

VANGUARD ADVISOR'S ALPHA®

# How an advisor adds value through behavioral coaching

**Vanguard®**

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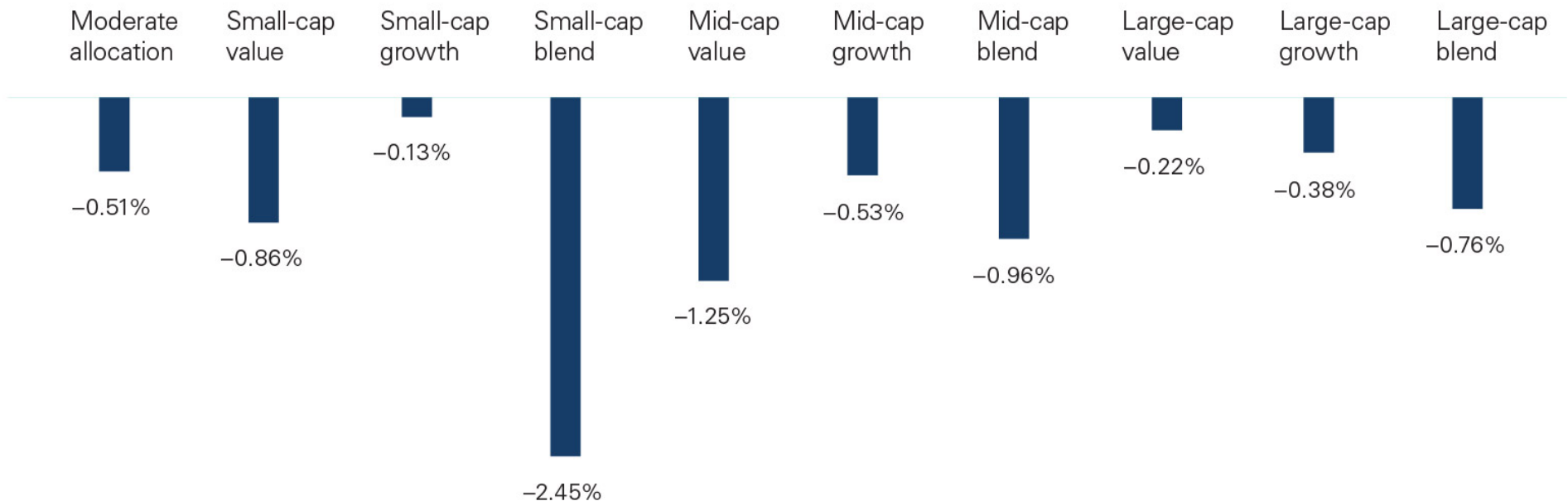


# Agenda

- Explain the mistakes that investors—including advisors—often make.
- Describe how behavioral coaching can help build your business.
- Discuss Vanguard's three Ps of behavioral coaching.

# The problem:

Disparity between investor returns versus fund returns: Ten years ended December 31, 2017



Notes: The time-weighted returns in this figure represent the average annual investor returns, compared with fund returns, in each category. Investor returns assume that the growth of a fund's total net assets for a given period is driven by market returns and investor cash flow. An internal rate-of-return function calculates the constant growth rate that links the beginning total net assets and periodic cash flows to the ending total net assets. Fund categories include fund-of-fund assets and cash flows to best capture investors' experience when that structure is common.

Source: Vanguard calculations, based on data from Morningstar, Inc.

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# Why does the problem exist?

