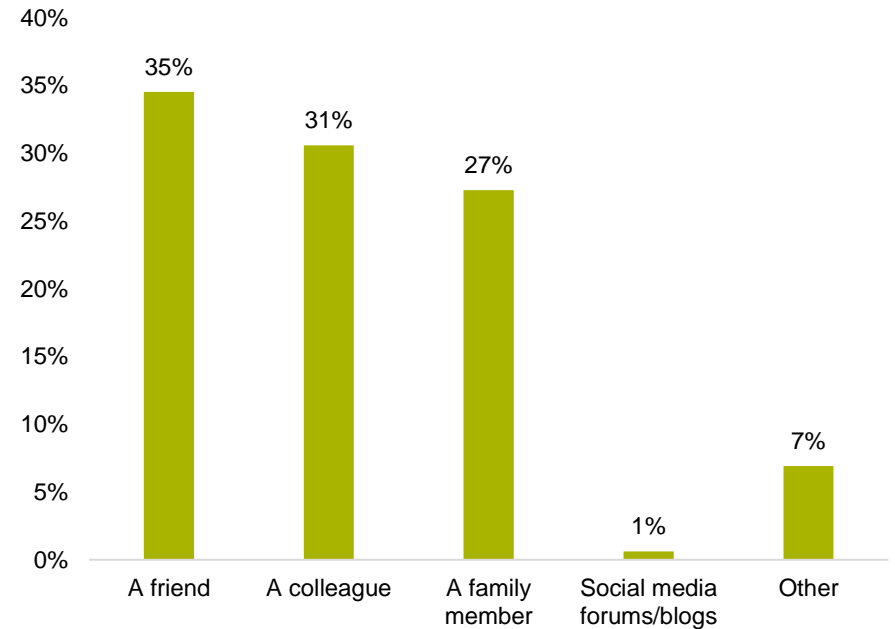


# Relationship management is business development

## How current adviser was found




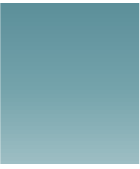

## Source of personal recommendation



Source: Vanguard and Opinium

Note: Proprietary research conducted by Vanguard and Opinium, a market research and consulting firm. Research conducted between April and May, 2018

# Trust motivates referrals and drives asset retention

		Percentage of clients			
		All assets with adviser	Very unlikely to switch	Unprompted referral	Comfortable sharing personal information
	High trust + high satisfaction	58	61	55	71
	High trust + medium satisfaction	31	23	41	59
	Medium trust + medium satisfaction	21	9	32	46

Source: Vanguard and Opinium

Note: Proprietary research conducted by Vanguard and Opinium, a market research and consulting firm. Research conducted between April and May, 2018.

# Adviser's Alpha

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## Vanguard Adviser's Alpha

The Vanguard Adviser's Alpha concept outlines how advisors can reframe their value proposition by *prioritising client-centric, relationship-oriented services*, rather than solely portfolio management.

# Quantification of Vanguard Adviser's Alpha

Vanguard's Adviser's Alpha strategy modules	Module number	Value-add relative to "average" client experience (in basis points of return)
Suitable asset allocation using broadly diversified funds/ETFs	I	> 0* bps
Rebalancing	II	0 - 51 bps
Cost-effective implementation (expense ratios)	III	55 - 59 bps
Behavioural coaching	IV	<b>150 bps</b>
Tax allowances and asset location	V	0 - 21 bps
Spending strategy (withdrawal order)	VI	0 - 21 bps
Total-return versus income investing	VII	> 0* bps
<b>Potential value added</b>		<b>"About 3% in net returns"</b>

Source: Vanguard

Notes: "About 3%" means 3 percentage points of additional net return over an unspecified period of time. \* denotes that return value-add for modules I and VII was deemed significant, but too unique for each investor to quantify. For "Potential value added," we did not sum the values because there can be interactions between the strategies. Bps = basis points.



# Proactive behavioural coaching

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# What is behavioural coaching?

To facilitate thinking such that the client succeeds in changing a behaviour which would otherwise prevent him or her from achieving their goals

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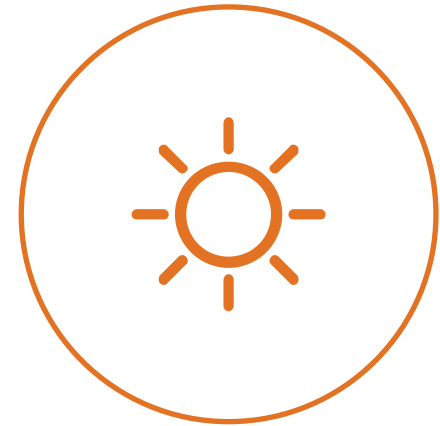
## 'Three Ps' of behavioural coaching



