# Four Opportunities to Elevate the Advisor-Client Relationship through Personalization

## Insights from Morningstar's *Voice of the Advisor* Research

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# Personalization is an industry buzzword, and for good reason.

Morningstar's 2023 *Voice of the Advisor* research program, which generates a multi-faceted view of the segment through multiple studies and surveys, investigates:

- How important is personalization to investors?
- What do investors mean when they ask for personalization?
- How are advisors' practices evolving in response?

After surveying 400 investors, we found that the most impactful elements of personalization involve aligning clients' risk tolerance with their goals and needs. Values alignment, commitment to diversity and inclusion, and a shared cultural background are less important across the board, even in a survey pool that is mostly people of color.

After surveying 650 advisors evenly distributed across firm types, we also found that advisors' practices are evolving to offer a more comprehensive set of products and services. While advisors are sinking the largest percentage of their workweek into client-focused activities, we found that most indicated needing help with the activities they spend most of their time doing.

In this report, we will surface 4 opportunities for advisors who are serious about using personalization to deepen relationships with clients and attract new prospects. Asset managers and advisors can also use this research to compare their client engagement strategy with their peers and benchmark their business model against the strengths and weaknesses that are common for advisors of their firm type.

### Key takeaways

- Put your focus where it matters by looking at personalization through the lens of risk management.
  PAGE 03 →
- When it comes to non-investors, advisors can take the role of an educator, working with them to better understand and get comfortable with taking risk.
  PAGE 06 →
- Advisors can benchmark themselves against their peers, who are expanding their offerings and spending the majority of their week on client-focused activities.
  PAGE 10 →
- Work smarter, not longer, by assessing your strengths and weaknesses compared to advisors of your firm type.
  PAGE 13 →

# Put your focus where it matters by looking at personalization through the lens of risk management.

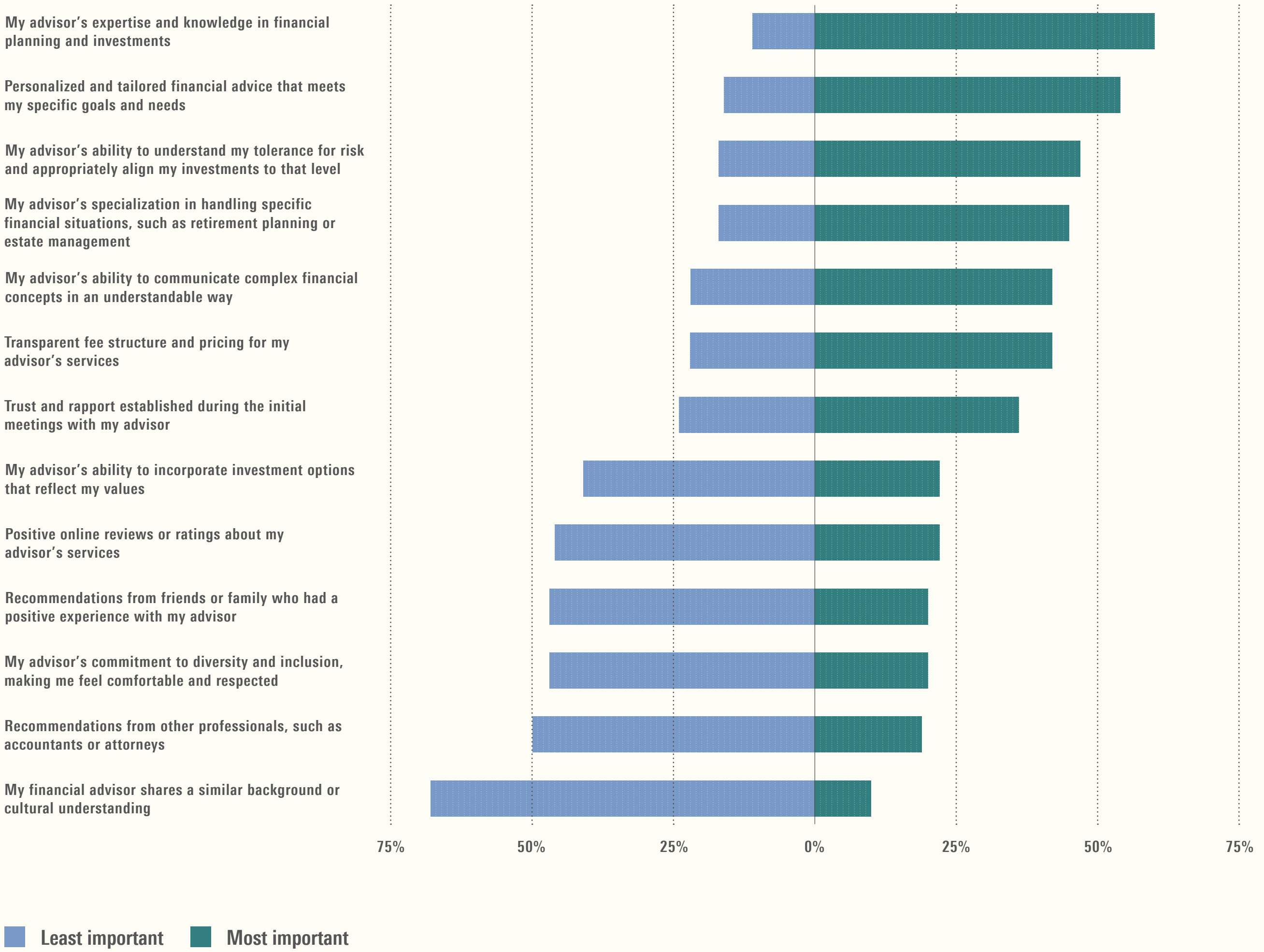
Morningstar's 2023 Risk & Diversity survey surfaced the importance of personalization across gender and race by interviewing 400 participants (100 Caucasian women, 150 women of color, and 150 men of color). We then dug deeper by asking all participants about the different factors they find important in an advisor.