## Common human biases:

**Overconfidence**

**Availability**

**Inertia**

**Framing**

**Loss aversion**

**Representativeness**





## The solution:

Vanguard Advisor's Alpha  
behavioral coaching

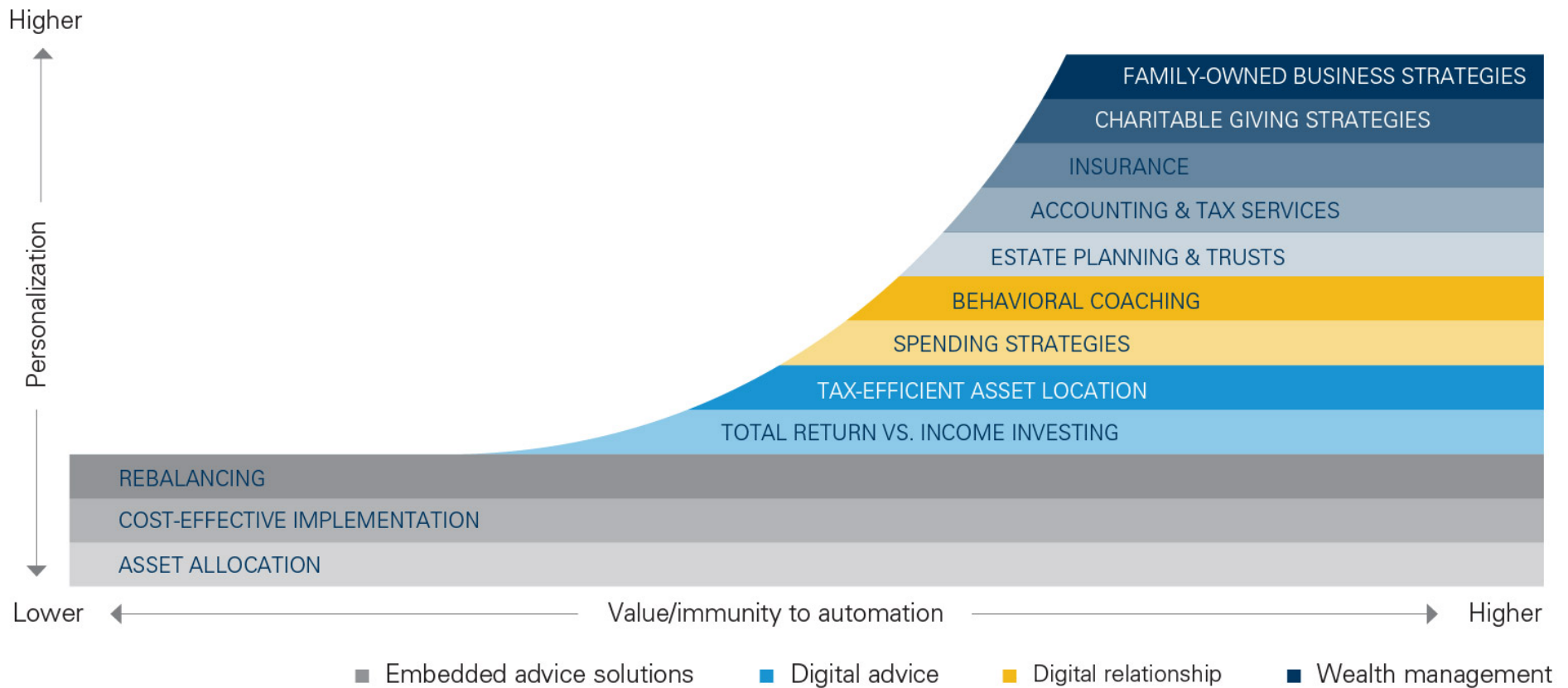
1%-2%

Source: Francis M. Kinniry Jr., Colleen M. Jaconetti, Michael A. DiJoseph, Yan Zilbering, and Donald G. Bennyhoff, 2019. *Putting a value on your value: Quantifying Vanguard Advisor's Alpha®*. Valley Forge, Pa.: The Vanguard Group.

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## Behavioral coaching is business development

Automation is here. Focus on the human elements of advice.

