CERULLI ASSOCIATES

Research | Analytics | Consulting

White Paper | June 2020

Advice in Adversity

Communication and technology go hand in hand

Cerulli for Research and Consulting

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Cerulli offers broad and deep coverage of the U.S. wealth management industry, spanning the retail investor, financial advisor, broker/dealer, and managed accounts industries, and covers trends such as asset allocation models, unified advisory platforms, advisor movement, wealth transfer, digital advice, and more.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

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Summary

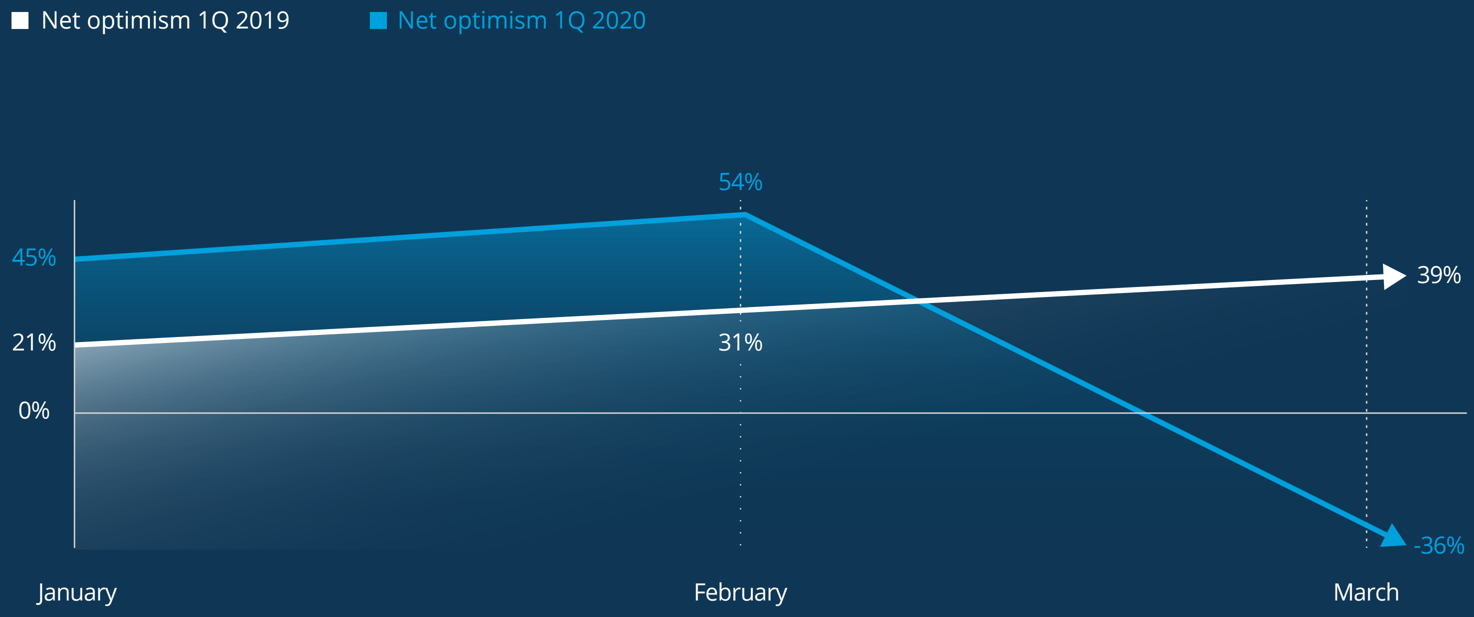
Whether they prefer to be self-directed or are heavily reliant on financial services providers, retail investors of all types tend to seek out more advice during times of adversity. As the social toll and economic fallout continue in the wake of the COVID-19 crisis, investors will increasingly rely on their advisors for ongoing guidance and answers as to what future developments related to this pandemic-induced crisis mean for their portfolios. In this white paper, Cerulli explores how advice providers can best equip their advisor-clients to quell the worries of investors and ensure they adhere to their still-relevant long-term investment goals.

