

Why your financial adviser might ask how you're feeling about money

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To measure their worth, many advisers see value in uncovering clients' emotions

By

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It's easy to measure customer satisfaction when selling coffee or sneakers. You look for repeat buyers, growing sales and social media buzz. But how can financial advisers tell if their clients are satisfied?

New research from Vanguard sheds light on the inexact science of measuring the value of financial advice to investors. The mutual-fund giant has identified three types of metrics for advisers to assess their performance in working with clients: portfolio; financial, and emotional.

Portfolio outcomes loom as the most obvious and longstanding focus of the financial planning business. By helping investors manage risk, diversify their holdings, and consistently produce returns that meet or exceed established benchmarks, advisers prove their value. The numbers tell the story.

Financial outcomes relate to the extent to which clients attain their goals. Advisers who help clients set long-term financial goals — from saving for their kids' college to seeking a secure retirement — elevate their role as coaches who blaze a path for individuals to save, spend and invest wisely based on a comprehensive financial plan.

Emotional outcomes encompass the less objective but more critical human component of the adviser-client relationship. By building trust and forging a

strong personal connection with a client, an adviser brings a sense peace of mind and security that goes beyond asset allocation and portfolio diversification.

“All three elements of the framework are important,” said Steve Utkus, global head of investor research for Vanguard Investment Strategy Group. “And every adviser thinks of these three elements. But emotion is more important than you might imagine.”

For Utkus, the framework presents a unified approach for advisers to evaluate the value of what they do. By measuring all three dimensions in an ongoing, rigorous manner, an adviser can solidify a bond with clients and increase the likelihood that they appreciate the effort and expertise.

Measuring portfolio and financial outcomes is fairly straightforward. Quantifying how a client’s portfolio performs against benchmarks and assessing goal success rates involves data collection and analysis.

The tougher test is determining the emotional value of financial advice. It’s hard for an adviser to grade an investor’s trust level or whether they sleep soundly knowing that they’re getting solid advice.

“The big challenge in measuring emotional satisfaction is making sure it’s not based on current market performance,” Utkus said. “Over the last five years, the numbers look great so you have to be skeptical of any measure you get.”

Ideally, advisers track emotional outcomes in different market environments by surveying clients in person, by phone, a personal letter, or email. Utkus suggests posing questions such as, “Do you feel you can achieve financial success?” and “How do you feel about your ability to withstand adverse events in your financial life?”

“You should measure what the client feels psychologically about their financial situation,” he said. “One way to do this is to come up with five questions to ask during your client reviews to assess their financial well-being.”

Finding answers about an investor’s emotions can require some detective work. At investment adviser Carson Wealth, for example, surveys ask clients to rate a series of measures — from investment performance to the firm’s

communication — on a 1-to-10 scale. In a follow-up question, the firm asks, “How important is this to you?”

“Someone can rate us really high [in one area] but it’s not that important to them,” said Paul West, managing partner at Carson Wealth in Omaha, Neb. “Building out their financial plan might be more important to them than their short-term investment performance. So we want to find out how we’re doing and the relevance factor” that a client assigns to each particular aspect of service.

“Hands down, the emotional value is the biggest value you get from working with an adviser,” West added. “You want to feel good.”