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## INVESTOR COMMUNICATION

Building a client and advisor relationship

# Talk about expectations

By PAUL BRENT

It's been said that it takes two to tango — a truism that holds when it comes to the relationship between an investment advisor and client. To take that analogy a step further, the advisor is the one who is the accomplished dancer and the client has just started learning the steps.

While most financial advisors have typically been down the road of starting, establishing and strengthening relationships with clients one by one — very successfully in the majority of instances — clients understandably have little experience in this area. However, there are a number of straightforward, if not easy, things that clients can do to get the most out of their time spent with a financial professional.

“Primarily, the No. 1 thing that provides the greatest benefit for the relationship for the client and the investment advisor is trust,” says Jason Darling, director of investments and advice with Richardson GMP. “There is nothing without trust.”

For Mr. Darling, trust can only be established through openness and total transparency. “The client has to have confidence in their advisor so that they can be completely open about their goals and expectations in terms of investments, performance returns and communication. They should also feel confident enough to provide a complete picture of their assets and financial situation. Complete transparency allows us to do the best job for the client because we know all the pieces that have to fit together.”

He acknowledges that this call for total transparency is asking a great deal of investors but that the alternative is not worth contemplating. “I think one of the biggest mistakes that clients make is that they come into an investment advisor and say, ‘Here's my money; now invest it.’”

That sort of abdication of responsibility on the part of the client, which is usually less dramatic than Mr. Darling's example, happens far too often and ultimately damages the advisor-client relationship and can shortchange the client's investment returns. “It's the advisor's responsibility to open the lines of communication and help the client articulate their needs and expectations,” he says. The advisor also needs to take responsibility to let the client know about their investment philosophy, how they operate and the fees that they charge to clients.

Once the relationship has been forged, the dual responsibilities for maintaining the bond between advisor and cli-



Bob Sewell, president and CEO of Bellwether Investment, offers rules for relationships.

ent must continue, he says. On the part of the advisor, there is the requirement to set proper expectations about communications and the information flow. Demands on the client are, again, far-reaching. “The role of the client is to let the advisor know how they feel about their portfolio during different circumstances and to communicate any significant changes in their financial situation such as losing a job or wanting to purchase a new house,” Mr. Darling says.

In the end, having openness and transparency on both sides of the table and setting proper expectations is “what I see in successful relationships with the greatest satisfaction on both sides,” he says.

Getting off to a good start can be the key to a successful relationship, observes Bob Sewell, president and chief executive of Oakville, Ont.-based Bellwether Investment Management Inc. He puts the early onus on the advisor.

“If the client doesn't know what they should be looking for, then part of that discovery process and part of establishing a good relationship should both help the client understand what the advisor is intending to deliver and help the advisor understand what the expectations are.”

Those early missed expectations on either side are often the seeds of a failed relationship. “That is where you tend to see the breakdown,” Mr. Sewell says. “Nine times out of 10, expectations are complete-

ly different between what the advisor intends to do and what the client is looking for.”

Mr. Sewell has found that an off-kilter relationship can be rectified in instances where the two sides are committed to hitting the reset button. “I would say more than half the time where there has been a problem and the issues are resolved with an understanding of what both sides are looking for, then you can move forward.”

Another potential trouble spot Mr. Sewell sees is advisors who end up dealing with just one of the spouses in the planning and investment process. “Not surprisingly, one spouse may have a higher investment knowledge than the other and quite often we find that they have different tolerances for risk,” he says. “So if you develop a financial plan, go through a risk assessment process and an asset allocation process for that family unit, there is a big risk that you are going to fail because one of those two parties is unhappy with what is happening.”

Once an investment portfolio is agreed upon, there also has to be a discussion between both sides about reasonable return expectations. “Performance can often be an area of question or concern with clients,” he says. “So then the question is, what is success in their minds? Is it an absolute return expectation, which what I think most private clients should be focused on. ‘What do I need to earn on my portfolio to meet my goal?’ is what cli-

### A GOOD RELATIONSHIP

#### Bellwether's five rules for a successful investing relationship:

- Think of it as a partnership: Define success at the outset and make sure your interests are aligned.
- Make sure that both you and your spouse are engaged in the discovery process that leads to the investment plan.
- You and your manager must be open with each other about how the portfolio will be managed and the range of returns that should be expected.
- Ensure that the portfolio is managed according to a documented investment plan.
- Talk regularly about life changes that may affect how your portfolio should be managed, and how your manager is keeping your portfolio aligned with your plan.

ents should be asking.”