Planning



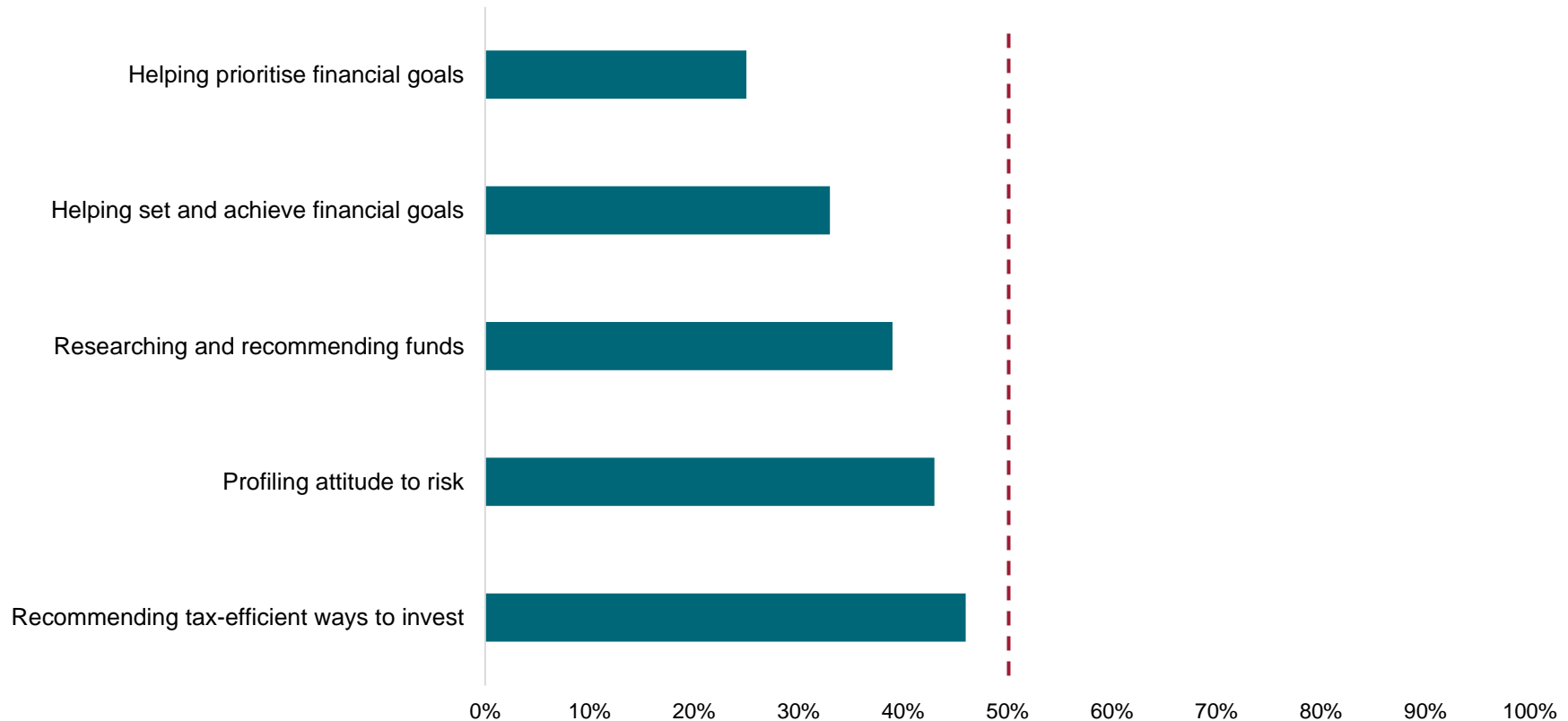
Proactivity



Positivity

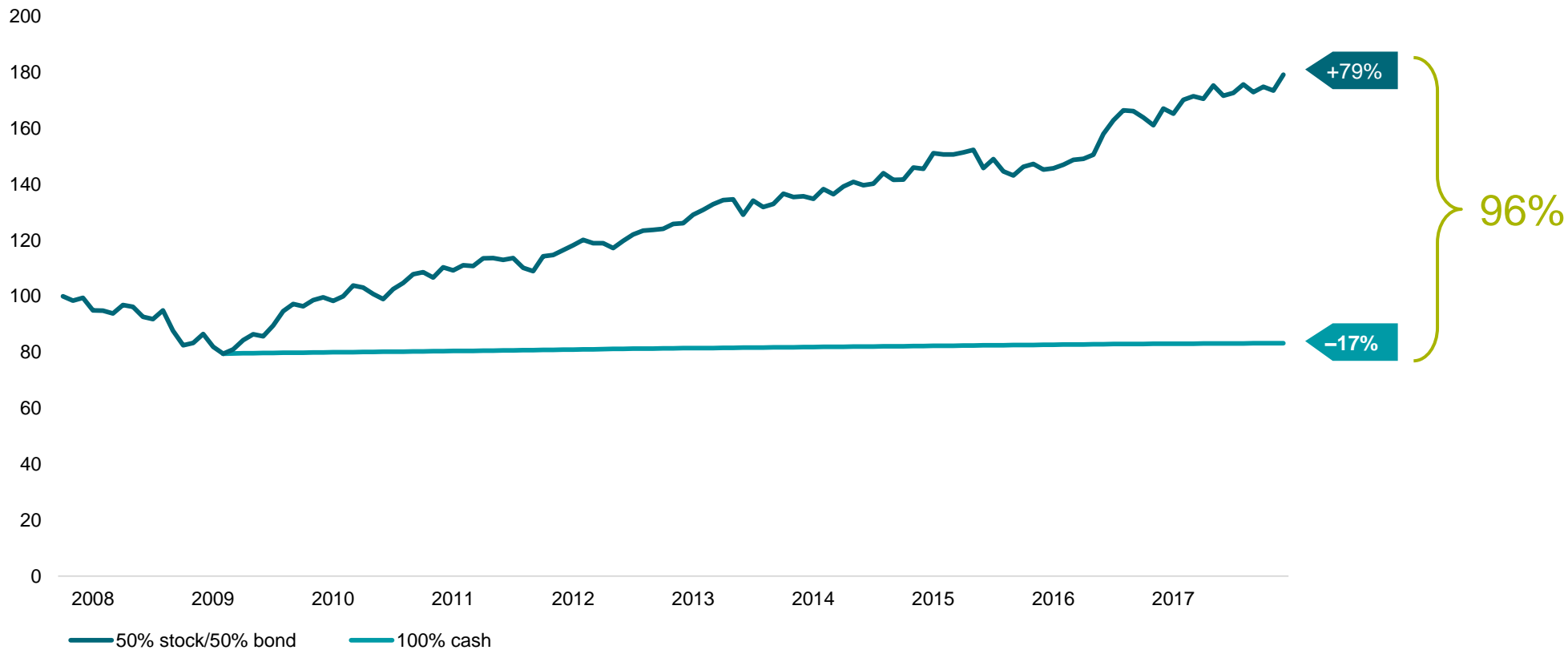
# Planning

A written financial plan is the best foundation for behavioural coaching, but most clients report they are not receiving planning services.



