THE LURKING DANGER OF HAPPY CLIENTS

According to the 2019 Voice of the Investor Survey, 87% of investors, who are considering using a robo-advisor, are happy with their current financial advisor. Why would supposedly happy clients look elsewhere? Perhaps clients are unsure on how to evaluate their financial advisors. Who can blame them?
Robo-advisors, regulators and the media tell investors to focus on cost. Asset managers seem to encourage investors to focus on performance, promoting investments with the best returns.
How many financial advisors have changed their value proposition to address the changing world? Do they focus on their investment expertise as the primary value for clients?

YOUR VALUE STARTS WITH CLIENTS

Your clients’ financial success is measured by a simple question: Are your clients on track to achieve their financial goals? Financial advisors need to define their value to differentiate themselves—not by offering performance at a lower cost—but rather, by helping clients achieve successful outcomes.
An advisor’s ability to add value by helping clients achieve successful outcomes is based on three distinct, yet interconnected elements: planning, investments and behavior. Combined, these elements comprise Value of Advice (VOA).

EXPAND YOUR VOA

By developing and reinforcing a more diversified VOA with your clients, you place your practice on a solid (and more controllable) foundation that’s less focused on recent performance and the latest low-cost advertisement. More importantly, it will help your clients focus on the things that have a greater likelihood of achieving desired outcomes over time.

Planning
Successful client outcomes start with understanding their needs and goals and developing personalized plans. For investors with more than $1 million in assets, developing a plan to achieve goals is the most important factor for their financial advisor.

Investments
Comprised of both portfolio construction and investment selection, managing investments is the most tactical component clients see. Clients often perceive their investment portfolios, and their advisors, very differently in bull markets versus bear markets. Keeping the investment conversation focused on the intended outcome—and how the investments are aimed at achieving the outcome—is even more important than explaining recent, short-term performance.

Behavior
Perhaps the most important and overlooked element is behavior. An advisor can create a good plan and recommend solid investments. Unfortunately, that’s not a guarantee of success. Often, clients are their own worst enemy. Look no further than Investor Returns. Even with good investment returns, poor behavior and bad decisions often cause clients’ investments to continually underperform their benchmarks.
GOOD INVESTMENT + BAD BEHAVIOR CAN OFTEN CAUSE POOR CLIENT OUTCOMES

Investor Returns vs. Market Returns
20-year period ended December 31, 2017

<table>
<thead>
<tr>
<th>S&amp;P 500 Index</th>
<th>Average Equity Investor's Annualized Return</th>
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<tbody>
<tr>
<td>7.20%</td>
<td>5.29%</td>
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<tr>
<td>1.91 PERCENTAGE POINT DIFFERENCE</td>
<td></td>
</tr>
</tbody>
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Sources: S&P 500 Index: Morningstar; Average Equity Investor's Annualized Return. “Quantitative Analysis of Investor Behavior, 2017.” DALBAR, Inc. Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges. Past performance is not an indicator or guarantee of future performance.

For illustrative purposes only.

SCALABLE. REPEATABLE. PROFITABLE.

With a fee-based practice, profitability is driven by the long-term retention of assets. Unlike a transaction-based practice, a loss of a fee-based client has an immediate impact on revenue. As result, fee-based advisors need to spend more time working with clients on all three elements—investments, planning and behavior.

Focusing on VOA requires more than simply selling an investment. Combined with increased regulations and home-office requirements, building, a successful practice demands more of your most valuable resource: time.

According to Cerulli Associates, financial advisors spend up to nine hours a week researching, building and managing portfolios. As a result, advisors are increasingly turning to outsourced models to gain efficiency and enhance their value by:

- **Increasing time available to deepen client relationships** by delivering additional personalized planning, communication, and coaching.
- **Focusing on client outcomes** rather than investment performance. Although performance is always part of the conversation, by aligning portfolios with client goals, performance is discussed within the context of achieving outcomes rather than a comparison to other investments.
- **Creating a more valuable practice** for when the time comes to sell your practice. If your practice is primarily based on your portfolio construction and investment selection skills, how valuable is it to a successor advisor?

92% of clients had a positive reaction when their advisor told them that investment management would be outsourced.

FINAL THOUGHTS

As more advisors adopt a fee-based practice, there is increased attention on the fees they charge. Don’t let others dictate how clients should value your services. By documenting and sharing your VOA with clients, they will have a clear understanding of how to value your service. Focusing on the three elements of VOA provides a framework for highlighting the additional value, not the cost, that you can offer. Without understanding your VOA, clients may simply focus on cost and performance.

Outsourced model portfolios help unlock the time that is necessary to focus on personalized planning and behavioral coaching that can distinguish successful advisors from their competition.

1. The Franklin Templeton Voice of the Investor Survey 2019 was conducted online among a sample of 2,008 adults. The survey was administered between November 21 and December 2, 2018, by Engine’s Online CARAVAN®, which is not affiliated with Franklin Templeton Investments.


Financial advisors should only recommend fee-based programs if such programs are suitable for the client. Financial advisors should fully understand the higher standard of care associated with fee-based programs.

Your clients should carefully consider a fund’s investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, please call Franklin Templeton Sales and Marketing Services at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Your clients should carefully read a prospectus before they invest or send money.

All investments involve risks, including possible loss of principal. While an asset allocation plan and model portfolios can be a valuable tool to help reduce overall volatility, all investments involve risks, including possible loss of principal. Because model portfolios include funds, which may engage in a variety of investment strategies involving certain risks, the portfolios are subject to those same risks.

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