Building Strong Client Relationships

When meeting with a client to work through the Wealth Advisory Process, you are selling intangibles—trust, confidence, knowledge and experience. These are the qualities that help your client bond with you, stay with you during times of market uncertainty and build your business. This paper will offer you insights on how to position your services around intangibles that can address client needs.

Inside the Client's Mind

The decision to invest is an important one. For many clients, the decision is also a difficult one. For them, meeting with a financial advisor can be an intimidating and confusing experience—one fraught with figures and complicated pie charts. Your clients expect you to communicate clearly and offer them a level of reassurance that their assets are being invested with their best interests in mind.

To deliver a successful presentation, think of yourself as a client. Here are a few common traits that we believe you should be mindful of:

- Clients are skeptical, inclined to doubt, and they do not want to feel that they have been "sold."
- Although clients today are more conscientious about investing, even those who have done their homework may still be less knowledgeable than you might assume.
- Clients have worked hard for their wealth. They expect you to have their best interests in mind when it comes to preserving it.
- Clients want a solution that is unique and designed just for them, one that fits personal situations. (For example, a couple might be concerned about a handicapped adult child who may outlive them. This would be a unique circumstance—one that should be factored into an appropriate investment strategy.)

Key Factors in Client Decision-Making

Trust

While many advisors think that clients make their decisions based on facts and logic, the truth is that many base their decisions on trust.

Advisors might incorrectly assume that a client adds up the costs and benefits of one service, compares it to another and then chooses the better service. In reality, few clients rationally evaluate the features of your services and make an informed, fact-based choice. Instead, many clients make their decisions based on emotions.

A recent survey reported by *InvestmentNews* in June, 2012[1] suggests that trust plays a factor in how well advisors perform during rough markets. Furthermore, when investors were asked what won their trust, the majority responded that their advisor communicated their investment recommendations clearly, was knowledgeable about products and trends, and responded quickly to questions. Additionally, in the survey, investors were cited to have lost trust in an advisor that was difficult to contact, gave bad investment advice, or lacked a personalized approach.

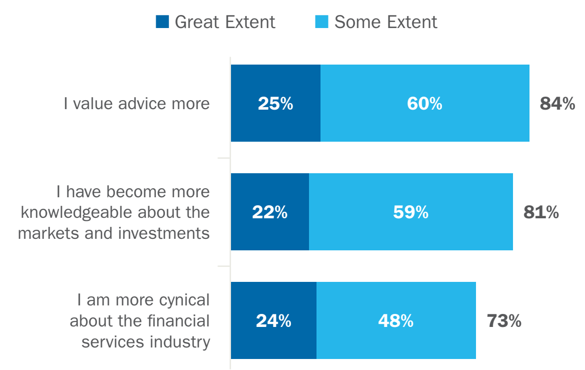
Risk Aversion

Many clients make a choice based on what they see as the lowest risk. In some cases, clients do not select a solution that would be best suited for them, but instead select the solution they fear least, particularly during times of economic uncertainty.

Perceived Value and Quality of Service

More than ever, clients perceive value from the advice you offer, not the products you sell.

How would you say the relationship with your advisor has changed in the following areas as a result of the financial crisis?
Investors who have an advisor (n=761)



Source: Matthew Greenwald & Associates, Inc.

In fact, according to a survey conducted by Envestnet in 2010[2], 84% of investors ranked "valuing advice more" as being the top aspect of their relationship with their advisor that has changed as a result of the financial crisis in 2008-09. Additionally, the survey showed that investors want advice despite being more cynical about the financial services industry.

[1] "Advisers now more trusted than doctors or accountants, survey shows," InvestmentNews, June 7, 2012
[2] "The Fiduciary Opportunity™: Succeeding in a Changing Advisory Landscape," Envestnet, June, 2010.

Begin the Conversation with Partnership in Mind

To help a client make a decision they are comfortable with, bring the conversation to your client's level through clear and concise communication. Make an effort to understand their concerns and fears, ask follow-up questions that demonstrate that you have been actively listening and thinking about their circumstances, and tell them that you can help them devise an appropriate investment strategy. Repeat key points as much as necessary and avoid investment jargon.

