INTERVIEW: Portfolio Performance Now Top Of Mind For Clients, Goals-Based Investing Gains Ground

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28 May 2014

After years of focusing on wealth preservation due to the rocky economic climate, portfolio performance is now more important to clients than the quality of their advisor relationship, according to EY's annual Wealth Management Survey, which covered a number of related themes including wealth transfer.

When client respondents were asked to state the key factors keeping them with their current advisor, 73 per cent and 68 per cent of Baby Boomer and next-gen individuals respectively said portfolio performance. Following was the advisor relationship, at 45 and 53 per cent. This was also the case among advisors surveyed, the majority of whom, when asked to cite factors driving client retention, also ranked portfolio performance first, and the advisor relationship second.

Nalika Nanayakkara, a New York-based principal and wealth management practice leader at EY, acknowledged that the quality of the advisor-client relationship is and always will be very important - particularly give the client-centric nature of wealth management.

But “what's most important is delivering results,” Nanayakkara told Family Wealth Report.

EY sees this is as a challenge for those wealth managers trying to shift the client conversation from around performance to individual goals - a growing industry trend at present which the report says many industry players have yet to truly capitalize on.

Goals-based planning

A big theme outlined in the report was around the concept of goals-based financial planning - a fairly new approach in the sector that reinforces investing with the objective of attaining specific life goals, rather than focusing on generating a high portfolio return or beating a benchmark.

Goals-based investing is supposed to enable individuals to address their financial needs and desires in a way which encourages them to look beyond intermittent market volatility. Backers of this approach to investing believe it also promotes positive investor behavior and can thus increase the likelihood that investors will achieve their goals.

The concept has come to light in recent time, as highlighted by a number of firms in the sector investing in this area. In April, for example, SEI launched a new website for private wealth management clients, providing individuals and families with an overview of their assets in one place. Meanwhile, last year, Raymond James Financial introduced the software program Goal Planning & Monitoring to its advisors.

According to EY, advisors and clients are in accord that goals-based planning and generational wealth transfer are two of the most relevant trends today. However, it was found that clients perceive low value from their current firm's goal-based planning offering and see little differentiation across the industry in this respect.

“If a client has a relationship with, say, two or three wealth management firms - which they often do - they’re more likely to aggregate most of their assets with the firm that offers a more attractive goals-based solution,” Nanayakkara said.
Over the last three or four years, she added, advisors have “come around” to the concept and now many of them use goals-based planning as a client retention and acquisition tool.

“The next phase of this equation is really demonstrating the value of goals-based planning to the client.” Nanayakkara said. “Clients still tend to equate goals-based planning with traditional planning – you have to make that process simpler for clients to understand.”

Wealth transfer

Among other findings, generational wealth transfer emerged as the top factor ranked by advisors as driving the future of their businesses, followed by goals-based planning. While certainly an opportunity to capture new assets and welcome more clients, the wave of wealth transfer rippling across the US is equally a threat to existing assets. As the last of the Baby Boomer generation enters retirement, a large percentage of advisors are simultaneously preparing for the same, EY said.

This brings to the surface the topic of advisor training and recruitment – an area in which Nanayakkara said some industry players are making “very positive differences.”

Namely, more time is being spent on making sure that trainees and new recruits aren’t thrown in at the deep end. Ten or so years ago, it wasn’t uncommon for a new advisor to be given a list of prospects to “cold call” and then build their own practice, she said.

“Now that has shifted. I’d say the majority of firms want new recruits to join teams - but it’s not easy because it’s like a financial marriage, a long-term commitment,” she said, noting that some firms offer incentives to their more established advisors for getting involved.

But some of the older, more established advisors – while being very good at relationship management and financial advice – are not necessarily very experienced in coaching and getting the best out of a younger recruit.

“We see firms providing a lot of coaching to the established advisors so they can speak the same language as the next generation of advisors that are joining,” she said.

Communication channels

Meanwhile, adding to a body of previous industry research on the subject, EY found that communication channel preferences vary across wealth segments. A recent global report, for example, noted that it’s becoming increasingly clear that investors at various stages in their lives and levels of wealth look for different types of financial relationships.

Looking specifically at their expectations around digital technology and the role it plays in advisor-client interaction, EY said that traditional channels are and will continue to be the primary medium though which clients interact with advisors over the next three to five years. Digital channels, the firm said, will play a complementary role - a finding very much in line with previous industry research.

“Ultra high net worth clients - unsurprisingly - have the highest expectations in this area – meaning they want the channel that works for them based on their personal circumstances,” Nanayakkara said.

“But they do have complex needs, so a face-to-face conversation may be best suited when they talk strategy with their advisor. On the other end of the spectrum, mass affluent clients value ease and speed. A lot of mass affluent clients also tend to be younger, and lean towards digital channels. I think there are differences at both ends of the spectrum, but in the middle, most people like choice.”

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