Source: Vanguard. Research conducted between April and May, 2018  
Notes: Percentage of UK advised clients (n = 1003) who reported receiving the service shown.

# Proactivity is the key to successful coaching



**Past performance is not a reliable indicator of future results.**

Source: 50% stock/50% bond portfolio represented by 50% FTSE 100 Index and 50% Bloomberg Barclays Sterling Aggregate Bond Index (rebalanced monthly). 100% cash represented by ICE LIBOR 1-month GBP. Data provided by Morningstar, Inc. and Vanguard calculations. Data as at 31 December 2017. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

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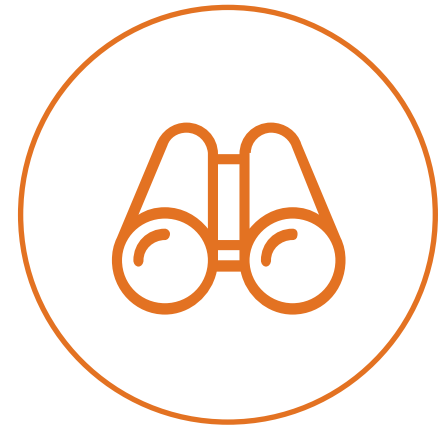
# Positivity makes coaching more effective



Empathy

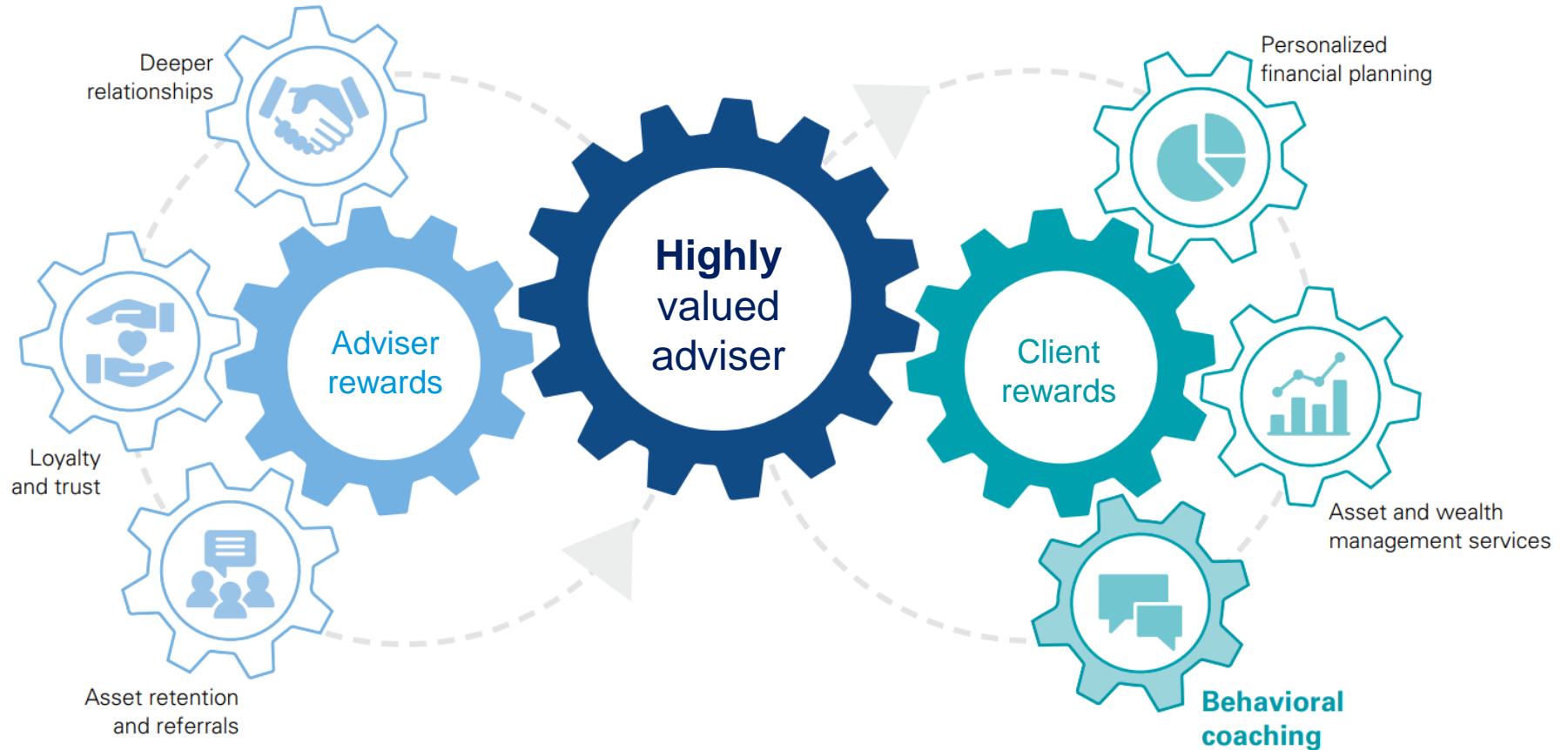


Framing



Distance

# Behavioral coaching helps clients *and* advisers



# Conclusion

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## Key takeaways

