

The evolution of Advisor's Alpha®: *People with portfolios*

Summary

- Current trends in investment advice—including regulation, fees, and technology-enabled competition—likely will continue to shape the contours of the industry and mold client satisfaction.
- As Vanguard's Advisor's Alpha research has suggested, for the typical advisor, the path to greater client satisfaction and asset growth should lead to an underappreciated destination—relationship management.
- A focus on relationship management takes time and commitment and requires advisors to streamline some aspects of financial planning or wealth management and reallocate the time saved to the clients who increasingly demand and value it.
- Ultimately, clients determine the value of advice, and, as our Advised Investor Insights™ research reveals, they clearly value and reward an advisor they highly trust with referrals and loyalty.
- To differentiate themselves from their competitors—both robo and human—advisors should embrace the fact that relationship management is not “customer service” but, rather, the crucial element of peerless financial advice.

Authors

Francis M. Kinniry Jr., CFA

Michael A. DiJoseph, CFA

Colleen M. Jaconetti, CPA, CFP®

David J. Walker, CFA

Maria C. Quinn

Forecasting the future of advice is a popular exercise. As with most efforts at prediction, while some expectations will prove more accurate than others, the majority will generally fall short of even the most forgiving standards. Such is the challenge of trying to position oneself at the forefront of change.

But challenging or not, the future of advice is too important a topic to sit idly by on without comment. Vanguard is a large and growing provider of advice services and a longtime advisor to many of our shareholder-owners.¹ The future seems to be unfolding before our eyes, and we believe we have useful insights to add.

Several drivers are shaping this future: regulation, a focus on fees and compensation charged for products and services, and technology-assisted entrants such as robo advisors in an already competitive marketplace.

While these drivers should affect the *environment* for advice in the future, ultimately, clients determine the *value* of advice. Our proprietary Advised Investor Insights research highlights opportunities for advisors to adapt to and thrive in a changing industry. These observations confirm our long-held belief (Kinniry et al., 2022) that a focus on relationship management is the most rewarding course for both advisors' and investors' prosperity. If the drivers we discuss affect the future environment as we expect, firms and their advisors will need to be very sensitive to client preferences if they wish to establish profitable models and long-lasting relationships.

Current influences, lasting impressions

Regulatory environment—global, not local, considerations

The beginning of the 21st century has not been a quiet era for the financial markets or the advice industry. Three bear markets of historic magnitudes have shaped the landscape, but it was the second one—commonly referred to as the global financial crisis—that led to the increased scrutiny our industry is still addressing.

As tempting as it may be to view U.S. regulators' emphasis on transparency and disclosure as more stringent today, our industry has always been closely regulated. Today's efforts may seem more vigorous because they are more visible—thanks in large part to our instant-news culture.

The genie is out of the bottle: Investors want to know whose interests their advisor is working for, as well as how their advisor is paid for services. Interest in this important information is unlikely to wane regardless of the regulatory outcome, and this may be one of the most important and disruptive factors affecting advisors' value proposition in the future.

¹ Vanguard is investor-owned, meaning the fund shareholders own the funds, which in turn own Vanguard.

Fees and costs—heightened transparency and awareness

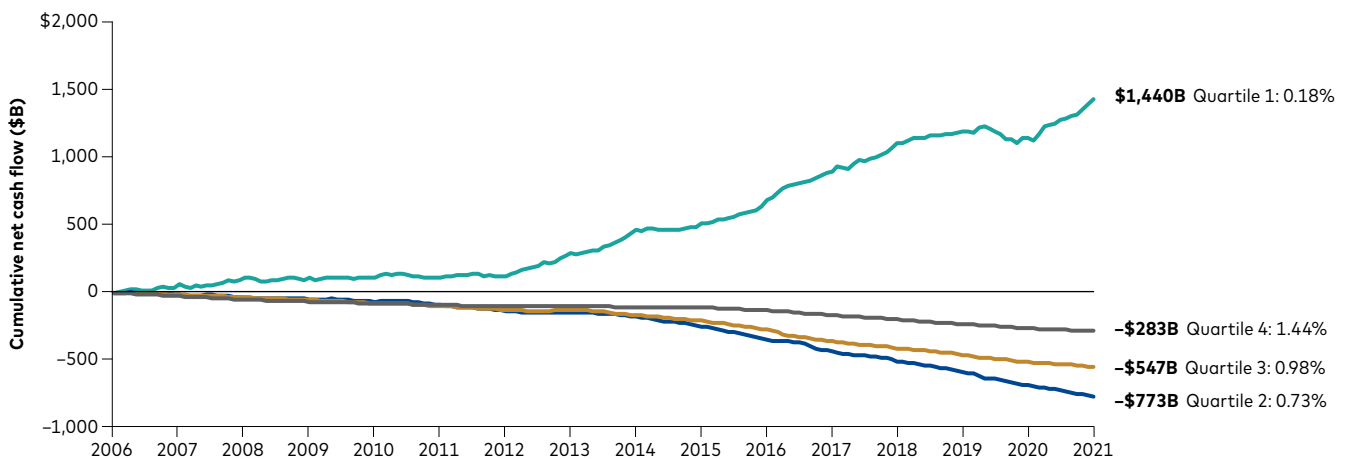
Today’s spotlight on investment fees illuminates both the costs of investment products and the fees for advice. While groundbreaking changes in advisor compensation have been spurred by regulation—Australia and the United Kingdom, for example, no longer permit fees such as sales loads, trailers, and commissions—the movement away from transaction-based advice in the United States has been both voluntary and significant. For example, in the United States, commissions that accounted for 45% of advisors’ compensation

in 2013 fell significantly to 30% as of 2021, a decline projected to continue down to 26% of revenues in 2023 (Cerulli Associates, 2021).

Fees, too, have for some time been a consideration for investors and advisors and an issue for regulators. The preference for lower-cost investment products such as mutual funds and exchange-traded funds has been a longer-term trend (see **Figure 1**).² Also, since the majority of investor assets are intermediated (Spectrem Group, 2016b), cash-flow trends and fee awareness likely reflect advisors’ recommendations rather than investors’ unaided choices.

Figure 1. Investors and advisors are choosing low-cost equity funds

Cumulative net cash flow of all U.S. equity funds and ETFs



Notes: Expense ratio quartiles were calculated annually. The 2021 asset-weighted average expense ratios for each quartile were determined by multiplying annual expense ratios by year-end assets under management and dividing by the quartile’s aggregate assets.

Sources: Vanguard calculations, using data from Morningstar, Inc., as of December 31, 2021.

² While we’ve chosen to illustrate the cash-flow trends only for U.S. equity funds and ETFs, previous research by Vanguard has shown that similar trends are evident in other asset classes, both in the United States and abroad. See *Costs Matter*, a Vanguard research paper published with versions for U.S., Canadian, and U.K. clients.

Technology




Technology will certainly be a critical underpinning for success. However, given its speed of change, rather than speculate on what improvements technology will bring to our industry, we feel it is safe to assume that improvements will come and their effects will be profound. Today's average smartphone has more computing power and capability than the best personal computers of only 25 years ago, when a fax machine and a landline phone were the go-to tools for messaging and chat.

We can, however, glean some insights from the past into how technology affects the nature of industries and jobs. Tasks that are repeatable and scalable and do not involve uniquely human creativity or critical thinking are most susceptible to automation. And that's usually a good thing. Think of the factories of the past in which employees often worked long hours doing repetitive and sometimes dangerous tasks. While many of those jobs have been automated away, others have been created to manage, design, and analyze manufacturing processes.

This technological evolution is gathering momentum and affecting industries and workers' efforts differently, according to a Vanguard analysis of Labor Department data. As noted above, basic or repetitive tasks are most vulnerable, while those that rely on the creativity and adaptability of the human mind—arguably the greatest supercomputer yet developed—might be more resilient (see **Figure 2**). In fact, these tasks are more likely to harness and benefit from technology's advances than be replaced by them.

