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data for smart decisions

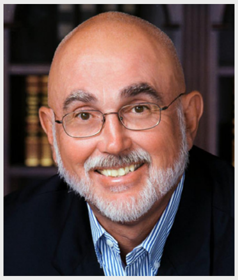
MAKE A SMART DECISION —

Understand How Investors Choose an Advisor

And Improve Your Odds of Attracting New Clients

By James Carney

INSIDE THIS ISSUE



Jack Waymire
Founder & CEO, Paladin Registry of Financial Professionals

Jack spent 28 years in the financial services industry. For 21 of those years he was the president of an RIA that provided financial advice and services to more than 50,000 investors. He founded Paladin in 2003, wrote "Who's Watching Your Money?", and launched a website based on the principles in the book in 2004. Paladin matches investors to pre-screened financial professionals who are profiled in the Registry.

In This Paper:

In one of our recent surveys on marketing and business development, over 41% of respondents said they were looking to acquire between 6 and 15 new clients this year, while over 46% hoped to bring on 16 or more.[1] Yet most felt their approach to marketing and business development could be much improved (*Make A Smart Decision: Hone Your Marketing Initiatives*).

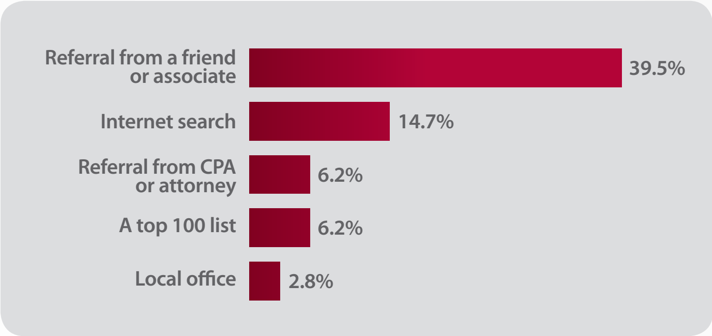
According to Jack Waymire, President & CEO of Paladin Registry of Financial Professionals (Paladin), to successfully sign new clients you need to understand how investors think. "People fall into one of two camps when it comes to how they select a financial advisor," he says. "They are either subjective decision makers or objective ones. It is important to understand their different decision criteria and adjust your conversation accordingly." This paper looks at how these two types of investors tend to choose an advisor, and highlights a number of ways you might tailor your message to win more business.

[1] *ByAllAccounts national online survey, August-September 2011. The findings are based on aggregated responses from 215+ advisors.*

Investors Rely on Referrals

According to an investor survey we just completed in conjunction with Paladin,[2] almost 46% of individuals who responded say they found their current advisor through a referral from a friend, respected associate, CPA or attorney. Another 24% found their advisor by either conducting an Internet search, looking at a list of top providers or by visiting an office in their local area.

How Did You Find Your Current Advisor?



Yet Many Don't Refer Their Own Advisor

While a large percentage found their advisor via a referral, more than half report they have not provided referrals for their own advisor. Some indicate they just aren't comfortable with this, while others say their advisor has not asked them to do so. In addition, 25.8% feel their advisor has not "earned the right" to receive a referral.

[1] *ByAllAccounts and Paladin online client survey, January 2012. The findings are based on aggregated responses from 197 participants.*

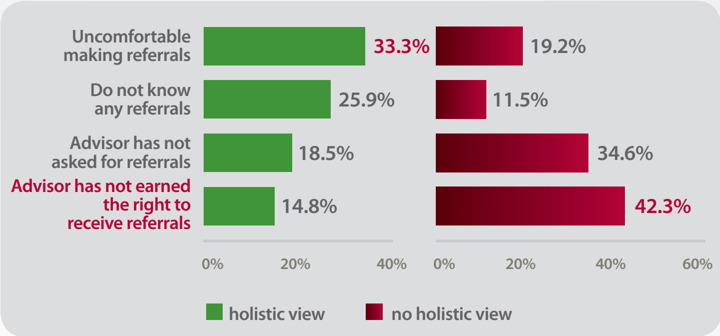
Why Have You Not Given Your Advisor a Referral?

Take Control

To win new business, advisors should first take steps to increase referrals, especially since many investors may be willing to provide leads if only asked. I believe there is also an opportunity to earn the right for a referral by underscoring the value you provide. Our survey results show that one way to do this is to adopt a more comprehensive approach to monitoring and reporting on your clients' assets.