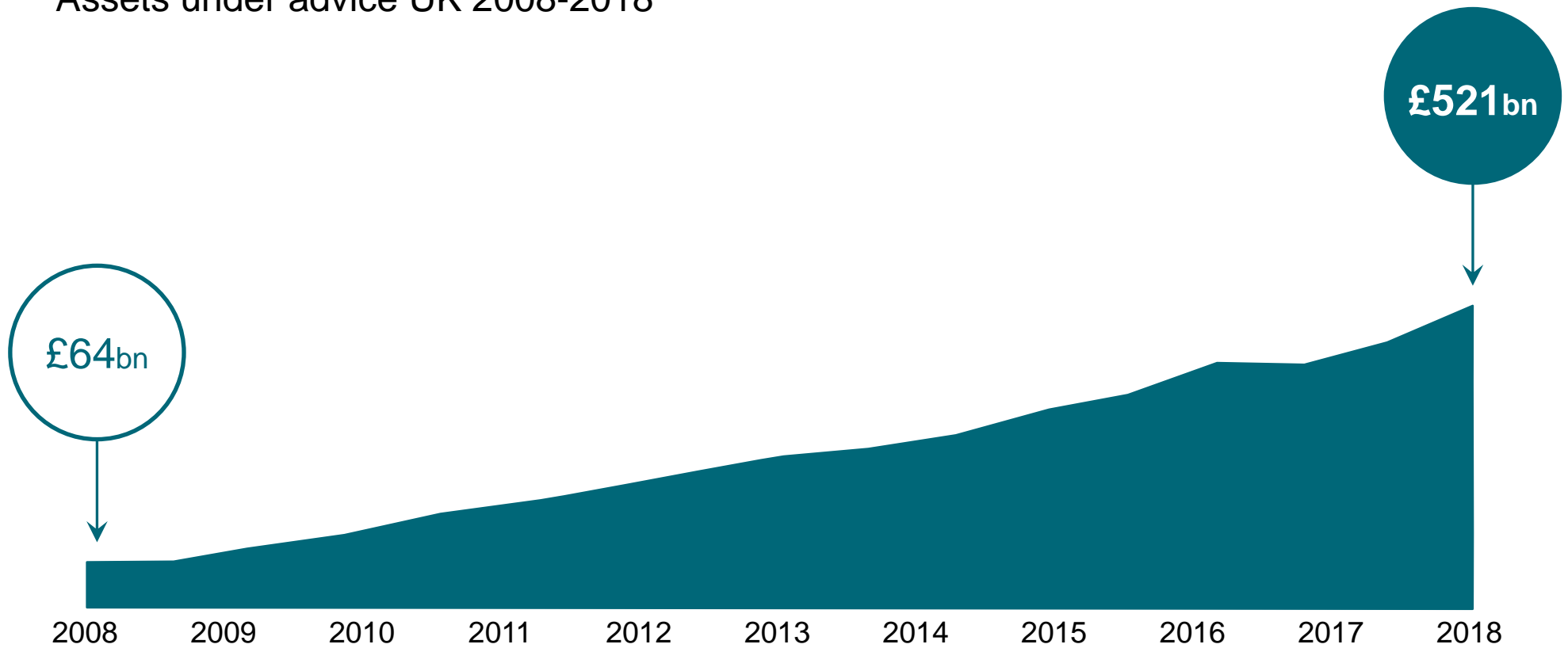
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- With behavioral coaching, and a focus on the ‘3 Ps’ (planning, proactivity, and positivity) advisers can add considerable value to their client relationships
- Our research suggests relationship management is a clear driver of client satisfaction and referrals, good for clients *and* good for advisory businesses

# Q&A

# Appendix

# Demand for advice is rising...

Assets under advice UK 2008-2018



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# Regulatory environment – global, not local, considerations

- Emphasis on transparency and disclosure
- Genie is out of the bottle: ‘great awakening’ of investors
- Global phenomenon:



Australia: Future of Financial Advice



UK: Retail Distribution Review



US: DOL fiduciary rule



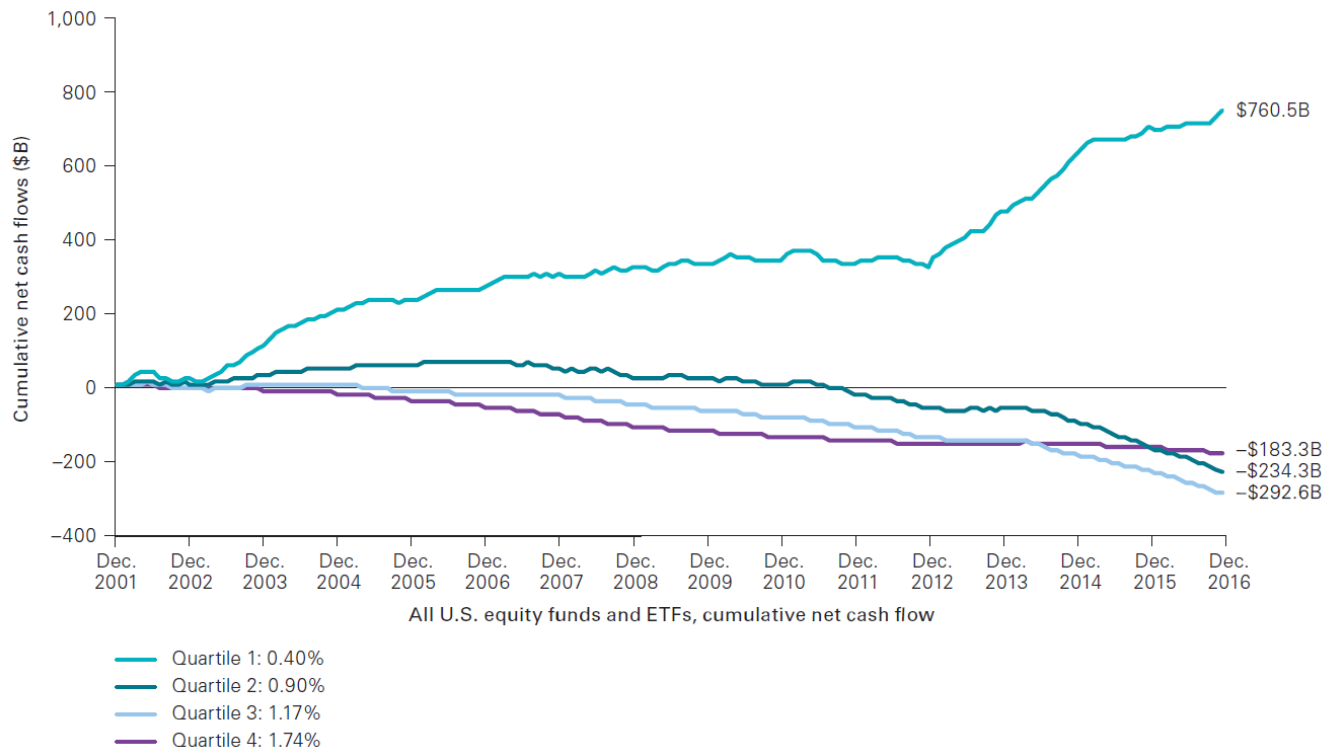
EU: Markets in Financial Instruments Directive II