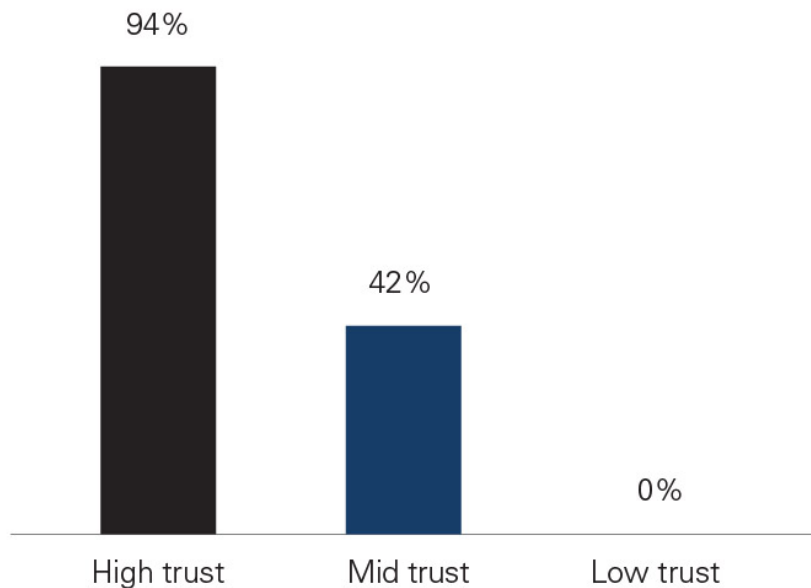


Source: Vanguard.

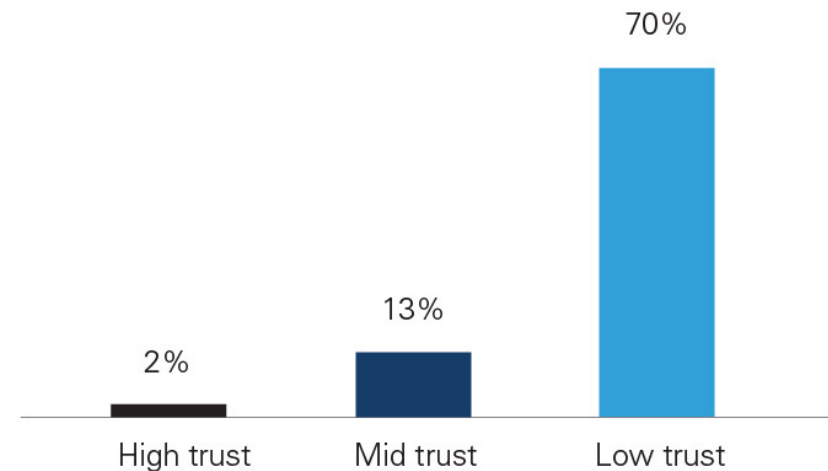
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# Behavioral coaching builds client trust, which motivates referrals and drives assets

Extremely likely or likely to offer referral



Extremely likely or likely to switch advisors



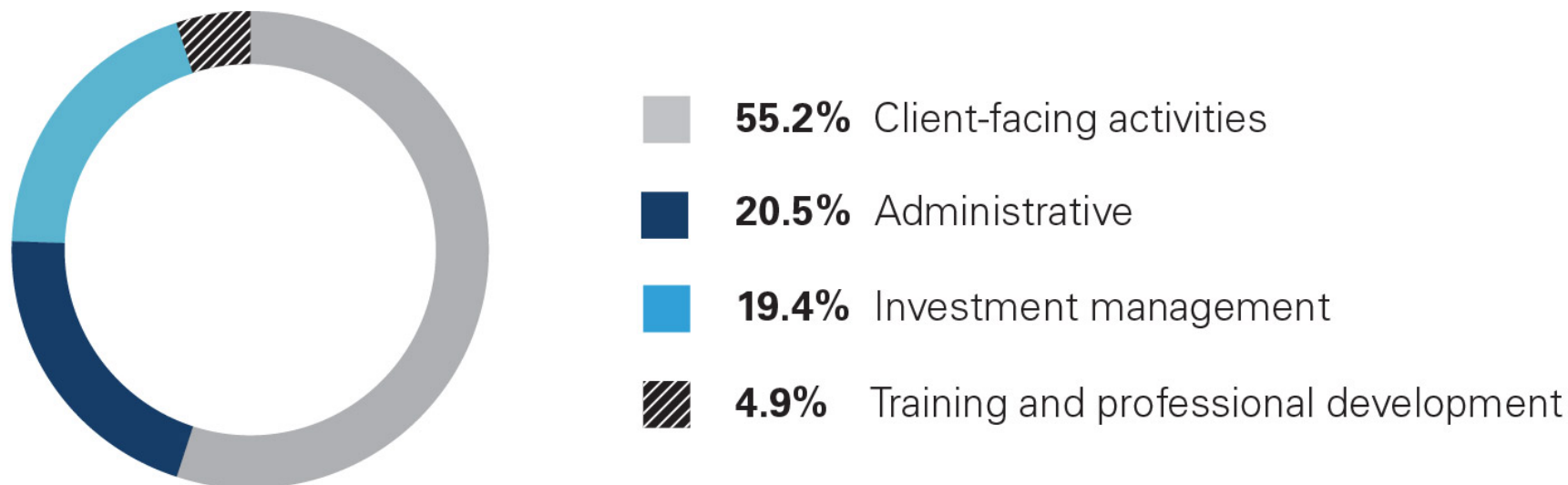
Source: Donald G. Bennyhoff, Francis M. Kinniry Jr., and Michael A. DiJoseph, 2018. *The evolution of Vanguard Advisor's Alpha®: From portfolios to people*. Valley Forge, Pa.: The Vanguard Group.