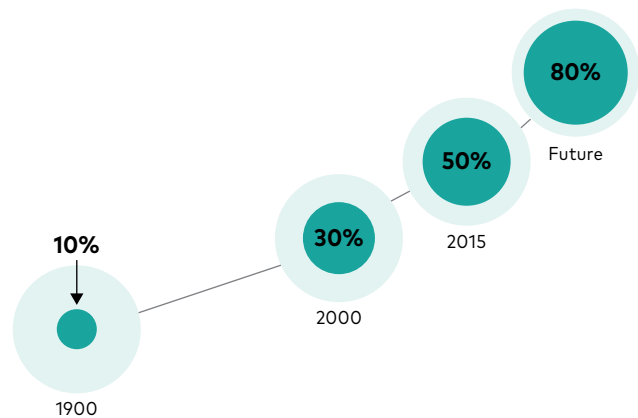
In 1900, the typical employee spent only 10% of the workday on advanced tasks such as relationship management and problem solving, with the remaining 90% spent on basic or repetitive tasks such as gathering information (see **Figure 3**). In 2000, they still spent just 30% of their time on advanced tasks. By 2015, as workers harnessed productivity-enhancing technologies, that proportion rose to 50%. This figure is sure to rise in the decades ahead.

Figure 2. Advanced skills remain uniquely human

Basic 	Growing Harvesting Digging Moving objects Recording information
Repetitive 	Inspecting Monitoring Assembling Getting information Processing information Scheduling
Advanced 	Maintaining relationships Interacting with the public Persuading outcomes Training Developing teams Applying knowledge Strategizing Thinking creatively Solving problems Assisting/caring for others Judging quality Conducting complex physical movements

Source: Vanguard.

Figure 3. The work of the future will be dominated by advanced tasks



Sources: Vanguard estimates, calculated based on data from McKinsey & Company, the U.S. Bureau of Labor Statistics, and the U.S. Department of Labor O*NET OnLine.

Financial advice has undergone the same transformation, with technology liberating advisors to devote more time to advanced tasks. While the personal digital assistants of the recent past have been obsolesced by more effective and capable software to aid with client relationship management, the architect of the client relationship—the advisor—remains. And, while there is nothing physically dangerous about, say, manually rebalancing a portfolio, a technological surrogate to help with the task allows advisors to allocate their time elsewhere. It is easy to view technology as a threat, but it does not have to be, nor can advisors ignore it and risk going the way of Blockbuster.³ Advisors who embrace technology and adapt to the new environment can choose to be Netflix instead.

Vanguard, through its Advisor’s Alpha work, has been urging advisors for many years now to redefine their value proposition away from solely managing their clients’ portfolios. That message is even more important today. Take a look at **Figure 4**, from Vanguard’s framework for quantifying the value of advice (Kinniry et al., 2022). One could argue that six of the seven common opportunities to add value are now automated in some fashion, with the exception of behavioral coaching.

People rely on past performance or expert testimonials to aid in making many key decisions. The past-performance heuristic may serve us well in many aspects of our lives—such as choosing a restaurant, car, or even a surgeon—but it is a generally unproductive way to choose investments. Changing this ingrained decision-making process and behavior is difficult but can provide a valuable opportunity to both educate clients and potentially improve their portfolio investment results. This is one reason we believe that human advisors and behavioral coaching will not be obsolesced by technology.

Figure 4. A menu of value-added services

Vanguard Advisor’s Alpha strategy

- 1** Suitable asset allocation using broadly diversified funds/ETFs
- 2** Cost-effective implementation (expense ratios)
- 3** Rebalancing
- 4** Asset location
- 5** Spending strategy (withdrawal order)
- 6** Total-return versus income investing
- 7** Behavioral coaching

Source: Kinniry et al., 2022.

We are fairly certain that technology will not soon be building deep, trusting relationships, and this insight establishes the foundation for valuable behavioral client-coaching efforts. We do not know for sure how it will happen or what particular software or company will drive the transition, but technology will reduce the time an advisor spends not just on routine administrative tasks but also on much of what advisors have traditionally defined their value propositions around. Whether it means embracing an existing robo-advisor platform, firm-level software, or even a simple spreadsheet, advisors should expect technology to become more pervasive. The only thing we know with absolute confidence is that, just like smartphones a decade ago, technology will exist in the not-so-distant future that we cannot even imagine today.

³ Blockbuster was a chain of American-based home movie and videogame rental stores that famously failed to adapt to the threat from video streaming on-demand services and was forced to file for bankruptcy in 2010.

A look ahead: The evolution of advisory offerings

The drivers we just discussed should lead to offerings that are more transparent about both costs and the degree of fiduciary obligation, as well as to a broader range of choices for accessing advice. From fully digital to full service, the future will bring a wide range of services to people in a cost-effective manner. We illustrate this breadth of offerings in what we think of as the *efficient frontier for advice services* (see **Figure 5**).

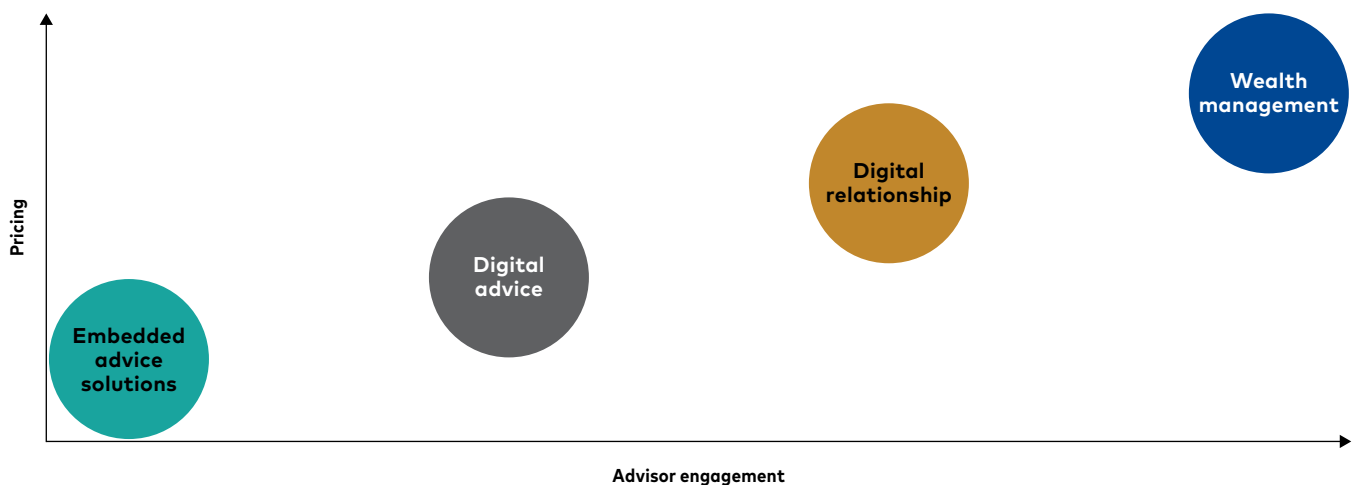
We provide this illustration to help frame the discussion about potential advisory services, not to suggest that they are limited to these four models. In fact, in the future, we expect that advisory firms and teams will likely offer a combination of models to accommodate a greater range of client preferences for services and fees. Some, however, may choose to specialize in just one model. And, as we discuss later, it is very possible that fees for advice will decline (though margins may be preserved) while demand increases. This makes it imperative for advisors and advisory firms to consider the opportunities and implications of

lower-price, lower-advisor-engagement-oriented services. As long as services and pricing are appropriately aligned, opportunities exist for firms willing to pursue them.

The frontier for advisory offerings is framed by two critical considerations: the level of engagement by the advisor(s) and the price of the service or product provided. While the pricing component is fairly straightforward, the concept of engagement requires some explanation.