The results showed that:

- Regardless of gender and race, people care deeply about personalization when it comes to working with a financial advisor.
- While all participants in the study had at least $100K in investable assets, personalization was even more important to those with $250K, suggesting personalization may become more critical as assets increase.
- Even investors who weren't currently working with an advisor and non-investors indicated that personalization would be a primary factor to get them to start working with an advisor.

3 out of the top 4 factors were specific to personalization. "My advisor's ability

**These are the qualities that respondents' value in an advisor—from most to least.**



to understand my tolerance for risk and appropriately align my investments to that level" was third, while "My advisor's specialization in handling specific financial situations, such as retirement planning or estate management," was fourth.

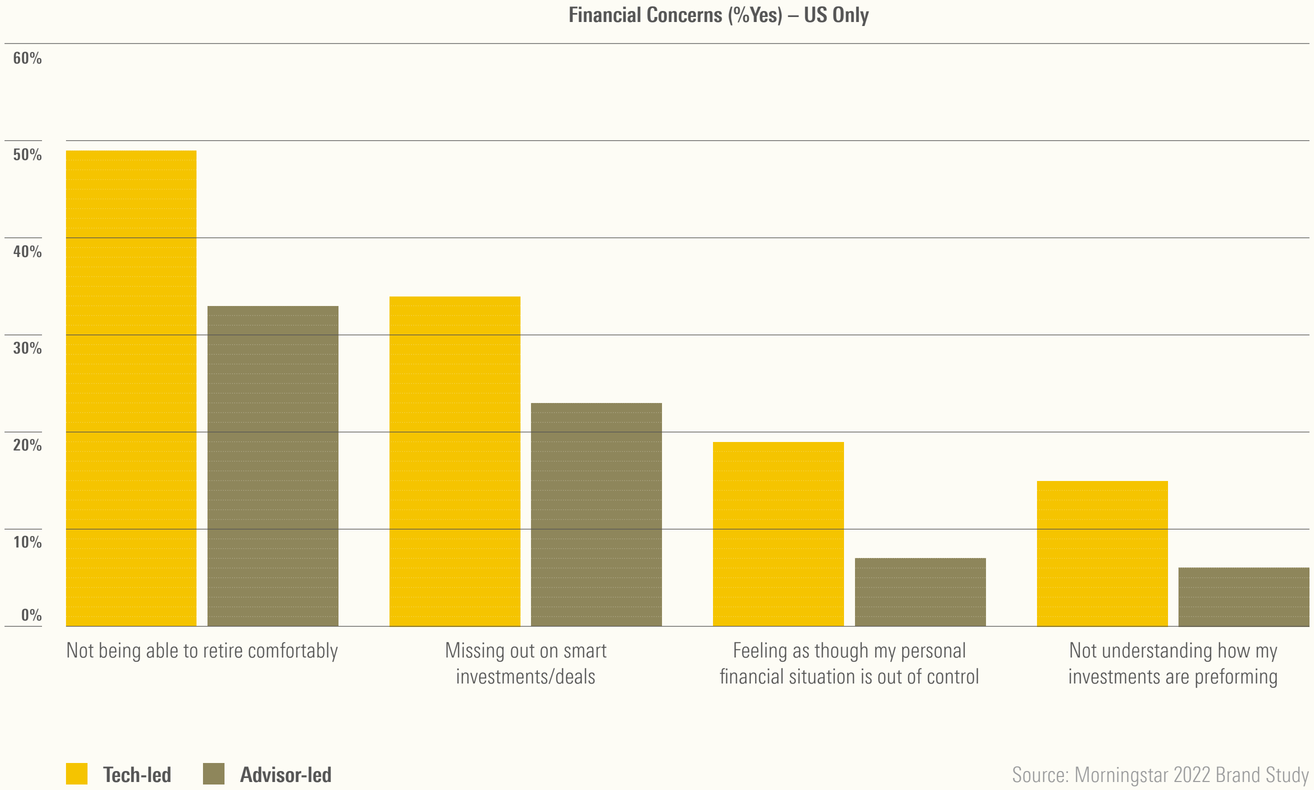
On the other hand, "My advisor's ability to incorporate investment options that reflect my values" came in seventh, "My advisor's commitment to diversity and inclusion, making me feel comfortable and respected" was in 10th place, and "My financial advisor shares a similar background or cultural understanding" came in dead last at 13th.

While every investor is different, these numbers suggest that advisors can leverage risk profiling as a gateway to further personalization by demonstrating a clear investment path to meeting their financial goals, based on their clients' risk tolerance. While values alignment, commitment to diversity and inclusion, and a shared culture all have their place in a positive advisor-client relationship, the data suggests that they're a lesser priority for investors, even in a survey pool that's mostly people of color.

Focusing on risk can also be an advantage for advisors interested in attracting DIY investors who are currently leveraging online resources rather than partnering with financial professionals. We interviewed 758 investors in 2022, and across the board, investors that work with advisors have less anxiety about their financial decisions than those who are "tech-led."