CA: Client Relationship Model I/II

# Investment management fees: investors and advisers are voting with their feet

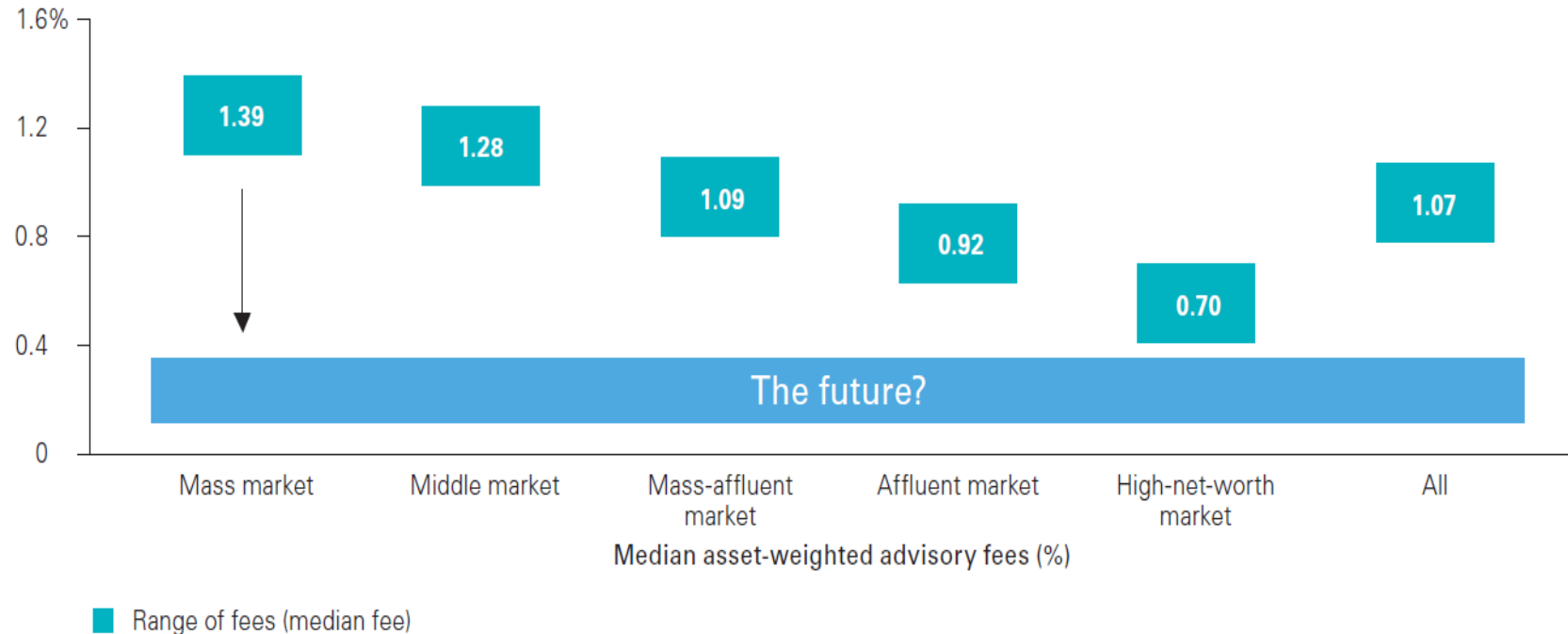
## Cumulative equity fund net cash flows by cost quartiles



Notes: Expense-ratio quartiles were calculated annually. Equity funds represented by Morningstar U.S. equity category. Each quartile represents 2016 asset-weighted average expense ratios, determined by multiplying annual expense ratios by year-end assets under management and dividing by the aggregate assets in each quartile. Data as of December 31, 2016.  
Source: Vanguard calculations, based on data from Morningstar, Inc.