A prospective client should leave the meeting envisioning a partnership with you. They should be able to understand the investment process and how you earn your advisory fees. And, they should have a clear understanding of what you are seeking to accomplish for them, so much so that they could clearly articulate it to another person.

A Four-Step Wealth Advisory Process

Once you have established a clear understanding of the services you provide, we believe that it would be prudent to take your client through the four phases of the Wealth Advisory Process.

Step 1: Advise – Identify the Client's Needs and Objectives

The first step of the Wealth Advisory Process is to discuss all of the necessary financial facts about your client's wealth and resources. Take a minute to ask about the important life events they anticipate. It will show your client that you are interested in their lives while also providing you with the detailed information vital to helping you determine an appropriate investment strategy.

Utilize a Risk Tolerance Questionnaire (see Appendix) to identify your client's investment objectives, tolerance for risk and investment time horizon. Sit down with your client to walk them through each question and then together review their feedback to ensure that you understand their financial goals. Explain to them that you will use this information as the foundation for an investment plan that is tailored to their specific needs.

Wealth Advisory Process

- **Step 1: Advise –** Identify the client's needs and objectives
- **Step 2: Invest –** Build the asset allocation road map
- **Step 3: Manage –** Implement the plan
- **Step 4: Report –** Monitor the portfolio and report performance

Step 2: Invest – Build the Asset Allocation Road Map

Over the years, it has been believed that asset allocation was the primary determinant of variations in a portfolio's performance. However, in a recent report by Roger G. Ibbotson titled "The Importance of Asset Allocation," he cites that general market movements play a much greater factor on portfolio performance than asset allocation and active management. With this in mind, you are challenged to present yourself as an "authority on investment planning"—one who understands the breadth of investment strategies out there and is able to effectively align them with your client's investment goals—while also managing your client's expectations on performance in the short-term. We believe that proper asset allocation is still very important and is a key driver in achieving financial success. However, during times of market upheaval, managing your client's emotional reaction to watching their asset values plummet is an all-too-real possibility.

It is important to keep your client focused on the long-term goal. To minimize your client's concerns about market volatility, highlight the ways in which you can manage for risk—such as, increasing asset diversification and adopting alternative asset classes. Build a proposed asset allocation that factors in your client's concerns and objectives and then contrast it with current holdings. This will allow you to highlight how your client may be better served over the long-term.

Controlling "Tail Risk"

Tail risk, also known as unexpectedly large portfolio losses, can occur during extreme market volatility. To hedge, or protect investment portfolios against tail risk, consider a multi-pronged approach that includes:

- Crisis planning
- An increase in asset diversification
- An allocation to low-beta equities
- An adoption of alternative asset classes

This fusion of techniques may accomplish what conventional tail-risk reducing strategies may not do: namely, not curtail high long-term return potential.

To learn more about volatility management, read "Focusing on Volatility: When Risk Management Pays Off" by Envestnet | PMC.

Step 3: Manage - Implement the Plan

Phase 1 – Recommending Asset Managers

Now that you have established an appropriate asset allocation, the next step is to explain to your client how you recommend specific asset managers to execute the strategy. This step can be confusing for your client. Consider using the following FAQ as a guide to clear communication about how you will implement the plan.