Advisors who lead with risk management as a major value proposition may make significant headway in winning the trust of this group of tech-led investors.

**Investors who leverage online resources on their own have more financial concerns than those who work with advisors.**




Source: Morningstar 2022 Brand Study



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Risk profiling, when done correctly, is an effective first step in getting to know your client. Watch our on-demand webinar to learn how the right profiling solutions can be the gateway to deeper conversations with clients, long-term value creation, and truly personalized portfolios.

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# When it comes to non-investors, advisors can take the role of an educator, working with them to better understand and get comfortable with taking risk.

Focusing on risk is an advantageous strategy for advisors looking to build relationships with current clients and win investors who don't currently work with advisors. However, the advisor's ability to elevate a person's understanding of risk management is also what makes them uniquely positioned to win business with people who currently don't invest.

Among the non-investors we surveyed, the biggest barriers to participating in the stock market were risk and lack of knowledge. Given this, advisors can highlight their capacity to provide risk management solutions and tailoring recommendations according to individual risk preferences. Embedding this value proposition within marketing initiatives and client engagement strategies can not only attract clients but also foster business growth.

**Investors who work with advisors have a stronger understanding of risk management than those who don't.**

Our survey also invited respondents to self-identify on a scale of 1–5 whether they are "risk-tolerant" or "risk-averse." From there, two distinct profiles emerged, with both groups having different barriers to investing in the stock market.