# Advice fees: the next shoe to drop?

Cumulative equity fund net cash flows by cost quartiles

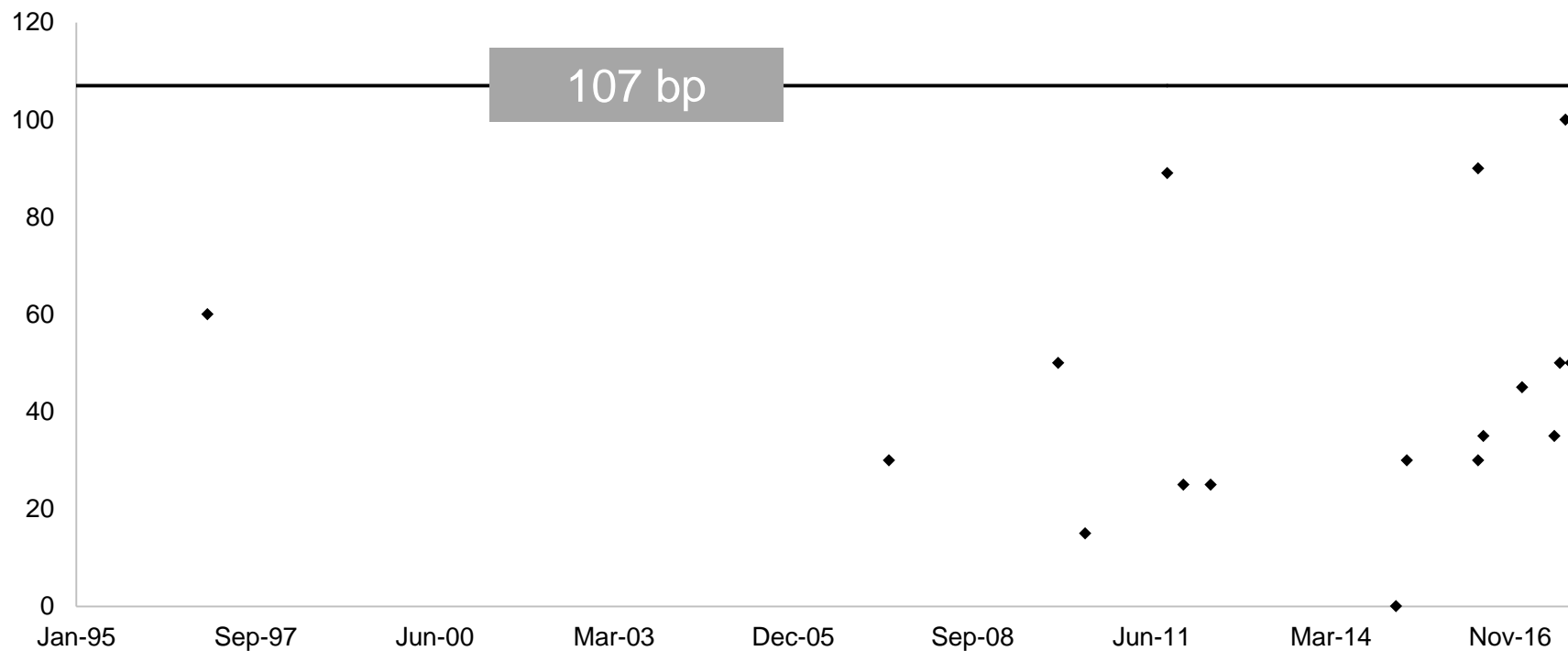


Source: Vanguard calculations using data from Cerulli.

Notes: Advisory fees are reported by account size, rather than core market. For calculation purposes, we matched each core market to the closest account size. Mass Market is \$100K; Middle Market is \$300K; Mass-Affluent Market is the average of \$750K and \$1.5M; Affluent Market is the average of \$1.5M and \$5M; High-Net-Worth Market is \$10M.

# The march of tech-enabled advice

More in number, lower in price

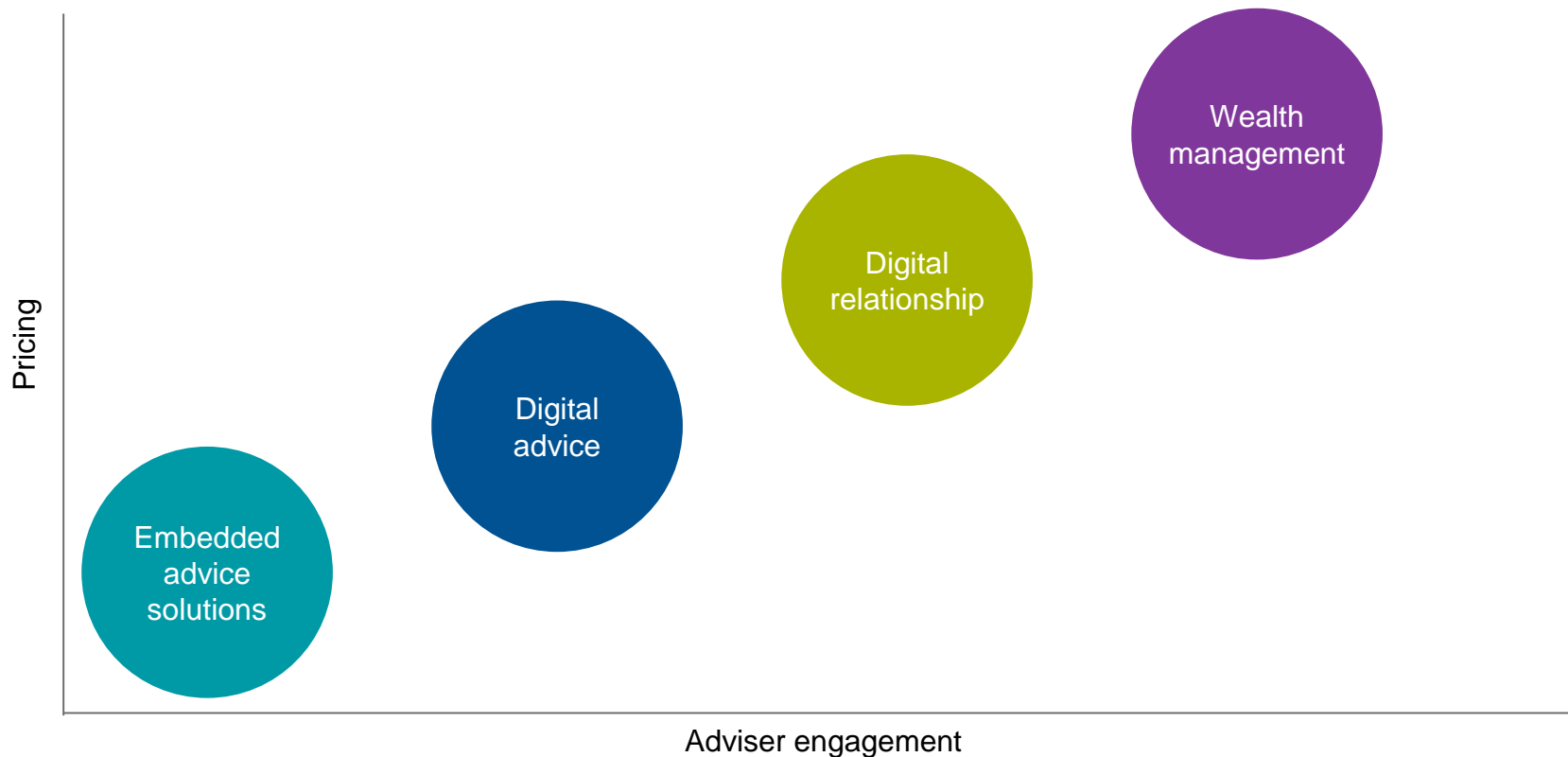


Note: Vanguard calculated the asset-weighted average advisory fee to be 107 bp, based on data from Cerulli. Data runs to 31 December 2017.  
Source: Vanguard calculations using data from Cerulli and the advice firms' websites.