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# Where are you getting the best return on the investment of your time?

**Advisor time allocation by activity**



Source: Donald G. Bennyhoff, Francis M. Kinniry Jr., and Michael A. DiJoseph, 2018. *The evolution of Vanguard Advisor's Alpha®: From portfolios to people*. Valley Forge, Pa.: The Vanguard Group.

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# Vanguard's 3 Ps of behavioral coaching:

**Planning      Proactivity      Positivity**

Source: Donald G. Bennyhoff, 2018. *The Vanguard Advisor's Alpha® guide to proactive behavioral coaching*. Valley Forge, Pa.: The Vanguard Group.

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# Planning

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# Financial planning

## Lay the foundation with a written financial plan

A written financial plan helps address clients' broader concerns and serves as a touchstone for behavioral coaching.

### Affluent investors' top five household economic concerns



17.2%

**Protecting  
current  
level of  
wealth**



11.4%

**Health of  
myself or  
family  
members**



11.1%

**Planning  
for  
retirement**



8.5%

**Cost of  
health  
care**



7.6%

**Rate of  
return in  
stock  
market**

Sources: Phoenix Marketing International and Cerulli Associates.


Note: Affluent households include those possessing \$1 million or more in investable assets.

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## ■ **Recommendation:**

Create simple, one-page summary plans to anchor client conversations

Support a customized, detailed financial plan with a summary for each client.




The one-page plan comes from conversations about a client's values and goals

**Q** What's most important to you?

- A**
- Give my children a good start in life.
  - Be independent.
  - Spend time with family.





# The values expressed in client conversations become goals

## Values

- Give my children a good start in life.
- Be independent.
- Spend time with family.

## Goals

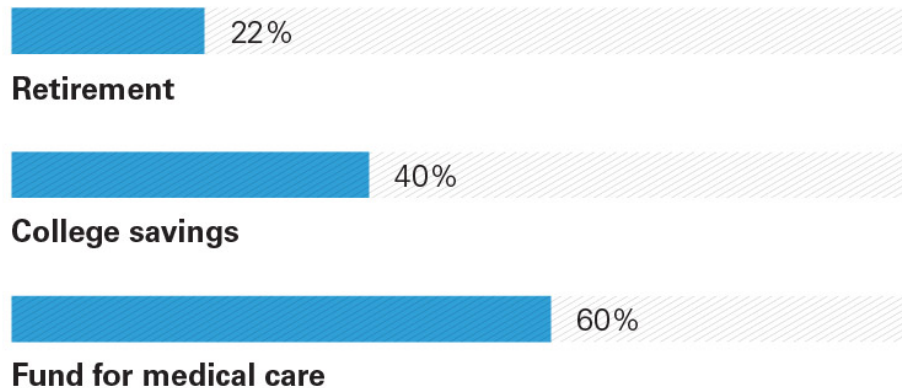
- Have \$50,000 in a 529 account for each child by the child's senior year.
- Have \$1.5 million in retirement accounts by age 65.
- Enable one spouse to work part-time within two years.