For risk-tolerant non-investors, their top three barriers to investing are:

- Lack of trust in the market as a whole (36%)
- High fees (36%)
- Time constraints (29%)

For non-investors who identify as risk-averse, their three main barriers are:

- The risk is too high (48%)
- Market volatility/economic uncertainty (38%)
- Lack of knowledge (31%)

For risk-tolerant non-investors, advisors can focus on getting to the root of their lack of trust in the market as a whole. This creates an opportunity for an educational conversation about long-term investing and goal-setting strategies that will set them at ease.

Advisors should also come to the table with a transparent fee structure as they craft their personalization approach. This group also indicated that the most important qualities

**"Risk-tolerant" and "risk-averse" respondents had different barriers to investing in the stock market.**

**Top 3: Risk-Tolerant**

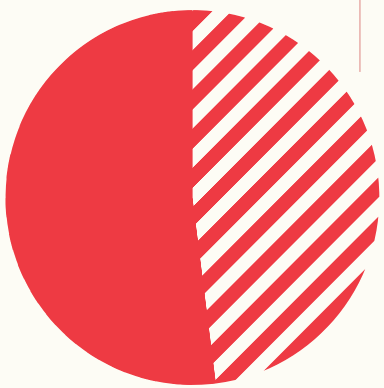
**36%**
Lack of trust in the market as a whole

**36%**
High fees

**29%**
Time constraints

**Top 3: Risk-Averse**

**48%**
The risk is too high



**38%**
Market volatility/economic uncertainty

**31%**
Lack of knowledge

in a prospective advisor include someone who understands their risk tolerance and delivers personalized advice, suggesting that these are the value propositions advisors should lead with when trying to win their business.

Advisors can anticipate that risk-averse non-investors might have questions about the benefits of investing overall, and why the risk is worth taking. They might require demonstrations on how market volatility will impact potential investments. Advisors should be prepared to perform scenario analysis and utilize reporting and visualization tools to facilitate meaningful conversations around how different situations might affect a client's portfolio.

While no potential client will fit into the binary of "risk-tolerant" and "risk-averse" perfectly, understanding these general profiles can give advisors a place to start as they work to personalize their client engagement strategies through data-based segmentation.

In practice, advisors can gain a competitive advantage with software that provides comprehensive and trustworthy risk questionnaires that can easily measure a person's risk tolerance and connect risk profiles to goals-based investment plans and portfolios.

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Morningstar's risk tolerance questionnaire has been vetted by academics and validated by over 2 million completions. Show prospects and clients how your recommendations around their allocations match up with their risk comfort so they stay invested for the long term.

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# Advisors can benchmark themselves against their peers, who are expanding their offerings and spending the majority of their week on client-focused activities.

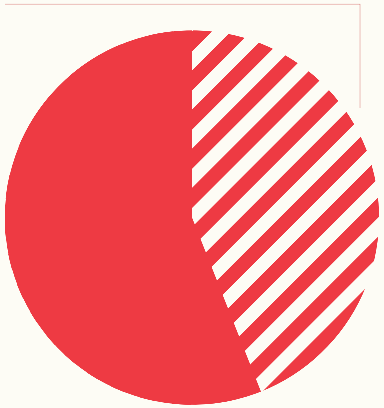
After surveying 650 advisors across firm types, we found that across the board, advisors are allocating the largest percentage of their work week to client-focused activities. If personalization is a path that is going to be highly beneficial to the client-advisor relationship, advisors can adopt solutions that streamline their investment strategy and operational/strategic work. Rather than jumping from a piecemeal collection of tools and products, advisors can invest in a one-stop shop to save time and maintain focus on the client-focused work that will actively build their businesses.

We also found that:

- *The more services advisors offer, the more services clients use.* Investors who use professional resources tend to rely on specialists for different financial needs—such as tax professionals—so advisors have an opportunity to win more of their client's business by offering more services in their practice.