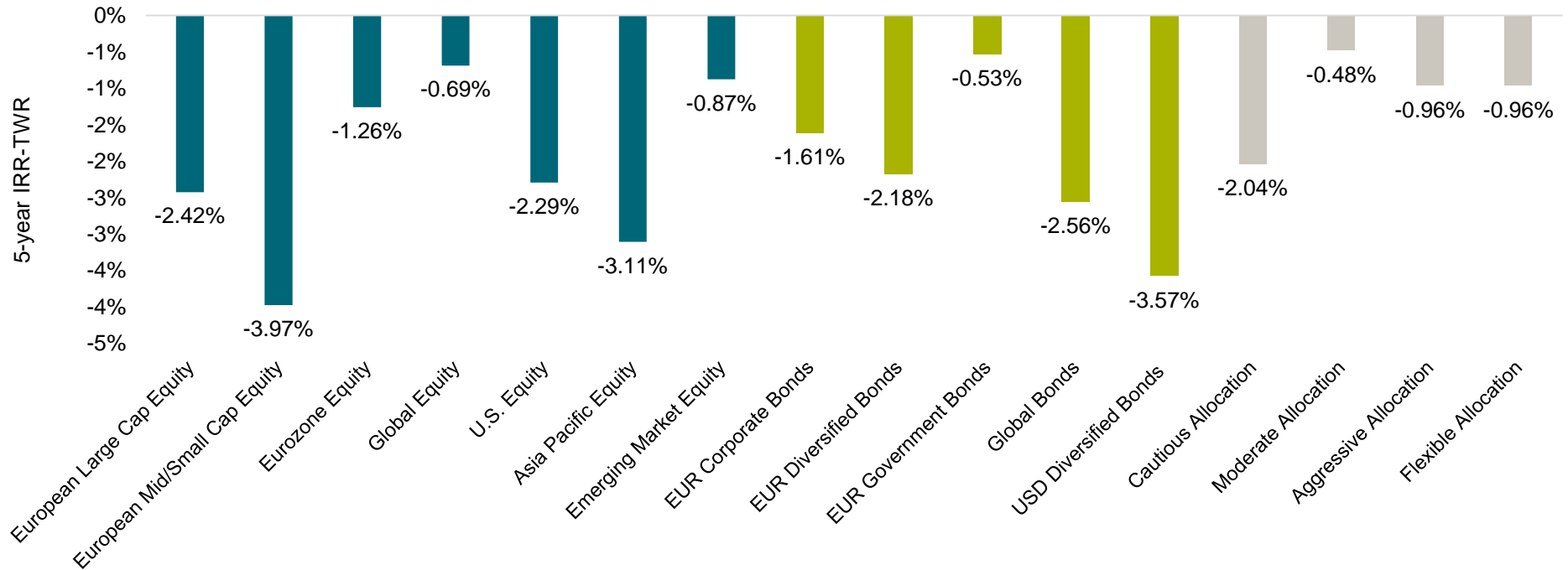
# Efficient frontier for advice

Firms should be indifferent to advice offering as long as price and services are appropriately aligned



# Behavioural coaching: investor returns vs. fund returns

Difference between European investor and fund returns:  
Five years ending 31 December 2017