Over 60% of respondents in our latest survey say their advisor currently provides a holistic view of all their assets—including those that are self-directed, such as 401(k), 529 and 403(b) accounts. For those who receive this, 54.2% have referred their advisor, while only 33.3% of other investors have done so. Many (42.3%) in this latter group feel their advisor hasn't earned the right. Yet few investors (14.8%) that receive a holistic view give this as a reason. It appears that this more comprehensive approach can definitely raise your value in your clients' eyes.

Clients Who Receive a Holistic View of Their Assets More Likely to Refer Advisors



Whatever approach an investor uses to identify a potential advisor, very minimal vetting takes place before a decision is made to proceed, according to Jack. "This presents a second opportunity for advisors to turn things around by taking control of the discussion," he says. First you need to understand what's important for prospects.

"Many investors just hire people who sound good."

Jack Waymire, President & CEO
Paladin Registry of Financial Professionals

"57 percent of investors use a subjective approach to selecting an advisor."

Paladin Analysis, July 2011

The Subjective Approach to Vetting Candidates

According to research conducted by Paladin last year, a large portion of investors live in a subjective world and they really don't have a sound basis for making decisions about who can best help them achieve their investment goals. Very few investors in this group have a structured process for gathering and comparing information from different candidates or, in many cases, know what questions they should be asking in the first place. Given this, they end up relying on "gut feel".

"Many don't have a clear process for reviewing information on an advisor, so they revert to a subjective process. Madoff is a perfect illustration."

Jack Waymire, President & CEO
Paladin

Many subjective investors (48%) tend to select an advisor on the basis of brand name since they feel safer if the firm is well known.[3] They may think familiarity and size implies trust and experience, and an advisor with a big-name firm is therefore better able to manage money and provide support.

A significant percentage (29%) of subjective investors also choose advisors that they like, thinking the chemistry of a relationship will be important in the long term. And others (17%) are moved by the sales pitch itself, believing what they

[3] *All referenced data for the rest of the paper taken from an analysis developed by Paladin in July 2011.*

The Subjective Investor

How Do You Choose an Advisor?

- 48% Brand Name
- 29% Likeability of Advisor
- 17% Sales Pitch
- 9% References

Paladin Analysis, July 2011

hear has to be true "since advisors must be required by law to state the facts and nothing more." Of course, regulators have no control over verbal information and lower-quality advisors know it, according to Jack.

"If an investor is using a subjective process, they are going to gravitate to the advisor with the best personality."

Jack Waymire, President & CEO Paladin

These selection methods can be a problem for higher-end advisors, says Jack, who may be very quantitative, analytical and research-oriented but lack the confident and gregarious sales skills of others. There can be a disconnect between the subjective investor's decision criteria and how an advisor approaches the opportunity.

The Objective Approach to Vetting Candidates

"31 percent of investors use the objective approach."

Paladin Analysis, July 2011

The objective investor tends to take a more rational approach when vetting advisor candidates and, on the surface, seems much more skilled at comparing different options. For example, 95% of respondents in Paladin's research say a clean compliance record is crucial, and 82% say experience is also an important factor. In addition, a college education and certification in one of the investment advice categories, such as a CFP®, CFA® or CIMA®, are part of the selection criteria.

Yet despite these responses, few objective investors dig very deep on these factors. While a clean compliance record is extremely important, only 4% of respondents say they actually checked this before deciding to work with an advisor. Similarly, only 21% say they requested some form of documentation to verify things like education and other credentials—and 84% admit they don't know what a good certification is anyway.

The Objective Investor

How Do You Choose an Advisor?

- 95% Compliance Record
- 82% Experience
- 53% College Education
- 44% Certifications

Paladin Analysis, July 2011

Turn the Selling Situation to Your Advantage

These disconnects present an opportunity to educate investors and win business. "I think advisors should take control of the conversation," says Jack. "They should say, based on research by different companies there are several important things investors care about when they hire a financial advisor. This might include credentials, a code of ethics, sound business practices and related services. Then they should address each of these upfront and provide proof statements."

> **"High-end advisors need to take control of the conversation and show proof that demonstrates they are better than others."**
>
> **Jack Waymire, President & CEO**
> **Paladin**

If you do not provide proof, you are asking investors to select you based on your sales claims, says Jack. When used properly, proof is a differentiating characteristic. This solves a big problem for higher-tier advisors who say differentiation is a major marketing challenge.

Sample: Focus on Key Areas Investors Care About:

- **Credentials** include experience, education and certifications.
- **Ethics** includes a clean compliance and criminal record, licensing, types of registrations held and whether you are an acknowledged fiduciary.
- **Business practices** are heavily influenced by your compensation, the amount of investment expenses the investor is going to incur, the type of reporting you will provide and how proactive you will be.
- **Services** include financial planning, money management, tax planning, etc.