**Advisors allocate more of their workweek to client-focused activities than others areas.**

| Client Focused | Investment Strategy | Operational/ Strategic |
|---|---|---|
| The ongoing and interactive relationship between the advisor and client | Gathering and analyzing relevant information to make informed decisions and provide tailored financial advice | Various strategies and activities employed to promote services, build your brand, attract potential clients, as well as deepen relationships with existing clients through traditional or digital channels |
| Focus on helping clients identify and achieve their specific life goals | Selecting suitable investments and diversifying assets—evaluating the performance, risk, tax implications, and composition of an investment portfolio | Interacting with portfolio managers, wholesalers, and portfolio strategists |
| Customizing an investment strategy to a client's goals, risk tolerance, tax optimization, and time horizon | Developing a comprehensive document that outlines investment recommendations and strategies | Interacting with your home office |
| 44% | 31% | 25% |





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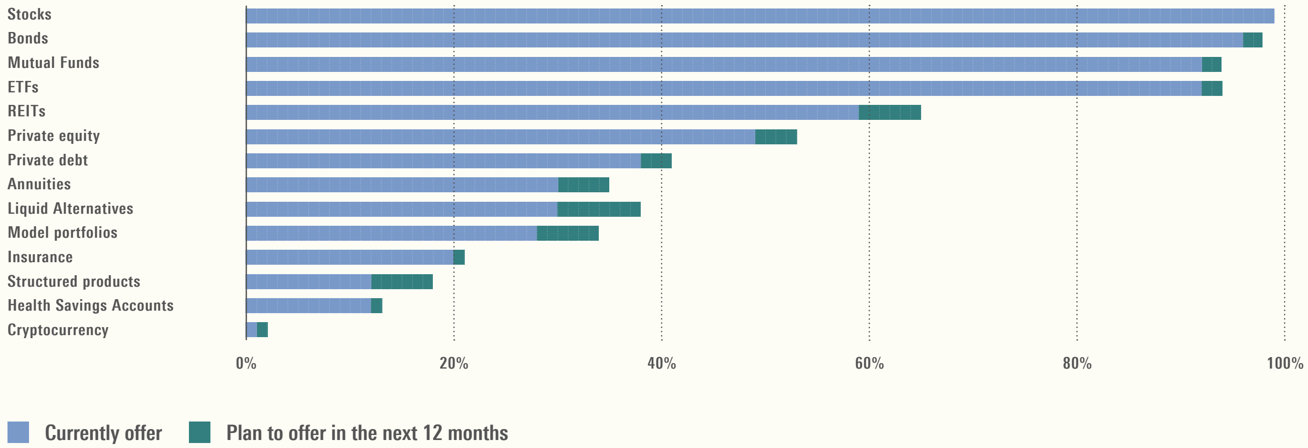
- *Personalization is creating demand for a broader product palette.* While traditional investment offerings like stocks, bonds, mutual funds, and ETFs still make up 75% of survey participants' AUM, advisors are now offering an average of 6.6 different investment types, and Wirehouse advisors are offering nine, on average. And these numbers will likely increase as 30% of advisors indicated they plan to offer at least one additional investment product type to their menu in the next 12 months.
- *Advisors continue to expand their service offerings beyond investment management and financial planning.* Additional service offerings include business planning, insurance services, and tax planning. In total, advisors offer an average of six different services to their clients. This too, is likely to expand as 27% of advisors indicated that they plan to offer at least one additional service in the next 12 months.