Frequently Asked Questions

Questions	Answers
What is the difference between a financial advisor and an asset manager?	Clients often think that as the financial advisor, you are also the asset manager. Consider using an analogy that your clients can relate to that will help distinguish each role. As an example, you could use a sports analogy to compare three important roles: the team owner, the coach and the players. **Client/Investor = Team Owner** • Accumulates wealth to "buy the team" • Articulates investment goals (retirement, children's education, etc.) • Has neither time nor expertise to be his own "coach" • Needs to evaluate the talent during the selection process • Uses the reporting process to monitor performance **Advisor = Coach** • Listens to what the "owner" wants to accomplish and helps identify goals • Offers objectivity and uses expertise to meet objectives • Determines the right strategy (asset allocation) • Identifies and recommends the right "players" (asset managers) • Ensures that players adhere to their positions (due diligence process) • Provides feedback and reports (performance reporting) • Replaces players if performance falters (manager termination, if necessary) **Asset Managers = Players** • Excel at respective positions • Offer focused style of "play" (manager skill sets are unique to their discipline) • Deliver insight and act accordingly when "ball is in play" (correlation of value, growth, international)
How does a separately managed account (SMA) differ from a mutual fund?	The primary distinguishing benefit of an SMA is that the client owns shares of the underlying securities – unlike with a mutual fund. This allows for better customization of the portfolio, including the ability to restrict or include certain investments, as well as the ability to manage for taxes. With a mutual fund, the client's money is pooled with that of other investors with similar investment objectives in a large number of securities. As a shareholder of the fund, the client has proportionate ownership of the entire pool, not the underlying securities. From a risk perspective, this can offer better securities diversification.

Questions	Answers
How do you select the asset managers and how do you know if they are appropriate?	A key component of the Wealth Advisory Process involves due diligence and research by the advisor. It is important to convey to your clients that the managers you are recommending have been selected based on objective criteria. You can leverage the expertise and research offered by Envestnet | PMC as well as the advanced portfolio analytic tools available on the Envestnet platform. Communicate with your clients that your firm leverages resources to carefully evaluate managers, and screen thousands of investment management firms down to a select group of managers with attractive risk/reward characteristics. The end result of this process is a selection of what are believed to be some of the best investment managers, many of whom were once available exclusively to large institutional investors. Once you have highlighted the manager due diligence process to your clients, explain to them how you weave in the asset allocation strategy you have built with the appropriate asset managers to create a blend that best suits their needs. 
Why these managers? How do they fit together? How did you get from the asset allocation model to this combination of managers?	Have talking points prepared on each of the managers you are recommending. It is not necessary to bury your client in details, but it is useful to provide the client with key points that illustrate the role and the quality of the managers you are recommending. You can leverage the in-depth manager profiles offered by Envestnet | PMC and show your clients various portfolio analytic views to demonstrate how the recommended managers work together to offer your client optimal results.
Why wouldn't I index the portfolio?	Explain to your client that active management can add value over time. Assure your client that while it is not always an easy task, identifying and hiring managers to generate consistent and sustainable excess returns, and to avoid excess loss, is the end goal.
Why so many managers?	Explain to your client how constructing a portfolio with multiple asset managers can enhance overall portfolio performance and should reduce risk.
My investments have created a tax bite in the past. Can you help?	Any tax considerations that are part of the proposed portfolio should be highlighted. Assure them that you will pay close attention to how taxes might impact their portfolio throughout the Wealth Advisory Process, from the assessment of their goals to asset manager selection and the ongoing review of the portfolio's progress. If the client is concerned about tax exposure, consider offering to meet with the client's tax advisor periodically. Also, a manager's tax strategy can significantly affect performance. Explain to your client that the resources available to you include analysts who provide research on how specific managers treat tax exposure.

Phase 2 – Implementation

At this stage of the process, you are ready to invest your client's assets using the asset allocation strategy you both created. While cash is the easiest, fastest way to invest, it may be likely that your client has existing holdings that they would like to transfer to you for management. Transferring securities into the new portfolio could trigger capital gains on existing holdings. Communicate with your client the techniques you can use to protect against triggering unwanted capital gains.

Step 4: Report – Monitor the Portfolio and Report Performance

Continuous portfolio and asset manager monitoring is the final step of the Wealth Advisory Process and provides the basis for an ongoing relationship with your clients. Communicate the following benefits of your services as it relates to keeping your client's portfolio—and their investment goals—on track:

1) You can ensure that your client's portfolio continues to adhere to the asset allocation strategy determined earlier in the Wealth Advisory Process and that you will rebalance the portfolio as necessary.

2) Rigorous analysis and due diligence of approved asset managers will be conducted on an ongoing basis to ensure consistency and relevance.

3) You can provide your client with access to daily reporting—available online for clients to review performance, portfolio holdings and/or transactions.