"Advisors should systematically address these areas and show what they offer," says Jack. This might include a "client orientation" package that covers:

- Firm history (how long you've been in business, why you started it, what you are trying to achieve)
- Mission statement
- Code of ethics
- Sample reports you produce and what they mean to the prospect
- Your investment process (keep it simple but informative)
- Sample portfolios and historical rates of return
- Brief bios on your staff to highlight particular areas of expertise, credentials and experience

Help Investors Choose the Right Advisor

Also try to determine which camp an investor sits in by asking what's most important to them when selecting an advisor. If they appear to be a subjective investor, then also address issues that research shows they care about most, such as brand name. Although you may not be as big as other players in the market, you can emphasize your firm's intense focus on client service and your boutique style where every client is part of the family and is known to all of your staff.

For objective investors, take time to explain your different certifications, the personal commitment required to attain each and the sponsoring organizations. It may be worthwhile to enclose a brief summary of each certification program, along with a link to the respective web sites, in the orientation package to help the investor with their due diligence.

Subjective or Objective—You Can Appeal to Both

With subjective investors selecting advisors on gut feel, and objective investors failing to validate the traits they say are important for them, there can be a disconnect during the sales process. The most competent and trustworthy advisor may not win the business. Turn the tables and take control of the situation to help prospects make the right decision. Outline what you know to be important selection criteria for investors and show you are the best choice by providing concrete examples. Let proof override personality.

In addition, increase your flow of referrals by providing a holistic view for your clients. With ByAllAccounts' account aggregation service you can receive an electronic delivery of reconciliation-ready data each day on all of your clients' held-away assets and have the data for positions, balances, transactions and securities automatically loaded into your portfolio management software of choice.[4]

Obtain more leads and successfully close more business. These steps can help you meet your client acquisition goals for 2012.

[4] *You should always speak to a compliance specialist to evaluate your own specific situation.*

Read Other Papers in ByAllAccounts' SMART Decisions Series

- **MAKE A SMART DECISION—Simplify Your Advisory Business:** You wouldn't use an abacus for performance measurement. Why aggregate financial account data mentally or manually?
- **MAKE A SMART DECISION—Attract HNW Clients by Adhering to the Fiduciary Standard:** Seize the fiduciary standard as a growth opportunity.
- **MAKE A SMART DECISION—Gain a Greater Share of Assets:** Will it be a Baby Boom or Baby Bust for you? Five ways to increase AUM by managing your clients' retirement assets
- **MAKE A SMART DECISION—Don't Leave Money on the Table:** Billing on Held-Away Assets. Four Reasons Why the Tide is Turning.
- **MAKE A SMART DECISION—Leverage Your Time:** The custody issue one year later. Spend less time dealing with SEC changes and more time with clients.

MAKE SMART DECISIONS

A monthly educational series for financial advisors

ByAllAccounts is committed to helping you make smarter decisions for your practice, your clients and yourself. We have created an educational series based on the experiences of financial advisors who have made smart decisions to solve business problems. Each month we offer a bundle of educational material you can read or watch at your own pace that addresses a specific problem.

Simplify
How can I simplify/streamline my business so I can spend more time with clients?

Marketing
How do I get more, and more profitable, clients?

Asset Growth
How can I gain a greater share of wallet (i.e., assets under management)?

Revenue Growth
What can I do to increase revenue?

Time Management
How can I spend my time more efficiently and effectively?

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About Paladin Registry of Financial Professionals

Paladin provides a free service to qualified investors that matches them to Registry profiled professionals in their communities. Since inception, Paladin has referred investors with more than $27 billion of assets to advisors who practice full disclosure for their credentials, ethics, and business practices.

For more information, visit www.paladinregistry.com or call 916-253-3334 (CA).

About ByAllAccounts

ByAllAccounts, the financial advisors' choice for data aggregation since 1999, is the only service that retrieves, enriches and consolidates reconciliation-ready account data from any custodian. ByAllAccounts' patented aggregation engine, through which hundreds of billions in assets flow daily, aggregates all client account data—from any source—within an advisor's wealth management platform or trust accounting system for a truly comprehensive view. Thousands of advisors rely on ByAllAccounts to save administrative time and costs, mitigate risk associated with having incomplete information and grow revenues through client referrals and new business development. ByAllAccounts integrates seamlessly with all of the most popular wealth management platforms.

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