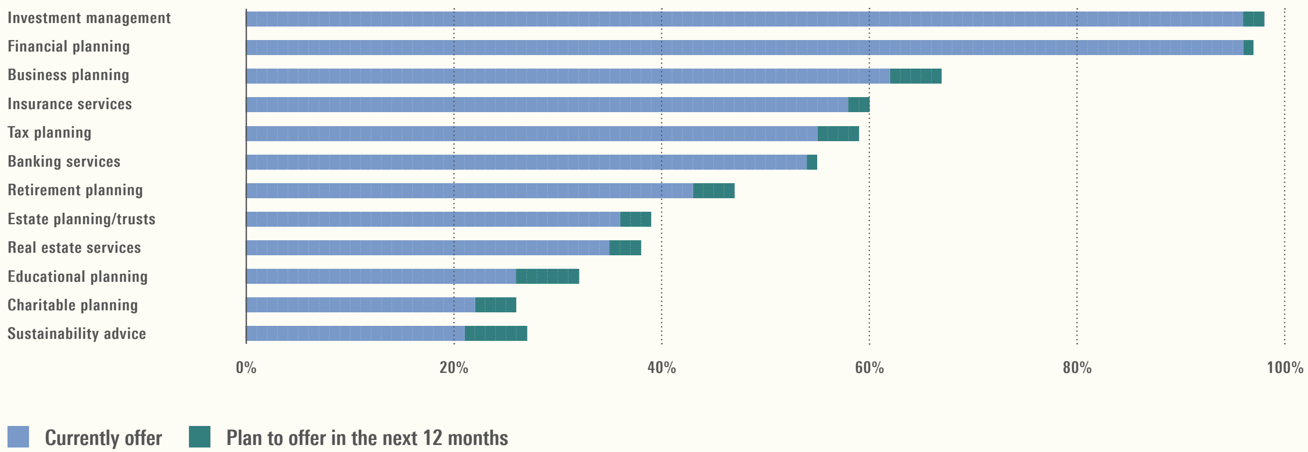
**Advisors are offering an average of 6.6 different product types, and 30% of advisors indicated they plan to offer at least one additional product type in the next 12 months.**

Products offered – now and next 12 months




**Advisors offer an average of six different services to their clients, and 27% of advisors indicated that they plan to offer at least one additional service in the next 12 months.**

Services offered – now and next 12 months



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Technology solutions can make client-focused activities more efficient and effective. In our on-demand webinar, learn how to reliably gather client profiles and preferences, then quickly design portfolios tailored to them in one tool.

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# Work smarter, not longer, by assessing your strengths and weaknesses compared to advisors of your firm type.

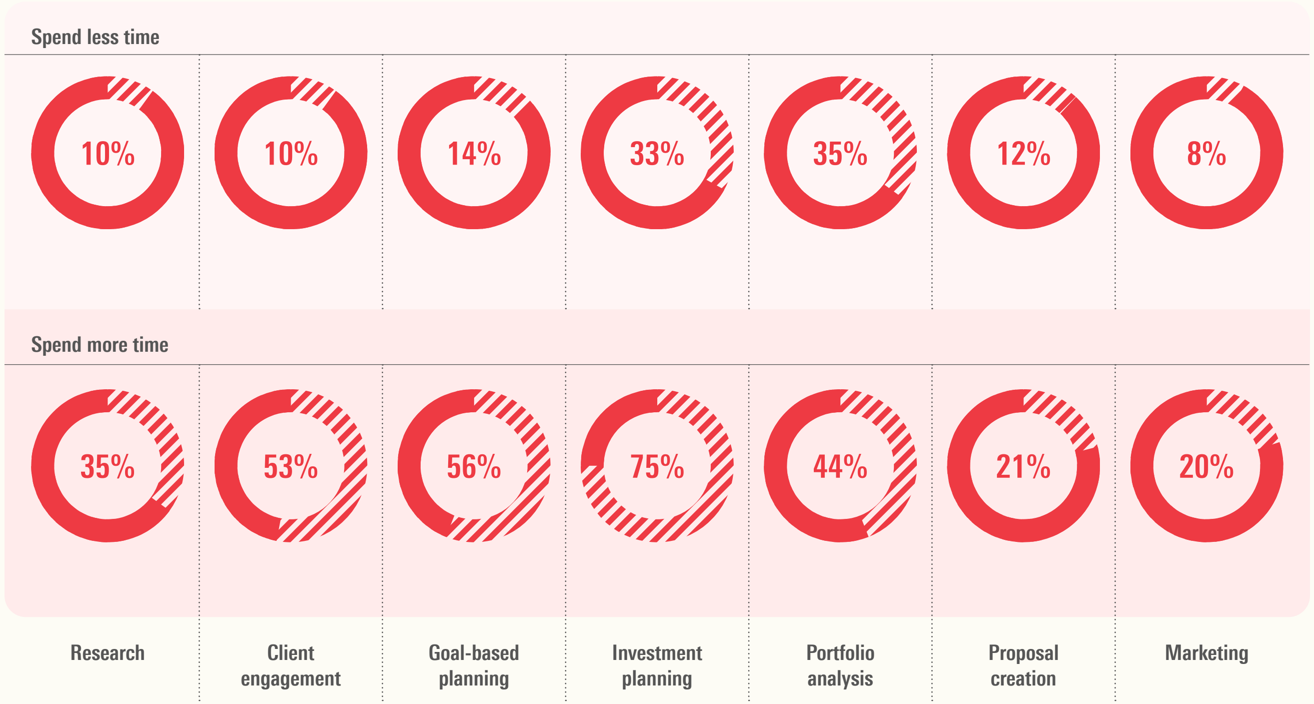
There are only so many hours in the day, and making an initial connection, nurturing relationships, and onboarding with prospects takes time. Advisors who understand where they spend their time and benchmark against their peers of the same firm type can make strategic decisions about where they should be spending more time. From there, they can adjust appropriately and leverage essential resources or partners to make that happen.