In our view, advice need not be delivered by an advisor but might be defined as an *embedded advice solution*, an investment philosophy within a product or service. A target-date fund is one example. A firm or advisor might be involved in the construction, management, or selection of the target-date fund/product but thereafter have little or no involvement until the client's preference or circumstance changes. Because of the vast efficiencies of this "one-to-many" service offering, the lower relative price should be commensurate with the lower expected engagement, resulting in modest, yet profitable, opportunities.

Figure 5. The efficient frontier for advice services



Source: Vanguard.

We think of digital advice as an offering involving a modest degree of personal (yet not necessarily face-to-face) engagement. Robo-advice services provided by a variety of companies are an obvious example of this model. Delivering a standard array of financial advice—asset allocation, rebalancing, and portfolio construction services—for a very low fee has, in the opinion of some, begun the process of efficiently scaling many of the foundational tools of financial planning. Similarly to embedded advice, digital advice offers the opportunity to provide many aspects of financial planning with low (human) engagement while being priced lower than traditional services.

A digital relationship might be thought of as a hybrid advice model, involving active engagement by an advice professional and relying heavily on technology for communications with clients and portfolio management. It also relies on a client's acceptance of and/or preference for face-to-face communications via electronic meetings or videoconferences rather than the traditional person-to-person meeting. Again, more dedicated time from an advice professional should justify a higher service fee, but higher costs and time limitations may make the profit margins less attractive than they might seem at first glance. Achieving the right price/engagement balance is imperative.

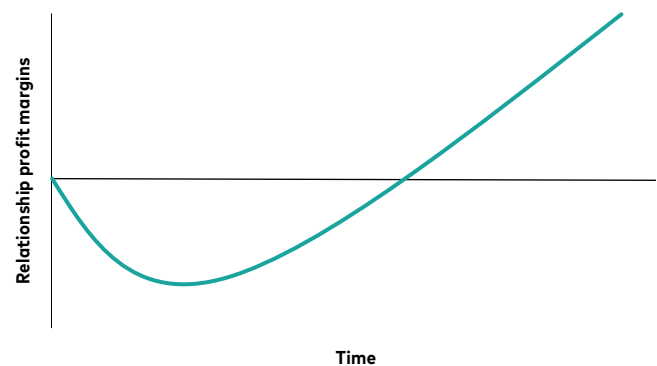
Finally, wealth management is most similar to today's traditional full-service advice model, encompassing not only asset management and basic financial planning but also tax, estate, insurance, and other specialized services. This is an admittedly broad categorization that might include everything from a wirehouse team or

financial planning firm to a family office, with diverse fee levels and services provided. Even here, wealth managers should embrace technology to gain the efficiencies needed to provide more time for higher-value, less scalable activities. Because of the relative lack of scalability in this high-engagement service model, wealth management generally corresponds to the highest prices.

The goal in all of these models is to cultivate long-term relationships that can help clients meet their goals and help advisors build successful practices. The key difference is the advisor's level of engagement and thus the cost to serve.

In the first years of a client relationship, as shown in the J-curve in **Figure 6**, the high costs of onboarding can make a client unprofitable. If price and engagement are properly calibrated, however, an advisor soon recoups the costs and generates attractive profit margins. The longer a client's tenure, the more profitable the relationship becomes.

Figure 6. The keys to profitability are time and retention



Source: Vanguard.

A look ahead: The evolution of the advisory practice

The efficient frontier for advice can help serve as a framework for evaluating some of the challenges of building advisory practices to compete for investor relationships in the future. First, should advisors offer all, some, or just one of the wide variety of possible models? Second, how might an advisor think about fees and operating efficiencies? And finally, what might be done to help free up the time an advisor needs to deliver a truly personal client experience?

The advice models in Figure 5 tend to appeal to clients in some generalized circumstances. Younger investors just beginning to build wealth tend to favor the offerings toward the left on our advice frontier, while clients with more assets and more complicated financial circumstances tend to favor the right. But a fairly large and less easily defined cohort is finding the middle of the frontier appealing, too. These moderate-engagement models—which benefit strongly from technological improvements that streamline client onboarding, financial plan creation, portfolio construction, and ongoing portfolio management—are an attractive opportunity area.

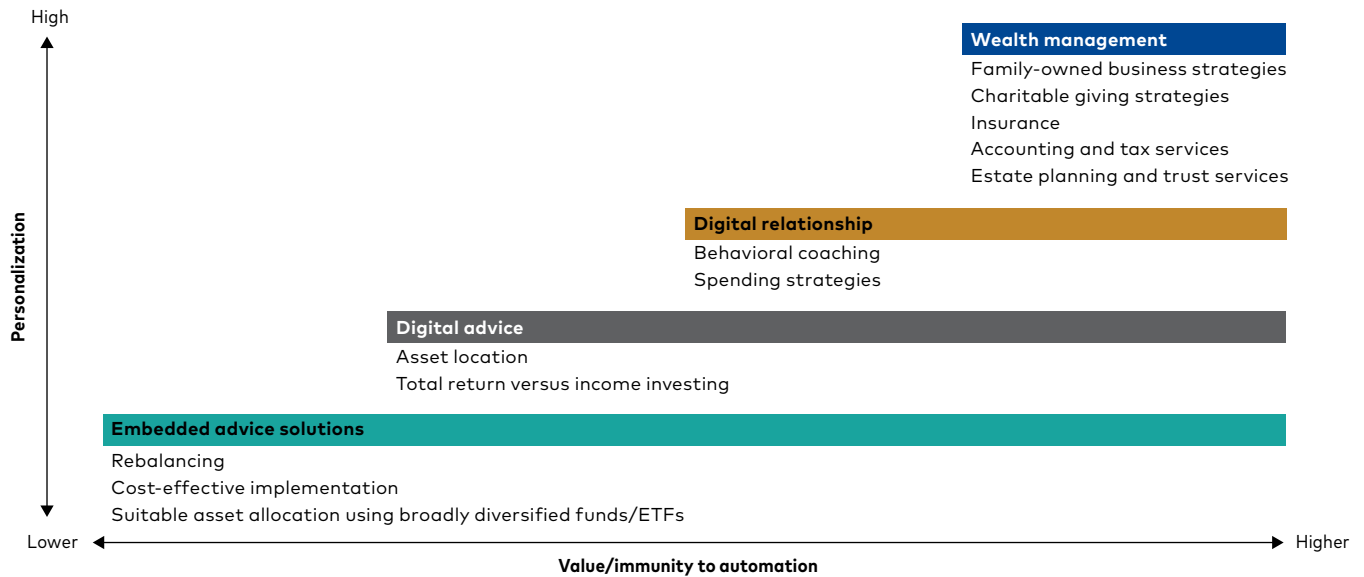
Traditionally, advisory practices have tended to favor wealth management practice models, preferring the higher fees and greater opportunities for value-added services associated with wealthier clients. In many ways this makes sense, as the efficient frontier closely follows the opportunities for advisors to add value outlined in Figure 4.

Building cost-effective portfolios and rebalancing them tends to provide a lower relative value opportunity and might align best with the embedded or digital advice models. Higher-added-value services, such as customized retirement income strategies and behavioral coaching, will probably be most effective when there is greater advisor engagement (as in the digital relationship or wealth management models) and should be less prone to technology-enabled advice substitution.

Other opportunities unique to the client's circumstance may correlate positively with wealth. Estate, tax, and charitable planning, as well as business succession/sale planning, are some of the areas where advisors could apply more specialized skills and provide a differentiated degree of value. Pricing advice services relative to potential value-added opportunities and advisor engagement should be an important consideration.