4) You can perform quarterly reviews with your client to check goals and examine the portfolio's progress.

The Quarterly Meeting

At the quarterly meeting with your client, you should be prepared to discuss the following:

- Revisit goals and change them, if required
- Identify issues from the last meeting
- Review the Wealth Advisory Process
- Conduct a comfort check—is there anything that is causing anxiety?
- Review the asset allocation—is it in line? Does it need to be rebalanced?
- Review overall portfolio performance. Place it in context with the overall market and the ultimate objectives of the portfolio.
- Review the managers—are they doing the job they are supposed to be doing? Is it necessary to change managers?

Discussing Your Fee with Clients

A discussion of your fees does not have to be an awkward topic. Here are just a few ways to communicate the value you provide that justify your fee.

Experience: You bring experience. Quantify the number of years and your total assets under management. Discuss the variety of clients you have worked with during your career.

Expertise: Besides coming from your experience, your knowledge is shown by your education, professional designations and certifications.

Process: You employ a detailed and comprehensive Wealth Advisory Process.

Asset Allocation: You provide your client with high-level asset allocation strategies that would be difficult for them to duplicate on their own. You combine leading asset managers into a well-planned portfolio.

Access to Top-Tier Asset Managers: You offer access to institutional asset managers who have extensive track records and who have traditionally managed money exclusively for large institutions and the wealthiest investors.

Oversight: You provide portfolio oversight at multiple levels.

Due Diligence: You can assure your client that you have various tools at your disposal to perform a level of due diligence on the asset managers used within the asset allocation strategy.

Objectivity: You can offer an objective approach to achieving your client's investment goals that is in the best interest of your client.

Fee-based Structure: Your fee incorporates all trading, execution and administration tasks.

Reporting: You provide quarterly consolidated performance reports that provide your client with a complete view of their wealth.

Technology: You provide daily web views for clients to track their investments online.

Review: You have a formalized review process that has been structured to keep the portfolio in line with the client's objectives.

Transparency: Your fee is transparent, unbundled, not variable and mutually aligned to achieve the client's goals.

Quick Tips About a Fee-based Structure

Fees Are Straightforward
Transactional brokers often sell load funds that may mask costs. Fee-based management is disclosed up-front.

Fees Allow Objective Advice
Charging a fee allows advisors to select the best solutions for their clients as it helps eliminate the appearance that the advisor is constantly trying to sell something for a higher commission. Fees Let You