We broke down an average advisor's allocation of time by their firm type, then dug into areas where advisors indicated a need for support.

We found that overall, the more time an advisor spends in an area, the more likely they are to indicate they need help in that area.

**Advisors across firm types indicated that they need help in the areas where they spend the most time.**

% Ranked 1 or 2 where they need most help or want more info



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As advisors become more seasoned, they tend to want less help with proposal creation, and more help with client engagement. The area where advisors indicated they needed the most help overall was Investment Planning, defined as "the development of a customized investment strategy tailored to a client's financial goals, risk tolerance, tax optimization, and time horizon." But who they see as viable options to help them with Investment Planning really depends on the type of firm they work for and their tenure as an advisor.

We surveyed advisors across firm types about where they look to for support among the following options:

- Asset Management firms
- Your home office (if applicable)
- Software providers with solutions specifically designed to support and enhance the operations and services of advisory practices
- Specialists that advisors can partner with for services such as estate planning, attorney, tax/accounting

Advisors can benchmark how they spend their week and their areas of need by comparing themselves to peers at similar firms. Asset managers can discover how they might better meet the needs of today's advisors. With this self-understanding, financial professionals can retarget their operational strategies so that they are focusing on areas that will move the needle.

**As advisors gain experience, they look for support in different areas, and from different sources.**

| | Tenure | | | Firm Type | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1 to 5 years | 6 to 15 years | 16+ years | Wirehouse | National and Regional BD | Independent B/D | Registered Investment Advisor | Insurance BD | Retail Bank BD |
| **Investment Planning** | 59% 🟩 | 64% 🟪🟥🟩 | 65% 🟪🟥 | 84% 🟪🟥 | 70% 🟪 | 68% 🟩 | 54% 🟩 | 46% 🟪🟥🟩 | 62% 🟪🟥🟩 |
| **Portfolio analysis** | 37% 🟩 | 40% 🟩🟧 | 41% 🟧 | 36% 🟥 | 47% 🟥 | 38% 🟩 | 50% 🟩 | 24% | 46% 🟧 |
| **Goal-based Planning** | 37% 🟩 | 39% 🟪🟧 | 21% | 22% | 26% | 49% 🟧 | 14% | 39% 🟧 | 36% 🟪 |
| **Client engagement** | 17% | 22% | 39% 🟪🟥 | 48% 🟪 | 29% 🟥 | 17% | 32% 🟪 | 26% | 21% |
| **Proposal creation** | 24% | 12% | 12% | 8% | 10% | 12% | 16% | 23% | 13% |
| **Research** | 16% | 13% | 14% | 1% | 8% | 12% | 27% | 26% 🟪 | 10% |
| **Marketing** | 10% | 10% | 8% | 2% | 10% | 5% | 8% | 17% | 11% |

🟪 Asset Managers 🟥 Software Providers 🟩 Home Office 🟧 Specialists



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