Providing a greater variety of models enables an advisor to best satisfy the preferences of the investors who are likely to become a firm's wealth management clients of the future. Otherwise, by the time a client builds enough wealth to become a more ideal wealth management prospect, they may already have built a relationship with a competitor. **Figure 7** looks at these considerations from a different perspective. While technology may create opportunities to deliver advice more broadly and inexpensively, the increased personalization that some wealth management requires means the advice is more immune to automation.

Figure 7. Not all advice can be automated



Source: Vanguard.

While broadening advice models may be more of an option for an advisory firm than for an advisor working for a firm, advisors may be able to tailor their practice to provide greater flexibility. For example, advisory teams are common and the benefits are obvious: They can add diverse skills to facilitate a broader range of services as well as more time to accommodate a larger number of clients. That is one reason why we expect advisory teams to dominate in the future. They also provide the opportunity to add more diverse personalities. This is an often overlooked aspect of team-building but one that helps achieve a good fit for a client—often an important step in relationship- and trust-building. And larger, more diverse teams enable more comprehensive succession planning, benefiting teams and firms alike.

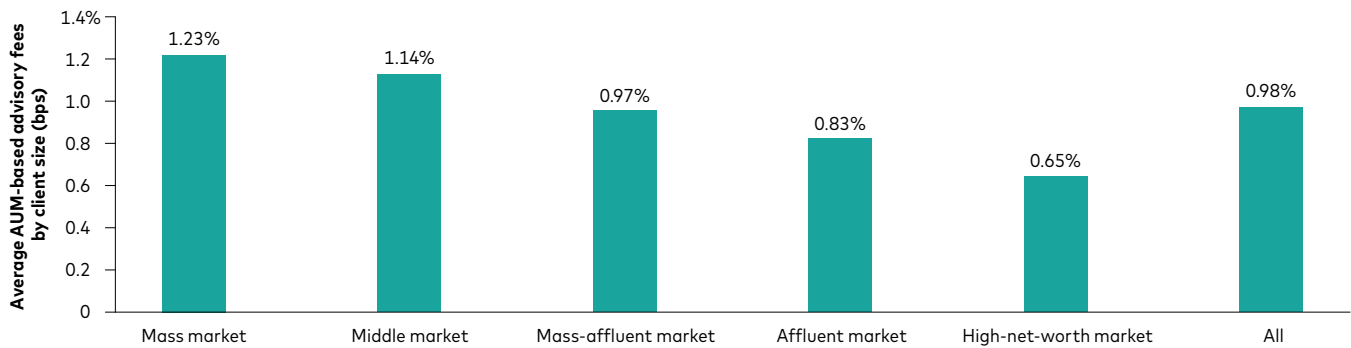
The rapid expansion of investment products and strategy offerings has contributed to the choice overload that has led many investors to seek help

from advisors. However, choosing an advisor can be a challenge unto itself, as the variety of offerings and fee differentials makes the value proposition more difficult than ever.

By our estimation, the average annual fee paid to advisors is 0.98% (see **Figure 8**).⁴ Does that mean that a firm offering advice for 0.5% is a better value? Not necessarily, as value is very subjective and reflects not only the cost but also the quality of the service. This is why investors shouldn't focus only on choices that charge the least or offer the most advice and planning services. They should focus on both and balance each of these considerations with their unique circumstances. And it is incumbent upon advisors to clearly communicate their value, which can be considerable over the course of a relationship and yet may not be made explicit by a client's performance statement.

⁴ This figure is asset-weighted to better reflect the "average fee" paid per dollar for advice.

Figure 8. Fee compression is a reality



Notes: Advisory fees are reported by account size rather than core market. For calculation purposes, we matched each core market to the closest account size. Mass market is \$100,000; middle market is \$300,000; mass affluent market is the average of \$750,000 and \$1.5 million; affluent market is the average of \$1.5 million and \$5 million; high-net-worth market is \$10 million.

Sources: Vanguard calculations, using data from Cerulli Associates as of December 31, 2021.

That said, the future is likely to be shaped by a lower advisory fee world. The environment will likely be one of “doing more for less.” This is common for a maturing business. It may be fitting that the industry responsible for providing some of the catalysts for efficiencies and lower advisory fees is one of the best examples of doing more for less—technology. Today’s personal computers are far more powerful and inexpensive than those of only a decade or two ago and so, too, are their components. Companies, regardless of their industry, need to adapt and evolve or face extinction. Darwinism is a powerful force in capitalism.

In our view, if advisory fees decline, then operational efficiencies and scale become more important, as does client retention. While fee compression seems to be the principal concern in our industry, cost compression should be the solution. Streamlining operational tasks such as onboarding clients, as well as some portfolio tasks (such as rebalancing), frees advisors and their teams to provide other, more highly valued services and client touchpoints using the advanced skills shown in Figure 2.

While technology will be the most likely catalyst for change in streamlining these efforts, an effective use of a team’s personnel may be a more appropriate, productive, and immediate solution. For example, the typical advisory team comprises a variety of skills and experience levels. Taking a

page from the triage model used in medicine, while one professional may determine that a patient needs surgery, another may perform the surgery. If the circumstance requires an even more specialized degree of experience and skill, a specialist surgeon may perform the procedure. In the financial advisory business, this same triage might enable one professional to conduct client onboarding and initial assessment, another to prepare the financial plan, and a third to help with insurance, estate, or tax planning.

Less experienced advisors are often tasked with helping clients with smaller assets and less complicated needs. This work may be more effective and scalable when paired with digital relationship or advice models. Typically, these clients are early in their investing efforts, have more straightforward needs such as increasing contribution levels or reducing debt, and can benefit from the behavioral coaching an advisor can provide.

Many firms or investment platforms provide a wide variety of model portfolio solutions, so it is easier than ever to match a portfolio with a client’s objectives in a personal yet efficient manner. The benefits are clear: Less wealthy or younger clients who are often underserved gain the investment and behavioral coaching they want, while younger advisors gain experience and add value by building relationships with clients who might otherwise escape the attention of the team.

A look ahead: The evolution of the advisor

The investment advice industry has evolved in many ways, perhaps none more significant than the transition from a commission-based to an asset-based fee structure. The fact that such a large portion of the industry has voluntarily embraced fee-based compensation is encouraging. As a result, asset gathering and retention, rather than transactions, should be the focal point for a successful practice, as the advisor's upfront investment of time in the client relationship takes a longer time to recoup than with the commission-based model. Improvement here depends largely on a focus on relationship management—particularly the level of trust a client has in the advisor—rather than portfolio management.

This is in no way meant to denigrate the investment knowledge and experience that an advisor can provide. In fact, it is a recognition of the value of those skills when they're applied where they can make the greatest difference: to client relationships. Advisors can guide their clients to improve their investment outcomes by helping them better understand an all-too-common reality: Investment "failure" results more often from not keeping pace with the returns of asset-class beta than from not successfully capturing alpha. The paradox of skill and the zero-sum game illustrates how difficult it is to successfully deliver excess returns, meaning that a value proposition based on investment outperformance has a reasonably high probability

of resulting in disappointed clients. By applying their knowledge and experience to relationship-oriented efforts such as behavioral coaching, advisors improve the probability of satisfying clients.

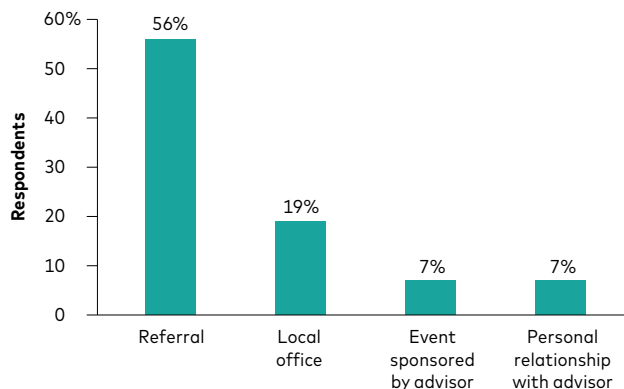
It is tempting to equate relationship management with customer service. While the association is partially correct, it is an incomplete picture of the service and the scale of the benefit if done well. *Relationship management is business development.*

Our Advised Investor Insights can help illustrate this. Nearly 4,000 individual investors were surveyed, and, when asked how they found their current advisor, the majority said they were referred (see **Figure 9a**). This response is not likely to be a surprise, as the importance of referrals in building a practice is well-recognized. In fact, increasing the number of referrals is a top priority for many advisors. However, the magnitude of difference between finding an advisor through a referral and finding one through other common means (as shown in Figure 9a) is quite significant.