Key Points

- Going forward, advisors need relationships that balance effective interpersonal communication and implementation of scalable technology tools that aid advisory relationships. This two-pronged focus will position firms to succeed during times of macroeconomic turmoil.
- Advisors need to proactively maintain lines of communication with clients to explain the current market downturn and subsequent volatility in the broader context of individual households' longer-horizon financial plans.
- Wealth management providers have a unique opportunity to reinforce their value, especially relative to the dozens of digital advice platforms that have sprung up during the past decade. Digital platforms do an excellent job in the basic mechanics of portfolio management, but they lack the empathy and reassurance vital to the best advisory relationships.

CA Survey

The relative net optimism of retail investors fell off a cliff, going from 39% in 1Q 2019 to -36% in 1Q 2020.



The economic and social impact of the COVID-19 global pandemic will be felt for years to come. The definition of normal is shifting seemingly every day—in large part because there are relatively few similarities that can serve as a barometer for the current situation. For advice platform providers, however, there are some logical points of comparison that can be taken away from the investment advice environment in the wake of the Great Recession.

Much, of course, has changed during the past decade—social media messaging campaigns and web-based video chat capabilities were far from being table stakes offerings at advisory firms. However, one of the key takeaways gleaned from the Great Recession that is just as relevant today is that the most successful advisors are those who proactively reach out to their clients and listen to their concerns.

One of the most compelling dynamics looking back a decade ago is that advisors actually gained clients even as stock indices fell. Based on survey data from 4Q 2008, when markets cratered due to the subprime mortgage crisis, nearly two-thirds (63%) of advisors reported gaining clients during the prior six months. With assets in investment portfolios plummeting, an increase in investors looking to pay for financial advice may seem somewhat surprising on the surface. However, this dynamic supports a notion that can be taken for granted during bull markets—communication is key. Firms that take proactive measures are more likely to benefit over the long term because investors will exhibit deeper trust in their advisors and in turn keep their assets with their current provider.

In this white paper, Cerulli details two of the most important ways advice providers can assist their advisorforce in ushering clients through tumultuous times: proactive communication and promoting wider buy-in on technology tools.

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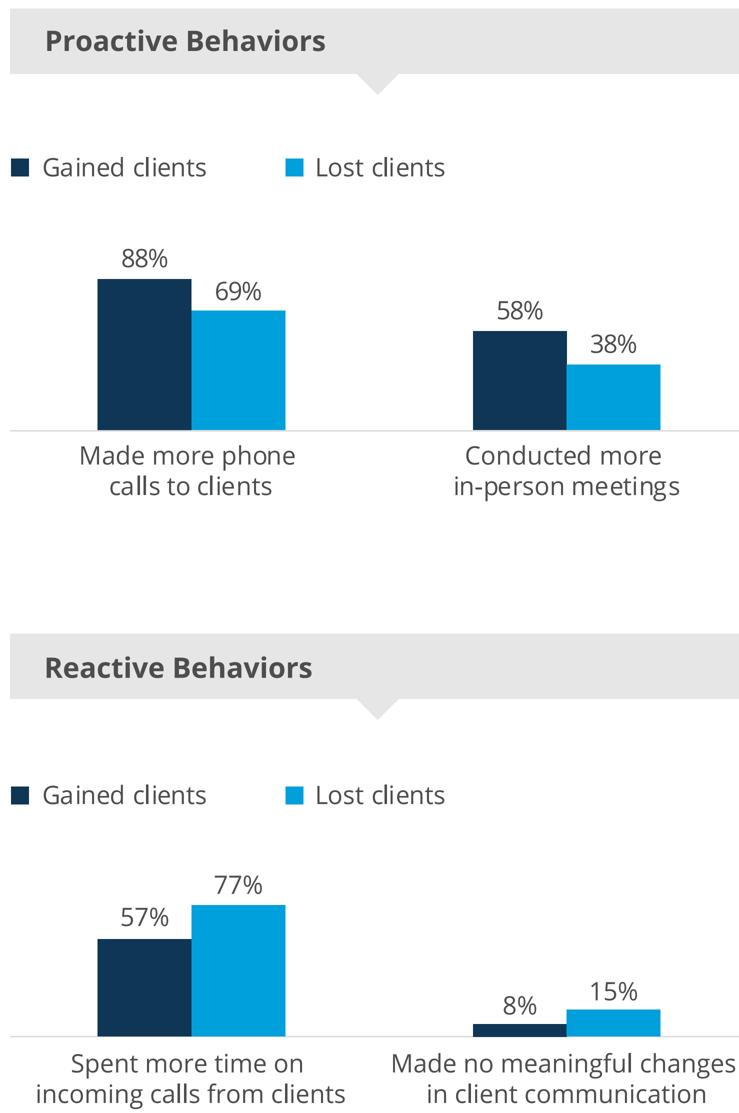
Changes in Client Communication by Advisor Practice Growth During Prior Six Months, 4Q 2008

Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute



Proactive Communication

Encourage advisors to proactively deliver a message of comfort and protection

Advisors and clients are best served focusing more on those elements they can control (staying the course on their long-term financial plan) and less on those that they cannot (daily fluctuations in indices). In order to reassure clients that the long-term investment plans they've developed remain relevant, advisors will need to proactively open their lines of communication to contextualize the current market downturn and subsequent volatility as a relatively short-term dynamic.

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More so than even investment-related functions such as portfolio risk management, accessibility was the top reason cited by investors who were satisfied with their advisor relationships during the 2008-2009 recession.

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Nearly half (47%) of households polled cite assuring a comfortable standard of living in retirement as their most important financial goal. One-fifth cite wealth protection as their chief objective.

During 3Q 2019, Cerulli polled retail investors specifically about the types of communications they would want to receive in the event of a recession. Half (51%) cited the importance of receiving market updates and tips via email while a significant cohort of clients indicated a preference to receive these communications via text (35%) and social media (24%). This data highlights the importance of flexible, omnichannel modes of communication when it comes to how advisors and their firms reach out to clients. Recognizing the preferences of individual clients will go a long way in quelling fears and promoting trust.

The key components to effective messaging during market turmoil are:

Preach prudence

Advisors should reinforce the ongoing relevancy of existing financial plans they have formulated with clients. During times of volatility, investors may exhibit recency bias and loss aversion that can lead to deleterious actions.

Promote wellness

On top of the business of managing portfolios, advisors can distinguish themselves by first checking in on clients' and their families' wellbeing. Firms can bolster advisor confidence in delivering these messages by developing communication action plans and providing sample scripts.

Leverage timely information

Arm advisors with data that may impact their clients, such as facts and analysis regarding various assistance programs such as the CARES Act (small business loans, unemployment insurance, student loan suspensions, etc.).

Explore "smart" action steps

In the current environment, rebalancing, tax-loss harvesting, Roth conversions, and addition of potential insurance products to portfolios may make sense for some clients. Providers should also position advisors to help clients make informed choices on comprehensive planning features such as insurance, estate planning, asset consolidation, and retirement income plans.

Technological Uptake

Promote the available technology at advisors'—and clients'—disposal

The importance of the human element in delivering messaging/communications cannot be overstated. This is why firms must encourage advisors to leverage the technology they have at their fingertips to assist them in meaningfully connecting with clients—even during times when interpersonal interaction is challenged by social distancing.

To paraphrase Marshall McLuhan—best known for coining the expression the medium is the message—expanding the reach of technology as it pertains to the realm of communication is like adding a new note to a melody. Cerulli believes that a significant portion of passive users of technology work for B/Ds or providers that have devoted significant resources to beefing up their technology capabilities. The limited or lack of adoption by advisors of the tools at their disposal is analogous to opting for a three-piece garage band while a full orchestra sits unused in the main house—the chances to resonate and differentiate become severely limited.

