



EIGHT QUESTIONS: CLIENT TRUST IN TODAY'S MARKET ENVIRONMENT

In today's economic situation, most people understand that just about everyone – from the most wildly successful (formerly!) hedge fund managers to individuals managing smaller portfolios – were not able to predict the collapse of the housing market or understand the web of interrelationships that triggered the near-death of many of the brightest names on Wall Street.

Although the grass may usually seem greener on the other side, most clients are aware that other advisors have not produced better results. Numbled by sliding stock prices, your clients are sticking with you, but for how long?

Even with a reliable client base, in light of dramatic changes of the past year, it is time to re-examine the value of trust. Here are eight questions to ask yourself – some tried and true, others with a new slant on the greatest economic change since the 1930s.

1-Is it too late to re-establish trust that has been damaged or lost?

Maybe not! “.. Is It Possible to Restore Trust?” outlines results of a study at the Wharton School.* Initially, the researchers assumed that, once broken, trust is difficult to restore. Instead, they found that the restoration of trust depended more on how trust was broken in the first place.

If the loss of trust was due to a lie or deceptive behavior, it was difficult to restore. But, if trust was damaged because of untrustworthy behavior (perhaps due to an accident, carelessness or oversight), when the perpetrator reverses course and engages positive actions, chances improve for a restoration of trust.

To strengthen the potential for repairing lost trust, or to speed things along, a person could consider two common actions: an apology and a verbal statement that “it won't happen again.” Interestingly, “it won't happen again” was more effective than an apology, at least in this set of experiments.

2-Does my client understand that I have his or her best interest at heart?

How can you convey this most essential element in the relationship?

Just as in a personal situation, there are almost infinite ways to show that you care about the welfare of the other person, and they will vary depending on the client. A few examples:

Special Report

Bridging the Trust Divide: The Financial Advisor - Client Relationship**

A report sponsored by State Street Global Advisors and Wharton School of Business addresses the trust concept by identifying three levels of trust that a client looks for and how advisors can strengthen relationships with them.

1) Technical competence: Is the advisor experienced and knowledgeable? Can the advisor help me make difficult decisions? (What do you know? What is your background? Are you qualified?)

2) Ethical conduct and character: Clients want to make sure that the advisor is honest and that their money is safe. Until recently, advisors at the big name firms have had the edge in this area, but with the sales of big-name firms such as Merrill Lynch and the growth of independent advisors or hybrid situations, this reliance on the most recognized firms has waned.

3) Empathetic skills and maturity: People are looking for an advisor who offers what they are looking for in an interpersonal relationship. Without the trust engendered by empathy and understanding, no connection can be strong.

- Show respect. An advisor was fired because he called a client's home and asked to speak to her husband. This gave the appearance that the wife was incapable of understanding the financial process and ignored the fact that the investable funds were gifted by her parents and were in her name.
- Pay attention to what is important to that person. If you've had a conversation where the client said he wants to visit the pyramids of Egypt, forward an online article noting a new discovery or mention it in your next formal meeting.
- Acknowledge the client's achievements. Some people "get" the financial landscape more clearly than others, yet they can be high achievers in another area.

Communication and care

If advisors have heard any advice in this market downturn, this is it: stay in touch. Those who are contacting clients and quickly responding to their calls believe the effort is paying off – keeping clients on board and helping them stay relatively calm about their finances.

3-Am I staying in touch?

When clients call, studies suggest that they reply within three hours. The call-back does not always have to be from you, the advisor. Ideally one or two staff people, whom you are sure can handle most questions can make the response. Besides being able to answer concrete inquiries with concrete answers, the best staffers will convey the tone and themes that you have developed in interpreting the current economic scene.

Reaching out to clients is the other side of the coin, and technology means it has never been easier. Phone, email, web site postings as well as mailings of letters or newsletters – the choice really depends on the nature of your client base and your own inclination. Just a short message highlighting a few key points is all you need. Just keep the messages flowing. Frequency trumps length.

Knowledge

Even if you can't predict the economy, you still know more than 99% of what your clients know. Now is the time to understand what you do know and what you do have to offer. Can my client trust me to help re-evaluate current economic conditions and help direct me on where to go from here?

4-Am I being honest about the difficulties of the market?

But don't sell yourself short. Even though you may not have a firm concept of when the market's problems will begin to right themselves, you must give yourself credit for your years of observation and experience. Take the time to note your current views regarding two or three key political/economic themes – the ones that just might influence future events – and mention that scenario when you are communicating.

The client should not expect you to predict the next market crisis, recovery or bust. But it is essential to be honest about the difficulties in the financial markets.

5-Am I on top of the investments I've recommended to clients?

At the micro-level, be ready to talk about your client's investments. If you picked individual stocks or funds, stay on top of their stories and what is behind their market results. To accomplish this, it is easier if you have minimized the number of different investment vehicles you are using and that you have a readily accessible source of current information on the individual stock or fund.

Checks and balances

More important than ever is compliance. This should become a more prominent part of your marketing initiatives.

6-Do your clients understand your compliance and due diligence practices?

Make sure you are forthright about the practices that keep their investments transparent and safe. Even in this Bernie Madoff world, clients' eyes might glaze over with these legalistic intricacies. But don't let that far-away look stop you from making sure clients understand the "checks and balances" of these three components of the financials – keeping everyone honest.

- Advisor and client: make decisions on investments.
- Custodian: holds the investments for the client; has the legal responsibility for a customer's securities.
- Platform and reporting processor: creates client reports and manages trades.

7-Have I re-evaluated risk tolerance levels for clients?

This can be one of the best ways to relate to clients right now. Let's face it, the rules have

changed, and risk levels have been re-set as a result of market changes.

At your next meeting, raise the point that when this level was set, everyone's mindset was for a market that appeared to be moving upward at a steady pace. With stock levels lower, now is the time to review and revise the risk component.

8-Are clients clear about your compensation?

In "Bridging the Trust Divide," the authors say that "the clearer and more direct the advisor is about fees, the better. They suggest that advisors state fees in a matter-of-fact manner and keep their fee structure simple.

One observer says he sees advisors who are undervaluing their contributions. They are uncertain about what to charge; it is likely that clients will pick up on this uncertainty, dampening the acceptance and level of trust.

A long process

Bottom line: building trust is a long process. It starts with the first interactions with the client and really should have a foundation of properly-set expectations.

In the Wharton Study, "Promises, Lies and Apologies: Is It Possible to Restore Trust?" co-author Maurice E. Schweitzer says, "Trust is the social glue that holds things together. It allows us to engage in social and commercial ventures. We develop relationships on trusting that things will work out." *

*"Promises, Lies and Apologies: Is It Possible to Restore Trust?", published July 26, 2006 in Knowledge@Wharton.

** Special Report: Bridging the Trust Divide: The Financial Advisor-Client Relationship

http://knowledge.wharton.upenn.edu/papers/download/ssga_advisor_trust_Report.pdf



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