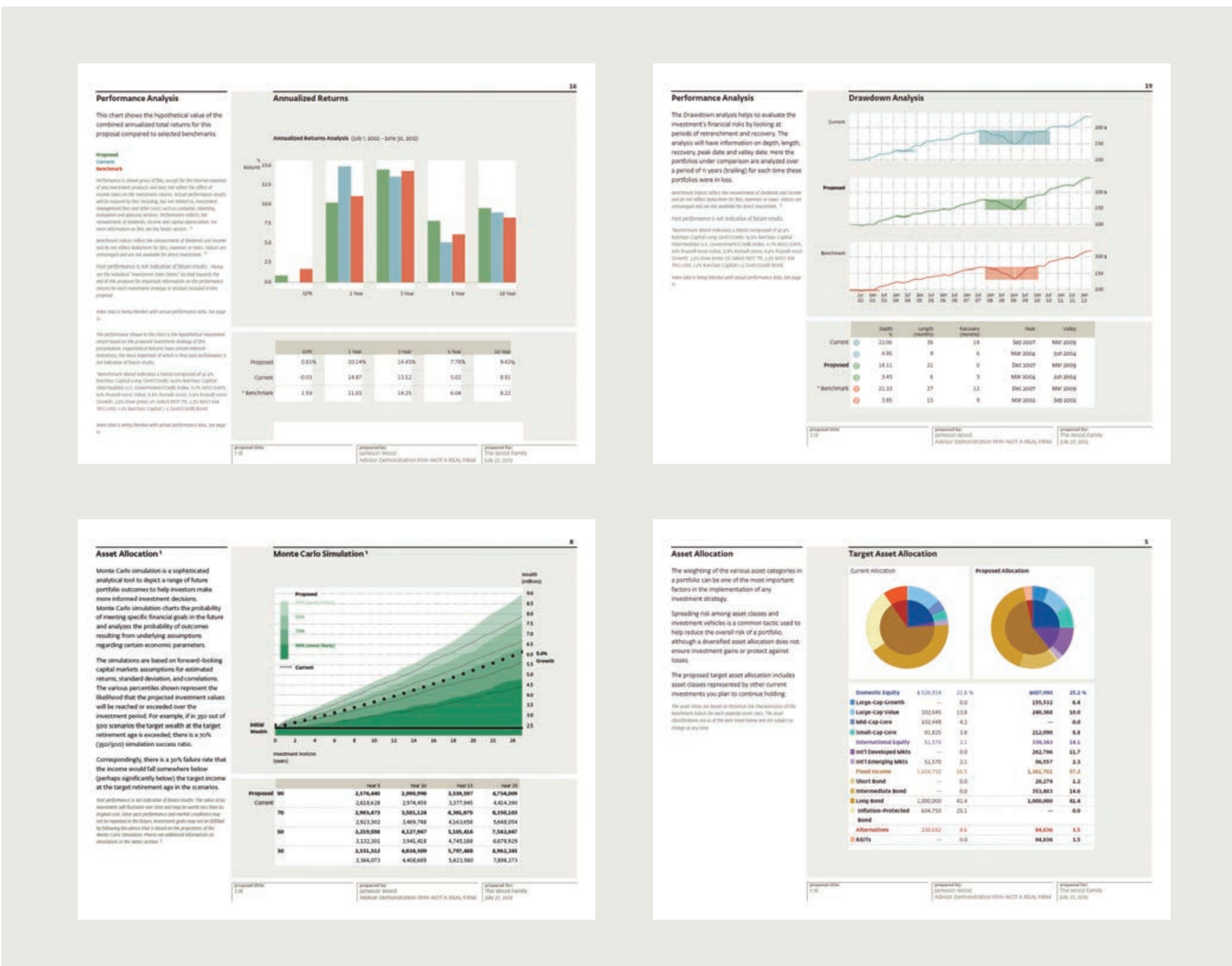
Offer a Wide Range of Services
Fees enable an advisor to provide value in the best interest of the client relationship—such as offering objective investment advice.

Fees Create a Mutually Shared Interest
In a commission-based relationship, the advisor generates more income from a higher frequency of active trading, which may be a motivator to trade more often. A fee-based structure takes away that motivation and instead invests the advisor in the client's success.

A Professional Proposal Presentation

Having a clear and comprehensive investment proposal is an important component to achieving trust from clients. It is the one tangible that highlights all the hard work you have done to create an asset allocation strategy that you believe is in their best interest.

Allocation pie charts and performance graphs do not have to be overwhelming if they are presented effectively. And, if all of the information you discussed is included in the proposal, it can become an effective sales tool that helps your client measure the level of service they are receiving.



All screenshots contain sample data. They are not representative of any client information.

Fiduciary Oversight

Over the years, major financial scandals have caused skepticism of the financial industry. Although investors typically trust their advisors, offering a layer of added transparency can provide additional comfort to them when it comes to investing their wealth.

On the Envestnet Platform, you can deliver a Fiduciary Oversight Report that highlights the key decisions that were made on your client's behalf along the Wealth Advisory Process. You can record a note regarding the rationale behind investing in a certain program and/or instructions to apply an overlay—socially responsible investments (SRI) or tax management—and your clients will be able to review those notes along with the comprehensive investment proposal you generate.

A Final Thought

The client meeting is your opportunity to highlight your consultative approach to helping clients achieve their goals. The more confidence your clients have in you, the more likely that they will not only refer your services to their friends, colleagues and beneficiaries, but also stay with you for the long-term.

Keep your message clear and concise. You goal is to communicate the comprehensive investment structure that you have in place and to establish a sense of partnership with your clients. Forming a strong bond with clients from the onset will serve as the foundation for a lasting relationship in the future.

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