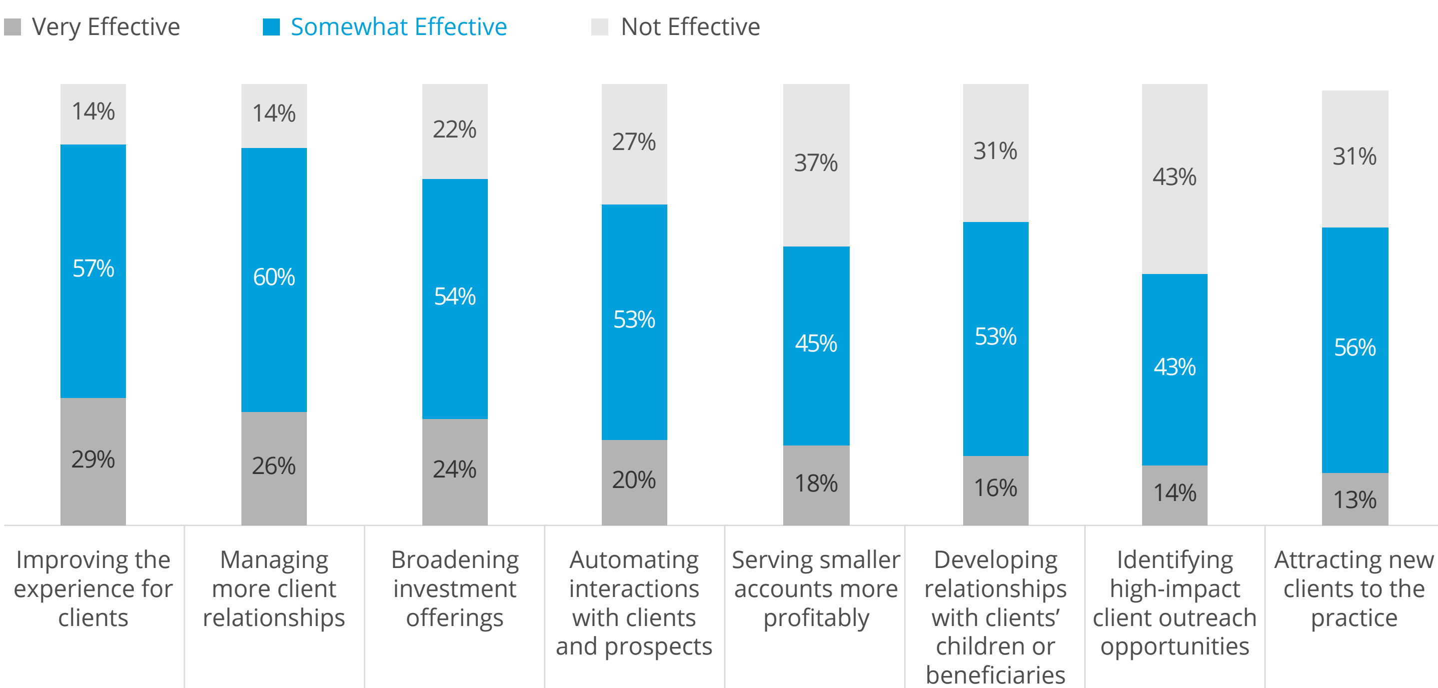
68% of advisors cite "Insufficient time to learn and implement" as a challenge to technology adoption.

Turning passive users and non-users into "power users" will not be easy. When it comes to the adoption of features available through new technology, inertia can be a powerful hindrance. A sizable portion of a firm's advisorforce is likely to be reluctant to integrate new tools such as video meetings and collaborative financial planning software into their everyday service set if the learning curve is perceived to be too steep or time-consuming. This is where it behooves providers to remind advisors that their clients truly value the human connection of their advisory relationships—tech tools can be used to highlight these aspects even when in-person meetings are limited.

Stuck in "Somewhat"...

Effectiveness of Advisor Technology, 2019

Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute and The Financial Planning Association® (FPA®)
Analyst Note: Advisors were asked how effective their practice's technology is at achieving the following objectives.



The majority of advisors polled by Cerulli in 2019 were at best lukewarm when asked about how effective they deem the technology provided by their practices. For the most part, this apathy toward tools at their disposal could be a function of reluctance to wholeheartedly integrate what many advisors may view as overly complex features. Even increased responsiveness via text message or other apps can set an advisor's services apart from the pack.