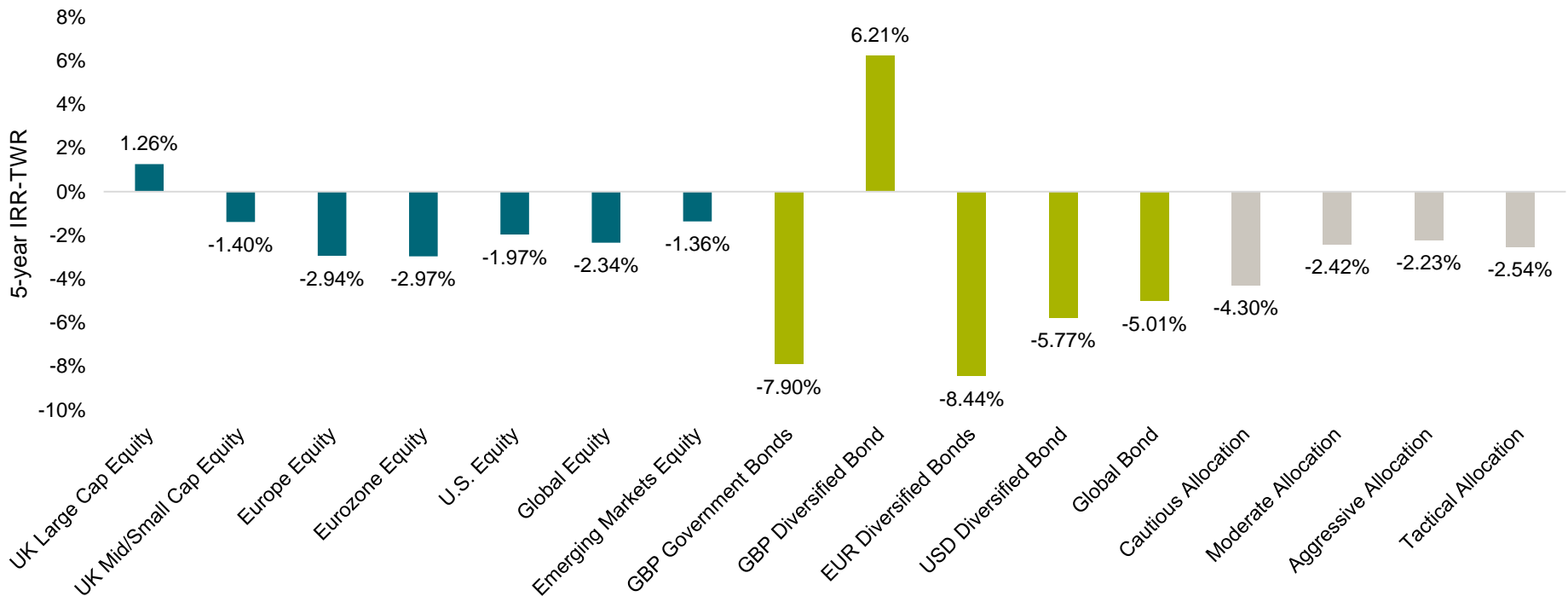


Source: Vanguard calculations, based on data from Morningstar, Inc.

Notes: The time-weighted returns (TWRs) in this figure represent the average fund return in each category. Investor returns assume that the growth of a fund's total net assets for a given period is driven by market returns and investor cash flow. An internal rate-of-return (IRR) function is used, which calculates the constant growth rate that links the beginning total net assets and periodic cash flows to the ending total net assets. Discrepancies in the return "difference" are due to rounding. For allocation fund categories, we have included fund of fund assets and cash flows to best capture investors' true experiences where the fund of fund structure is common.

# Behavioural coaching: investor returns vs. fund returns

Difference between UK investor and fund returns:  
Five years ending 31 December 2017

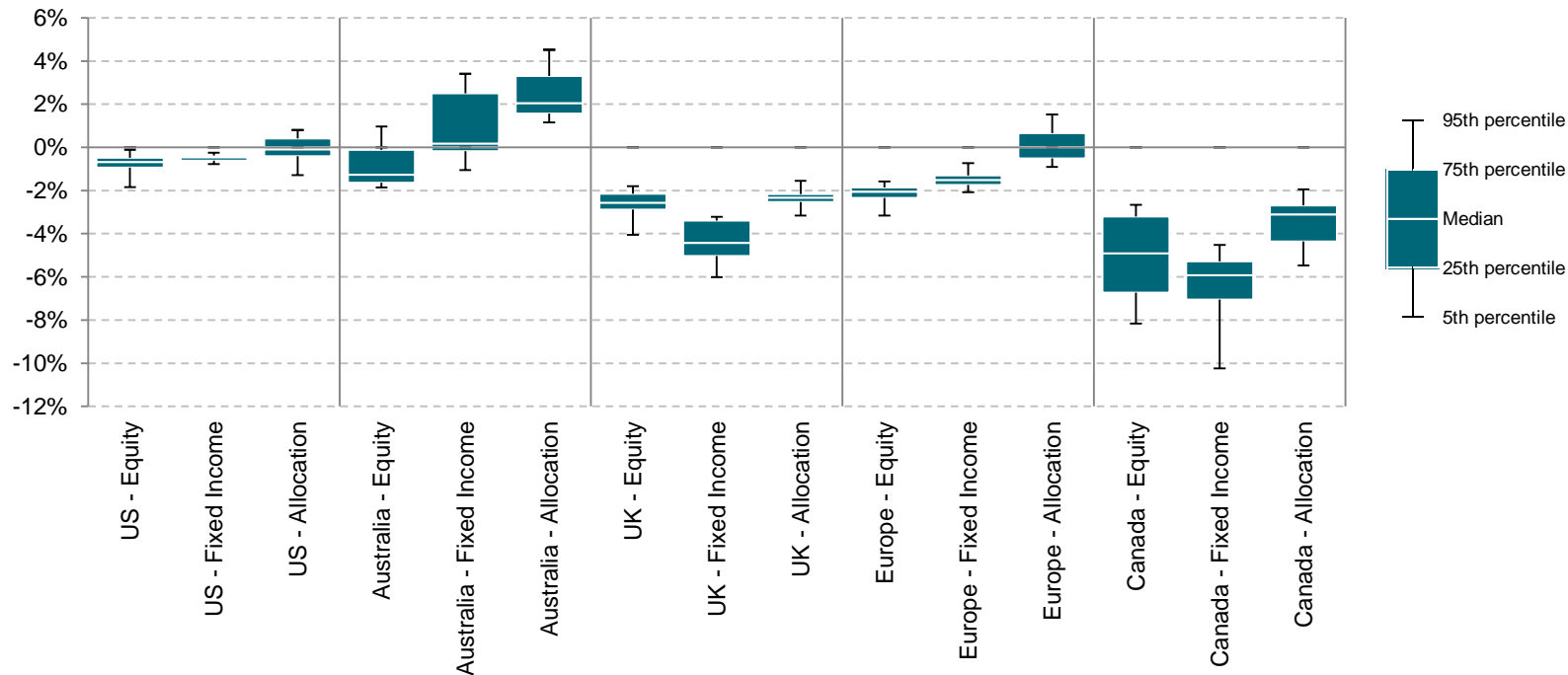


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# Behavioural coaching: investor returns vs. fund returns

Global distribution of investor returns vs. fund returns:  
Rolling returns for various regions



Source: Vanguard calculations, based on data from Morningstar, Inc.

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# Behavioural coaching is important to clients



Source: Vanguard. Research conducted between April and May, 2018  
Notes: Percentage of UK advised clients (n = 1003) that considered the service “quite important” or “very important”.

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# Investment risk information

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