The Problem With Selling 'Hand-Holding' As A Financial Advisor Value Proposition

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EXECUTIVE SUMMARY

In today's competitive environment, it is increasingly popular for financial advisors to talk about "behavior management" as a key value proposition for clients, as more and more studies have come out (e.g., Morningstar's Gamma, Vanguard's Advisor Alpha, and Envestnet's Sigma) showing that financial advisors can often more-than-recover the ***entire*** *cost of their advisor fee just by helping clients to stay the course, not succumb to their investment biases, and close the behavior gap. However, while financial advisors may create value for clients through such hand-holding efforts, it's not clear whether marketing "behavior management" is actually an effective way to show our prospective forward-looking value to get clients to work with us in the first place. And, in fact, the message it sends could be driving prospective clients away!*

In this week's #OfficeHours with @MichaelKitces, my Tuesday 1PM EST broadcast via Periscope, ***we discuss why hand-holding is not an effective value proposition to communicate in order to get new clients, particularly in light of the way it forces prospective clients to awkwardly admit to themselves they've made mistakes in the past (in a manner they may not want to do!).***

> *To understand why "You need an advisor to help you manage your behavior" is not an effective value proposition to win clients, put yourself in the* ***client's*** *shoes for a moment. Imagine a typical affluent individual who is approaching retirement with a $1 million portfolio, knows they need some guidance on making the transition (Social Security timing, retirement projections, etc.), and is perhaps even aware they've made some mistakes along the way (e.g., getting caught up in tech stocks during the late 90's, or a bad rental real estate purchase during the housing bubble). Such a financially successful individual may see the message "research shows bad investment behaviors can result in 1.5%/year or more of performance drag"… but being already financially successful, is more likely than not to assume* ***they*** *are one of the above-average individuals* ***not*** *being fully impacted!*
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> *Of course, the advisor can try to "convince" the client of the depths and extent of their problematic investment behaviors… but this can actually sour the relationship even more! For instance, imagine a client that* ***did*** *get caught up in tech stocks and the housing boom, and the prospective advisor says "Well, one of our primary value propositions is to help you manage your behavior so you don't make those kinds of big mistakes again, that in the future could derail your retirement." From the client's perspective… mistakes may have been made, but this can feel like rubbing it in their face! And if a couple is involved, where usually one spouse is primarily responsible for managing their assets, now the advisor is asking that person to acknowledge,* ***in front of their spouse****, that they're so bad at investing, and so hopeless and incapable of learning, that the only solution left is to just walk away and hand it to you, the advisor, to manage instead! Which to say the least, is an awkward conversation for any couple to have!*
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> *On the other hand, the reality may be that there's a* ***niche*** *of clients out there who* ***already*** *have internalized this message, and are looking for an advisor for these reasons (we may even see a lot of these clients since they tend to seek us out knowing they need help). But in the end, this may still only a small subset of investors. For the rest (who may be below-average investors, but they don't know or realize it, or they still think they can improve and get better), trying to convince them that they need behavior management is doomed to fail because it requires them to make a very negative change about their own self-image… and most people just don't want to do that! And it completely eliminates your chance to work with clients who simply want to pay you for your advice and expertise*

> *about all the **other** financial planning value-adds that we can bring beyond the investment portfolio and remedying investment behaviors!*
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> *Ultimately, the key point is to that framing hand-holding as a financial advisor value proposition may not always work, and, in some cases, may even alienate many of the prospects you are trying to win over. This may be true even when managing behavior actually **is** valuable for a client who is inclined to make those common investment mistakes (and, as a result, helping clients actually manage their behavior could be a good way to **retain** clients), but that doesn't necessarily mean that behavior management is a good way to convince clients to work with you in the first place! Or stated more simply, be wary not to underestimate the power of denial, for those investors who don't want to admit to themselves – and their spouses – of the mistakes they've already made along the way!*

(Michael's Note: The video below was recorded using Periscope, and announced via Twitter. If you want to participate in the next #OfficeHours live, please download the Periscope app on your mobile device, and follow @MichaelKitces on Twitter, so you get the announcement when the broadcast is starting, at/around 1PM EST every Tuesday! You can also submit your question in advance through our Contact page!)

#OfficeHours with @MichaelKitces Video Transcript

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