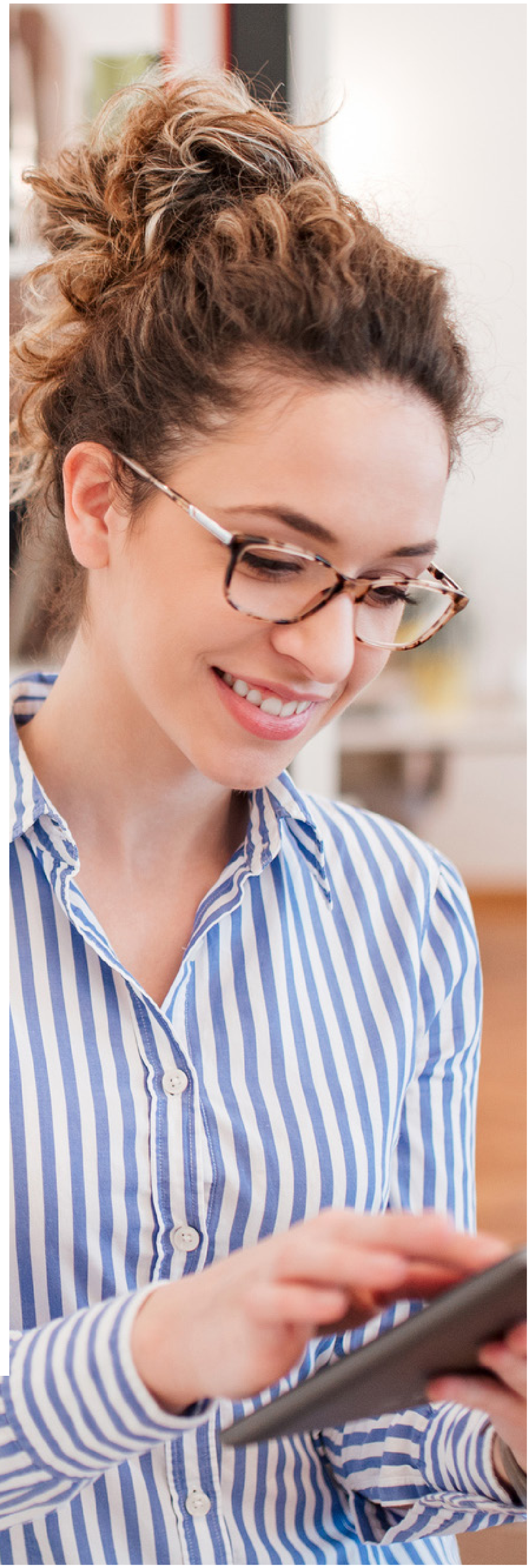
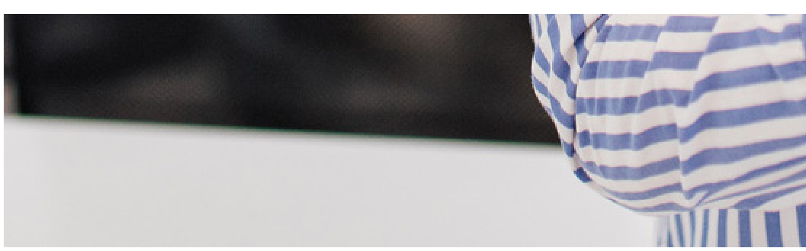
Advisors may have once seen their home office's promotion of tools such as Zoom or Skype as more trouble than they are worth. However, the reality of distancing ordinances throughout many regions of the country could turn adoption into the new disruption.

From the standpoint of advisors' clients—many of whom may also be reluctant to adopt available features—firms should invest in email and social media campaigns that encourage greater use of features available to investors. Short "how to" videos demonstrating best practices for collaboration tools can work both as a nudge for the advisorforce and similar content posted to firm websites and social media feeds may also serve as a gateway for wary clients.

Conclusion

Cerulli's research consistently finds that investors want a personal relationship to be central to their wealth management experience. Clients want to know that their advisors truly understand their unique circumstances and use these insights to create personalized action plans to help them achieve their goals. Clients want to be heard and know that their concerns and goals are an important part of the advice they receive.

Given the atypical nature of the COVID-19 crisis, each new development is likely to lead to waves of investors questioning, "What does this mean for me?" Even those with limited advisor relationships are more likely to want advice on how to manage their investments. To optimize the value of their intellectual capital, platform providers should offer their advisor-clients content with varying levels of detail that enables choice in the level of nuance they desire.

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