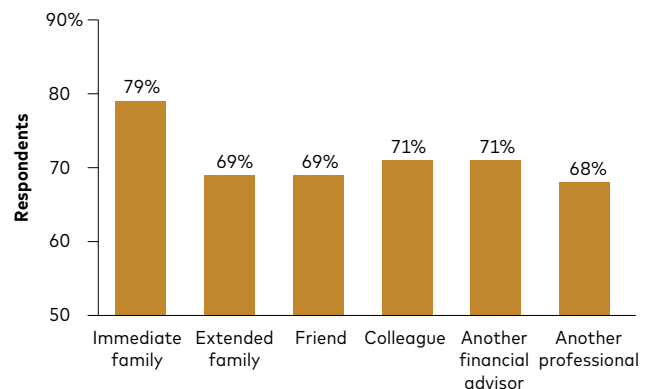
Often, the solution to this issue focuses on improving the sources of referrals, or centers of influence. As shown in **Figure 9b**, with the possible exception of a referral from an immediate family member, the source of the referral is less important to investors than the fact that they were referred in the first place. *An average of 78% of respondents in our survey reported that they selected the advisor they had been referred to.*

Figure 9. Relationship management is business development

a. How current advisor was found



b. Likelihood of selecting an advisor based on referral source



Sources: Vanguard and Chadwick Martin Bailey, as of December 2016.

Given the very high conversion rate of referrals into clients, what should advisors focus on to increase their chances of gaining a referral? In a word, trust. Respondents in our research indicated that, when they highly trusted their advisor, they were “extremely likely or likely” to refer them to others (see **Figure 10a**). This may not seem like a groundbreaking conclusion, but again, the magnitude of the differential is notable: Clients who highly trust their advisors are more than twice as likely to refer them as those who have more modest levels of trust. To maximize the chance of being referred by clients and, just as critically, to retain the clients they already have (see **Figure 10b**), advisors need to achieve a very high level of trust, and that is likely to require both time and attention.

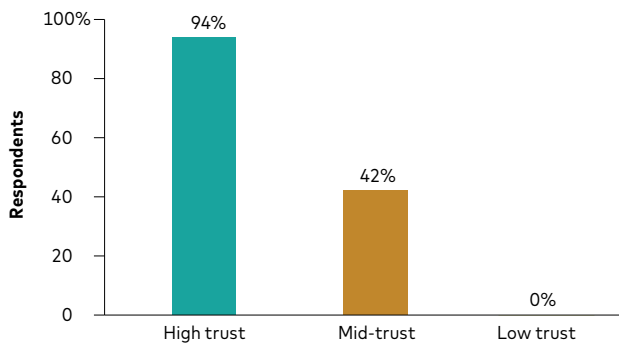
What can advisors do to increase the levels of client trust? Unfortunately, there is no simple answer: Client relationships are complicated, and what succeeds with one may not work as well with others.

Our research suggests that higher levels of trust are associated with longer-term client relationships, which makes sense. But what can advisors do to help retain clients long enough to attain them?

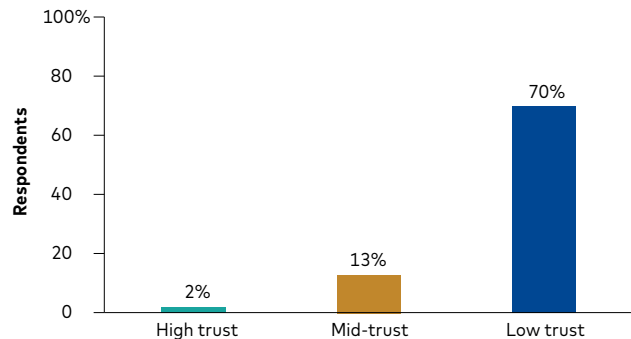
Perhaps a better understanding of the components of trust can help. “Trust” means different things to different people (see **Figure 11**). An ethical framework (in which clients believe advisors are “acting in my best interests”) or a functional framework (in which clients believe their advisors “do what they say they will do”) are often the first definitions that come to mind. But the emotional component (peace of mind) is often underappreciated. Its impact is clear, based on our Advised Investor Insights data—53% of respondents listed it as the most important component of trust in their advisory relationship. And certain emotions lead to both higher levels of trust and quicker attainment of it. To drive this, advisors should make sure that clients feel valued, that they are respected, and that their objectives and feelings are understood.

Figure 10. Trust motivates referrals and drives asset retention

a. Extremely likely or likely to offer referral



b. Extremely likely or likely to switch advisors



Sources: Vanguard and Chadwick Martin Bailey, as of December 2016.

Figure 11. The components of trust



Source: Vanguard.

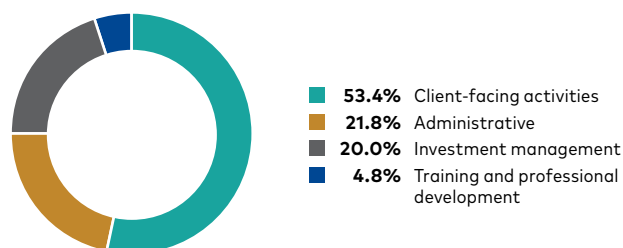
Care should be taken not only with *what* is said but also *how* it is said if advisors want to send the right message. To help convey to clients that they are valued, advisors should make clear that they are extremely conscious of what clients value most. For example, asking, "How are Judy and Jimmy?" says something entirely different about your familiarity with a client's family than simply asking, "How are the kids?" Many clients' greatest treasure is their family. Similarly, saying that you speak *with* clients rather than *to* them may send the message that you will work with them as a respected partner rather than as a novice. Little nuances can make a large impression and speak volumes.

Generally speaking, trust must be nurtured opportunity by opportunity, and that takes time. For the typical advisor, however, time is in short supply but high demand. The level of expected engagement that we discussed earlier is an important consideration, as it directly affects the time an advisor has available for clients. This, in turn, affects the total number of clients an advisor can take care of effectively.

So how might the average advisor free up more time for clients? The good news is that advisors already seem to spend most of their time engaged with their clients (see **Figure 12**). However, a meaningful amount of time is still spent on efforts that might be handled effectively—possibly *more* effectively—by other means. For example, fully one-fifth of advisors' time is spent on administrative tasks, defined in a survey by research firm Cerulli Associates as office administration, management, and operations, as well as compliance and other similar tasks. That's about eight hours out of a 40-hour workweek. While it's unreasonable to expect that advisors can divorce themselves from all administrative tasks, is it unreasonable to expect that a prudent use of time, staffing, and perhaps technology might help recapture half of that time? How many client or prospect connections could be made with four additional hours each week?

Figure 12. Time is an asset to be invested

Advisor time allocation by activity



Source: Cerulli Associates, U.S. Advisor Metrics 2021.

While advisors should not divest themselves of all investment management responsibilities, they may have some good alternatives to building and maintaining client portfolios security by security. Here again, technology may be useful, but a simpler answer may be a change in investment philosophy. Today, many firms and platforms provide managed solutions that warrant consideration, such as ETF model portfolios and separately managed accounts. Managed solutions exist to fit most investment strategies and, as a result, should not be viewed as impersonal, generic portfolios (as they too often are) as long as the advisor matches the solution to the client's circumstances.