A key document to establish goals and expectations for today and in the future is an investment policy statement, which sets out the various aspects of the relationship from the advisor's understanding of the client's financial situation, key objectives, risk tolerance and any restrictions might be in place in managing their money.

“There's a document that guides the overall relationship between the client and the advisor,” Mr. Sewell says.

## Watch for signs that the relationship is over

By PAUL BRENT

This is the time of year when Canadians count most on their financial advisors. If they have a small business they may have just completed their calendar year-end. For the rest of us, there are RRSPs and TFSA's to worry about and that looming tax deadline imposed by Ottawa. Busy as this period is, it also might be a good time to take stock of your relationship with your financial advisor.

Just like any personal relationship, your dealings with your financial professional can fall victim to complacency. One or both sides takes the other for granted, communications declines to a bare minimum and there is little of the spark that was so evident earlier. Again harkening back to personal relationships, clients should be asking themselves whether they are still in those early honeymoon days, have settled in to a solid and dependable relationship or are headed for divorce.

That begs the question: As a client, how do you assess your current relationship with an advisor? It turns out that there is a pretty simple test.

“The client has to ask himself, ‘Would I recommend this investment advisor to friends and family?’” says Jason Darling, director of investments and advice with Richardson GMP. “If they have to say, ‘No,’ I would argue that the relationship is strained.”

The blinking red light that signifies that the relationship is off the rails is usually there for both sides to see in the form of unfilled promises.

“The two sides have clearly defined expectations and they are clearly not being met,” Mr. Darling explains. “Communications can fall off, there can be different expectations.”

“I've seen a lot of best practices from our advisors to keep communication flowing including the use of a customized client service agreement detailing the responsibilities of both the client and the advisor. It sets a foundation for managing expectations.”

Ensuring information is relevant and understandable are also key factors in communication, but one of the best tools Mr. Darling has seen used is a relationship roadmap that charts a course for investment or wealth planning issues that will be addressed during meetings over the next year or two.

“This builds trust and deepens the relationship with clients,” Mr. Darling says.

Any decline in communication on the part of the advisor should be viewed as a sign of trouble ahead for the relationship, advises Bob Sewell, president and chief executive of high-net-worth advisory firm Bellwether Investment Management Inc.

“Lack of contact is a concern,” he says. “If you are not getting a level of contact, a level of service from your advisor, then the first step I would say is the clients should be expressing that to their advisor. ‘Here is what I'm looking for, I'm not getting it, we need to rectify this.’ If that isn't resolved to their satisfaction, then they have to start to ask, ‘Why is that? Am I not important enough to the advisor?’”

Another warning sign for Mr. Sewell is an obvious disconnect between the two sides when it comes to the client's financial objectives.

“If you are sitting down with your advisor and he or she can't articulate what their strategy is, why they are doing what they are doing, that is a big, big red flag,” he notes. “There needs to be a clear overall strategy for how a client's money is being managed.”

Hopefully, clients have a clear understanding of how their investment advisor is compensated but in many cases they have no idea, and that can prove a source of friction in a relationship until it is resolved, Mr. Sewell says.

“I will see a prospective client who has \$1-million or more in mutual funds and they don't seem to understand that they are paying twice what they should be paying for investment management. I have people that tell me that their advisor doesn't charge them anything for bonds. Well, yes, they do.”

While communication may be the single most important determinant of whether a relationship is healthy and strong or headed for a breakdown, it is not just a function of how often the two sides talk or email each other.

“I would say that it is more the quality of the communication and how is the communication pertinent or important to the client that is key,” Mr. Darling says. “It's one thing to tell me that my portfolio is down, but how does that affect my end result of me retiring at 65?”

The management team that stands behind the advisor also has a role to play in supporting, or hindering, the interaction between the client and financial expert. “Pair up a culture that provides an advisor with ownership in the firm with an agile, flat management team and the end result is everyone working in the best interest of the client,” Mr. Darling says.

Just as the big test of whether the relationship is working is whether the client would recommend his advisor to a friend or family member, the true measure of the state of the current advisor-client bond can be found right at home.

“The big test is that the client feels confident that they can achieve their goals and sleeps well at night,” Mr. Darling says.