Advisors in the Cerulli survey reported that they spend nearly 10% (included under investment management in Figure 12) of their time on research and due diligence. That's nearly another four hours a week. If they combine those time savings with the time saved on administrative tasks, several dozen more value-added client opportunities each month should be possible.

Cultivating—and preserving—client trust

Our Advised Investor Insights indicate that “being the client’s advocate” and “acting in the client’s best interest” are the most important drivers of trust. Clients most often lose trust in their advisors because they “did not pay enough attention to me or my portfolio.”

These survey responses suggest possible strategies for cultivating—and preserving—client trust.

Be the client’s ally and advocate: When evaluating investments, many clients rely on a mental heuristic that works well in other purchase decisions: past performance. In investing, however, past performance is an unreliable guide to the future. Skillful coaching and communication can help clients adopt a more productive approach.

Some tactics:

- Reframe the investment objective as meeting long-term goals, not exceeding an arbitrary performance target.
- Educate as an ally. Acknowledge that both you and the client are subject to the same behavioral biases and stimuli that can lead to counterproductive behavior. Explain how research and experience have taught you that a focus on goals, rather than performance, is the basis for a successful plan (see Kinniry et al., 2016).

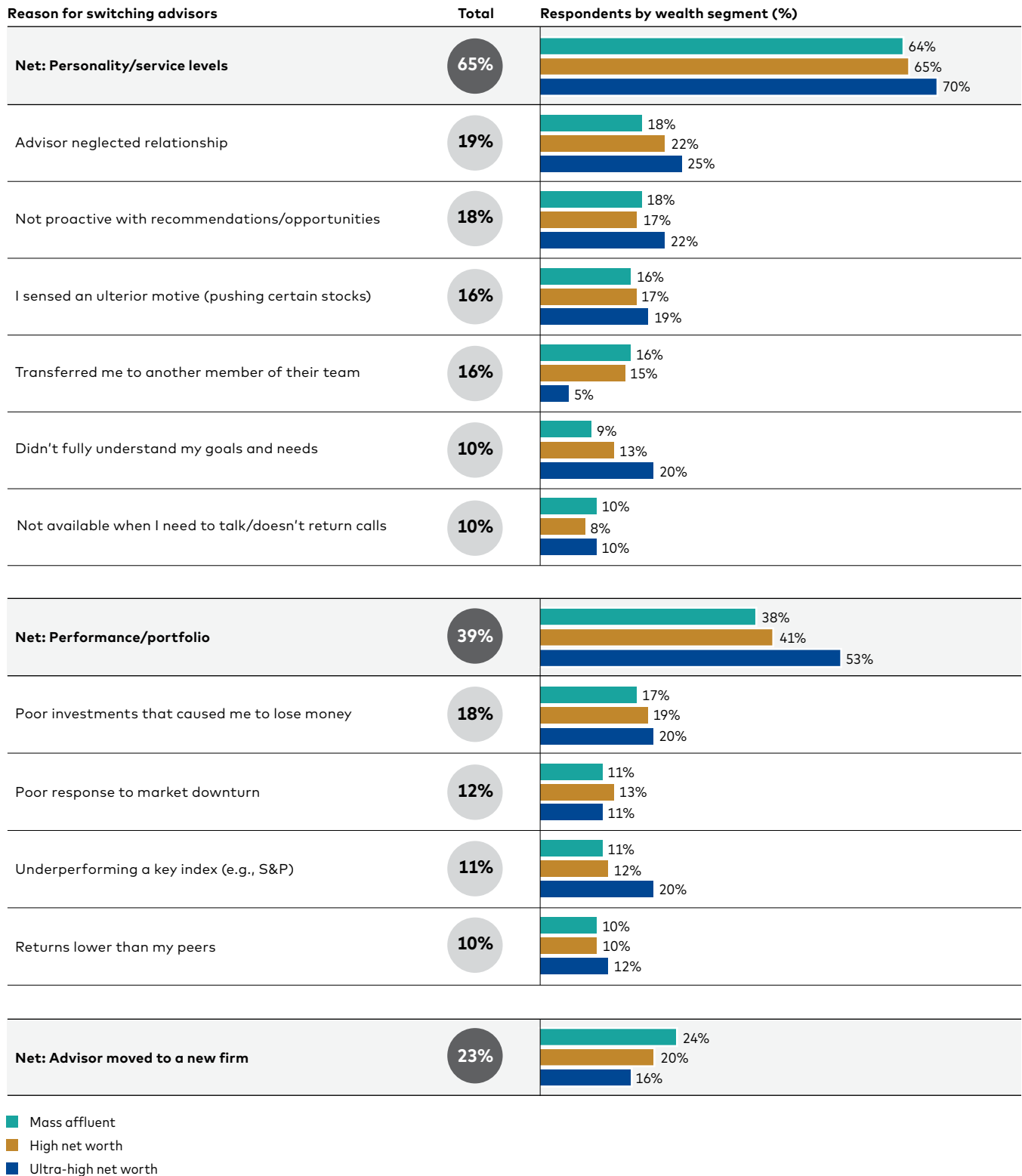
Act in the client’s best interest: An understanding of clients’ costs and profitability may suggest novel ways to demonstrate commitment to their interest. Long-tenured clients, for example, are generally the most profitable. If a firm has the flexibility to offer one, a longevity discount can serve as an incentive to remain in the relationship and a demonstration of the alignment between client and advisor interests.

Time is a finite resource, an asset to be invested, not spent. It should not be considered casually: Clients across various wealth cohorts have indicated that a primary reason they switched advisors was the perceived lack of time and attention they received (see **Figure 13**). Clients are asking for more of their advisors’ time, not less.

As Figure 13 also illustrates, while clients do not ignore performance, it may not be as significant a factor in retention as many advisors believe. It is understandable that, after investing so much time in themselves as investment professionals, many advisors believe this to be the source of their value-add. However, we believe that advisors’ value propositions should be based foremost on their relationship-management capabilities, which are too often underappreciated (Kinniry et al., 2022). Much of an advisor’s investment knowledge is based on experience and judgment, valuable resources for decision-making as well as behavioral coaching. Reallocating time from portfolio construction-related tasks to relationship management seems to be a very prudent investment indeed.

The conclusions from Figure 13 may contrast sharply with the perceptions of advisors, who reported that performance was very often the factor that motivated clients to move to another advisor (Vanguard, 2016). We believe the majority of advisors want to serve the interests of their clients to the best of their ability. However, this disconnect between perception and reality—clients prioritizing relationship management over portfolio management—creates an unprosperous circle: The more time advisors spend on portfolio- or performance-related tasks, the less time they have for client relationships, which suffer as clients feel neglected.

Figure 13. Clients are evaluating their advisor's performance more than their portfolio's



Sources: Vanguard and Chadwick Martin Bailey, as of December 2016.

Conclusion

Changes to the advice industry in the future are inevitable. The forces spurring them—regulations, fees, and technology—should benefit both advisors and their clients rather than result in an Orwellian dystopia. Regulatory efforts to clearly define an advisor's level of responsibility for a client's best interests should increase investor confidence and perhaps encourage many more investors to seek advice. While attention to fee transparency and investment costs may result in fee compression, the efficiencies and benefits of cost compression and time management should allow firms to remain competitive and profitable. The trend toward technologically enabled advice is both friend and foe, bringing an increased opportunity for firms to profitably serve a larger number of clients and deliver Advisor's Alpha even as it brings to the market potentially more competition.

Ultimately, clients decide the value of advice, and, as our Advised Investor Insights research reveals, they clearly value and reward an advisor they highly trust. To establish this level of trust takes time and a concerted effort, and time is a limited resource. However, advisors have a number of tools and strategies to better use what time they have: They can use technology-enabled efficiencies to streamline client onboarding, portfolio construction, and ongoing management; form advisory teams to capitalize on the diverse skills and increased capacity to serve clients well; and use every contact with clients as an opportunity to make them feel valued, respected, and cared for.

Advisors must judge for themselves the best use of their limited time, but the profits from allocating more time to their client relationships may be unsurpassed by other efforts.

As illustrated by our Advisor's Alpha flywheel (see **Figure 14**), the industry evolution that we've described creates a virtuous circle, benefiting both clients and advisors. With this outcome in mind, who could be so pessimistic as to believe that the future for the advice industry is not a bright one?

Figure 14. Vanguard Advisor's Alpha flywheel



Source: Vanguard.

References

- Bennyhoff, Donald G., and David J. Walker, 2016. *Investors Are 'Voting With Their Feet' on Costs*. Valley Forge, Pa.: The Vanguard Group.
- Bennyhoff, Donald G., and Colleen M. Jaconetti, 2016. *Required or Desired Returns? That Is the Question*. Valley Forge, Pa.: The Vanguard Group.
- Bennyhoff, Donald G., and Francis M. Kinniry Jr., 2016. *Vanguard Advisor's Alpha*.[®] Valley Forge, Pa.: The Vanguard Group.
- Cerulli Associates, 2015. *The Cerulli Report: U.S. Advisor Metrics 2015: Anticipating the Advisor Landscape in 2020*. Boston, Mass.: Cerulli Associates.
- Cerulli Associates, 2016a. *The Cerulli Edge, Managed Accounts Edition: Retirement Regulation*, third quarter. Boston, Mass.: Cerulli Associates.
- Cerulli Associates, 2016b. *The Cerulli Edge, Advisor Edition: Bank Wealth Management*, third quarter. Boston, Mass.: Cerulli Associates.
- Cerulli Associates, 2021. *The Cerulli Report: U.S. Advisor Metrics 2021: Client Acquisition in the Digital Age*. Boston, Mass.: Cerulli Associates.
- CFA Institute, 2016. *From Trust to Loyalty: A Global Survey of What Investors Want*. Charlottesville, Va.: CFA Institute.
- Davis, Joseph, Roger A. Aliaga-Díaz, Peter Westaway, Qian Wang, Andrew J. Patterson, and Harshdeep Ahluwalia, 2016. *2017 Economic and Market Outlook: Stabilization, Not Stagnation*. Valley Forge, Pa.: The Vanguard Group.
- Kinniry, Francis M., Jr., Donald G. Bennyhoff, and Yan Zilbering, 2013. *Costs Matter: Are Fund Investors Voting With Their Feet?* Valley Forge, Pa.: The Vanguard Group.
- Kinniry, Francis M., Jr., Colleen M. Jaconetti, Michael A. DiJoseph, David J Walker, and Maria C. Quinn, 2022 (revised). *Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha*.[®] Valley Forge, Pa.: The Vanguard Group.
- Kinniry, Francis M., Jr., Colleen M. Jaconetti, Donald G. Bennyhoff, and Michael A. DiJoseph, 2016. *Reframing Investor Choices: Right Mindset, Wrong Market*. Valley Forge, Pa.: The Vanguard Group.
- Kitces, Michael E., 2016. The Future of Financial Planning in the Digital Age, *CFA Institute Conference Proceedings Quarterly* 33(2): 17–22.
- Madamba, Anna, and Stephen P. Utkus, 2017. *Trust and Financial Advice*. Valley Forge, Pa.: The Vanguard Group.
- Spectrem Group, 2016a. *Millionaire Investors 2016: Advisor Relationships and Changing Advice Requirements*. Chicago, Ill.: Spectrem Group.
- Spectrem Group, 2016b. *Mass Affluent Investors 2016: Financial Behaviors and the Investor's Mindset*. Chicago, Ill.: Spectrem Group.
- Spectrem Group, 2016c. *Millionaire Investor 2015: Advisor Relationships and Changing Advice Requirements*. Chicago, Ill.: Spectrem Group.
- Spectrem Group, 2016d. *UHNW Investor 2015: Advisor Relationships and Changing Advice Requirements*. Chicago, Ill.: Spectrem Group.
- The Vanguard Group, 2016. *How Investors Select Advisors: Advised Investor Insights*.[™] Valley Forge, Pa.: The Vanguard Group.
- The Vanguard Group, 2019. *Vanguard's Principles for Investing Success*. Valley Forge, Pa.: The Vanguard Group.
- The Vanguard Group and Spectrem Group, 2016. *The Affluent Investor: Insights and Opportunities for Advisors*. Valley Forge, Pa.: The Vanguard Group.
- Westaway, Peter, Biola Babawale, Todd Schlanger, and Yan Zilbering, 2014. *Costs Matter: Are UK Investors Voting With Their Feet?* London, U.K.: Vanguard Asset Management.
- Zilbering, Yan, Colleen M. Jaconetti, and Francis M. Kinniry Jr., 2015. *Best Practices for Portfolio Rebalancing*. Valley Forge, Pa.: The Vanguard Group.

Connect with Vanguard

For more information about Vanguard funds, visit [vanguard.com](https://www.vanguard.com), or call 800-662-2739, to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

All investing is subject to risk, including the possible loss of the money you invest. Investments in target-date funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the work force. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in target date funds is not guaranteed at any time, including on or after the target date.

Vanguard advice services are provided by Vanguard Advisers, Inc., a registered investment advisor, or by Vanguard National Trust Company, a federally chartered, limited-purpose trust company.

Morningstar data: © 2021 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; (3) does not constitute investment advice offered by Morningstar; and (4) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Past performance is not a guarantee of future results.

CFA® is a registered trademark owned by CFA Institute.

The Vanguard logo consists of the word "Vanguard" in a bold, red, serif font. The letter "V" is significantly larger and more prominent than the other letters.

© 2022 The Vanguard Group, Inc.
All rights reserved. Vanguard Marketing
Corporation, Distributor.

IARCPP 092022

Important Information

VIGM, S.A. de C.V. Asesor en Inversiones Independiente ("Vanguard Mexico") registration number: 30119-001-(14831)-19/09/2018. The registration of Vanguard Mexico before the Comisión Nacional Bancaria y de Valores ("CNBV") as an Asesor en Inversiones Independiente is not a certification of Vanguard Mexico's compliance with regulation applicable to Advisory Investment Services (Servicios de Inversión Asesorados) nor a certification on the accuracy of the information provided herein. The supervision scope of the CNBV is limited to Advisory Investment Services only and not all services provided by Vanguard Mexico.

This material is solely for informational purposes and does not constitute an offer or solicitation to sell or a solicitation of an offer to buy any security, nor shall any such securities be offered or sold to any person, in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. Reliance upon information in this material is at the sole discretion of the recipient.

Securities information provided in this document must be reviewed together with the offering information of each of the securities which may be found on Vanguard's website: <https://www.vanguardmexico.com/institutional/products/en/list/overview> or www.vanguard.com

Vanguard Mexico may recommend products of The Vanguard Group Inc. and its affiliates and such affiliates and their clients may maintain positions in the securities recommended by Vanguard Mexico.

ETFs can be bought and sold only through a broker and cannot be redeemed with the issuing fund other than in very large aggregations. Investing in ETFs entails stockbroker commission and a bid-offer spread which should be considered fully before investing. The market price of ETF Shares may be more or less than net asset value.

All investments are subject to risk, including the possible loss of the money you invest. Investments in bond funds are subject to interest rate, credit, and inflation risk. Governmental backing of securities applies only to the underlying securities and does not prevent share-price fluctuations. High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings.

There is no guarantee that any forecasts made will come to pass. Past performance is no guarantee of future results.

Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Stocks of companies are subject to national and regional political and economic risks and to the risk of currency fluctuations, these risks are especially high in emerging markets. Changes in exchange rates may have an adverse effect on the value, price or income of a fund.

The information contained in this material derived from third-party sources is deemed reliable, however Vanguard Mexico and The Vanguard Group Inc. are not responsible and do not guarantee the completeness or accuracy of such information.

This document should not be considered as an investment recommendation, a recommendation can only be provided by Vanguard Mexico upon completion of the relevant profiling and legal processes.

This document is for educational purposes only and does not take into consideration your background and specific circumstances nor any other investment profiling circumstances that could be material for taking an investment decision. We recommend getting professional advice based on your individual circumstances before taking an investment decision.

These materials are intended for institutional and sophisticated investors use only and not for public distribution.

Materials are provided only for the recipient's exclusive use and shall not be distributed to any other individual or entity. Broker-dealers, advisers, and other intermediaries must determine whether their clients are eligible for investment in the products discussed herein.

The information contained herein does not constitute an offer or solicitation and may not be treated as such in any jurisdiction where such an offer or solicitation is against the law, or to anyone for whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so.

THESE MATERIALS ARE PROVIDED AT THE REQUEST OF AND FOR THE EXCLUSIVE USE OF RECIPIENT AND CONTAIN HIGHLY CONFIDENTIAL INFORMATION, WHICH SHALL NOT BE REPRODUCED OR TRANSMITTED TO ANY THIRD PARTIES WITHOUT VANGUARD'S PRIOR WRITTEN CONSENT. THE CONTENTS OF THESE MATERIALS SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THESE MATERIALS TO ACQUIRE THE INTERESTS IN THE SECURITIES DESCRIBED HEREIN UNDER THE LAWS OF BRAZIL. SUCH SECURITIES HAVE NOT BEEN REGISTERED IN BRAZIL AND NONE OF THE INTERESTS IN SUCH SECURITIES MAY BE OFFERED, SOLD, OR DELIVERED, DIRECTLY OR INDIRECTLY, IN BRAZIL OR TO ANY RESIDENT OF BRAZIL EXCEPT PURSUANT TO THE APPLICABLE LAWS AND REGULATIONS OF BRAZIL.

PROVIDED AT THE REQUEST OF AND FOR THE EXCLUSIVE USE OF THE RECIPIENT. THE CONTENTS OF THIS DOCUMENT SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THIS DOCUMENT TO INVEST IN SECURITIES DESCRIBED HEREIN.

This document is provided at the request of and for the exclusive use of the recipient and does not constitute, and is not intended to constitute, a public offer in the Republic of Colombia, or an unlawful promotion of financial/capital market products. The offer of the financial products described herein is addressed to fewer than one hundred specifically identified investors. The financial products described herein may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555/2010 and other applicable rules and regulations related to the promotion of foreign financial/capital market products in Colombia.

The financial products described herein are not and will not be registered before the Colombian National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores - RNVE) maintained by the Colombian Financial Superintendency, or before the Colombian Stock Exchange. Accordingly, the distribution of any documentation in regard to the financial products described here in will not constitute a public offering of securities in Colombia.

The financial products described herein may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations; provided that, any authorized person of a firm authorized to offer foreign securities in Colombia must abide by the terms of Decree 2555/2010 to offer such products privately to its Colombian clients.

The distribution of this material and the offering of securities may be restricted in certain jurisdictions. The information contained in this material is for general guidance only, and it is the responsibility of any person or persons in possession of this material and wishing to make application for securities to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for securities should inform themselves of any applicable legal requirements, exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

This offer conforms to General Rule No. 336 of the Chilean Financial Market Commission (Comisión para el Mercado Financiero). The offer deals with securities not registered under Securities Market Law, nor in the Securities Registry nor in the Foreign Securities Registry of the Chilean Financial Market Commission, and therefore such securities are not subject to its oversight. Since such securities are not registered in Chile, the issuer is not obligated to provide public information in Chile regarding the securities. The securities shall not be subject to public offering unless they are duly registered in the corresponding Securities Registry in Chile. The issuer of the securities is not registered in the Registries maintained by the Chilean Financial Market Commission, therefore it is not subject to the supervision of the Chilean Financial Market Commission or the obligations of continuous information.

Esta oferta se acoge a la norma de carácter general No. 336 de la Comisión para el Mercado Financiero. La oferta versa sobre valores no inscritos bajo la Ley de Mercado de Valores en el Registro de Valores o en el Registro de Valores extranjeros que lleva la Comisión para el Mercado Financiero, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de esos valores. Los valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente. El emisor de los valores no se encuentra inscrito en los Registros que mantiene la Comisión para el Mercado Financiero, por lo que no se encuentra sometido a la fiscalización de la Comisión para el Mercado financiero ni a las obligaciones de información continua.

The securities described herein have not been registered under the Peruvian Securities Market Law (Decreto Supremo No 093-2002-EF) or before the Superintendencia del Mercado de Valores (the "SMV"). There will be no public offering of the securities in Peru and the securities may only be offered or sold to institutional investors (as defined in Appendix I of the Institutional Investors Market Regulation) in Peru by means of a private placement. The securities offered and sold in Peru may not be sold or transferred to any person other than an institutional investor unless such securities have been registered with the Registro Público del Mercado de Valores kept by the SMV. The SMV has not reviewed the information provided to the investor. This material is for the exclusive use of institutional investors in Peru and is not for public distribution.

The financial products described herein may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda. Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the financial products described herein in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

Vanguard does not intend, and is not licensed or registered, to conduct business in, from or within the Cayman Islands, and the interests in the financial products described herein shall not be offered to members of the public in the Cayman Islands.

The financial products described herein have not been and will not be registered with the Securities Commission of The Bahamas. The financial products described herein are offered to persons who are non-resident or otherwise deemed non-resident for Bahamian Exchange Control purposes. The financial products described herein are not intended for persons (natural persons or legal entities) for which an offer or purchase would contravene the laws of their state (on account of nationality or domicile/registered office of the person concerned or for other reasons). Further, the offer constitutes an exempt distribution for the purposes of the Securities Industry Act, 2011 and the Securities Industry Regulations, 2012 of the Commonwealth of The Bahamas.

This document is not, and is not intended as, a public offer or advertisement of, or solicitation in respect of, securities, investments, or other investment business in the British Virgin Islands ("BVI"), and is not an offer to sell, or a solicitation or invitation to make offers to purchase or subscribe for, any securities, other investments, or services constituting investment business in BVI. Neither the securities mentioned in this document nor any prospectus or other document relating to them have been or are intended to be registered or filed with the Financial Services Commission of BVI or any department thereof.

This document is not intended to be distributed to individuals that are members of the public in the BVI or otherwise to individuals in the BVI. The funds are only available to, and any invitation or offer to subscribe, purchase, or otherwise acquire such funds will be made only to, persons outside the BVI, with the exception of persons resident in the BVI solely by virtue of being a company incorporated in the BVI or persons who are not considered to be "members of the public" under the Securities and Investment Business Act, 2010 ("SIBA").

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

This document does not constitute an offer or solicitation to invest in the securities mentioned herein. It is directed at professional / sophisticated investors in the United States for their use and information. The financial products describe herein are only available for investment by non-U.S. investors, and this document should not be given to a retail investor in the United States. Any entity responsible for forwarding this material, which is produced by VIGM, S.A. de C.V., Asesor en Inversiones Independiente in Mexico, to other parties takes responsibility for ensuring compliance with applicable securities laws in connection with its distribution.

Data provided by Morningstar is property of Morningstar and Morningstar's data providers and it should therefore not be copied or distributed. Morningstar and its data providers are not responsible for any certification or representation with respect to data validity, certainty, or accuracy and are therefore not responsible for any losses derived from the use of such information.

Data provided by Morningstar is property of Morningstar and Morningstar's data providers and it should therefore not be copied or distributed. Morningstar and its data providers are not responsible for any certification or representation with respect to data validity, certainty, or accuracy and are therefore not responsible for any losses derived from the use of such information.

Connect with Vanguard®

Vanguard

© 2022 The Vanguard Group, Inc. All rights reserved.