## Recommendation:

# Share progress with your clients

At every meeting, show the client a graph that demonstrates progress to the stated goals. And refer to your regular meetings as update or progress meetings, not "performance reviews."

### Focus on top goals



A man with grey hair and glasses, wearing a blue shirt and a dark blazer, is gesturing with his hands while looking at a tablet held by a woman. The woman has long dark hair and is wearing a dark blazer over a white shirt. They are both looking at the tablet. The background is a blurred outdoor setting with green foliage. The word "Proactivity" is overlaid in large, dark, sans-serif font, with a red vertical bar to its left.

# ■ Proactivity

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# Understand how consumers make decisions

**For many of life's most important decisions, this decision-making process often works well, but not with investing.**



**Word of mouth**



**Favorite ratings**



**Warranties**



**Star ratings**



**Buyer's guides**



## **Recommendation**

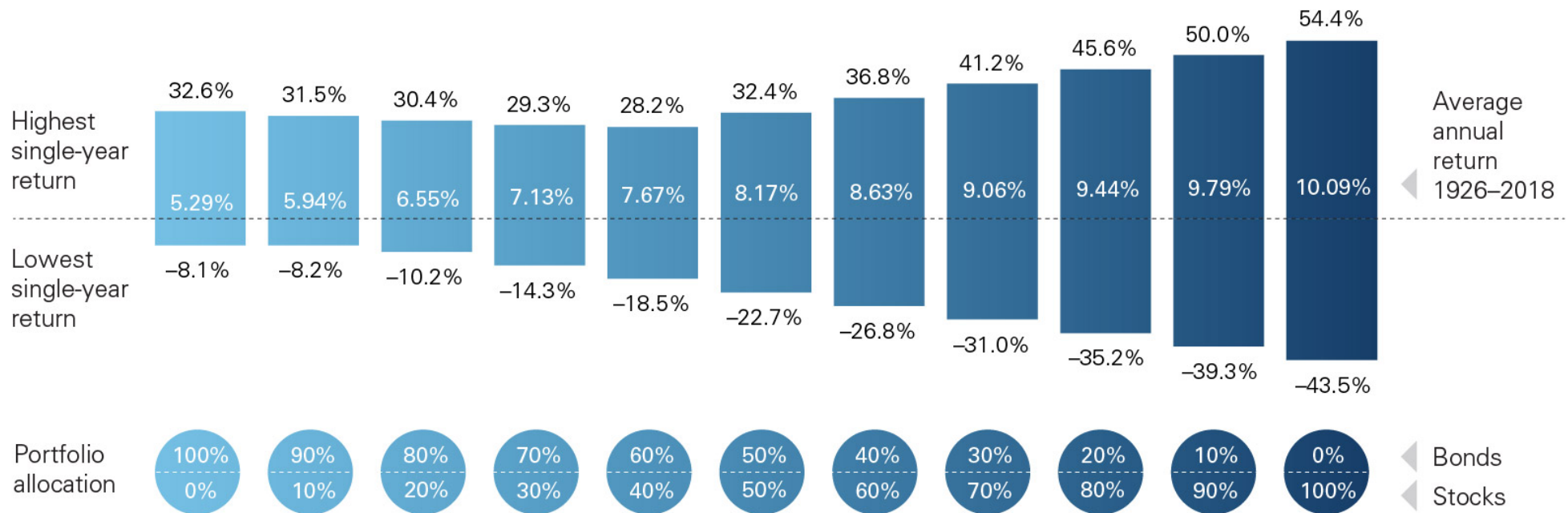
Coach for tomorrow, today!

Offer answers to as many  
of a client's fears as possible  
before periods of market  
volatility or other stress.

## Client fear:

# Losing money in a market downturn

**Solution: Understand client's risk tolerance and tailor portfolios accordingly.**



Source: Vanguard.

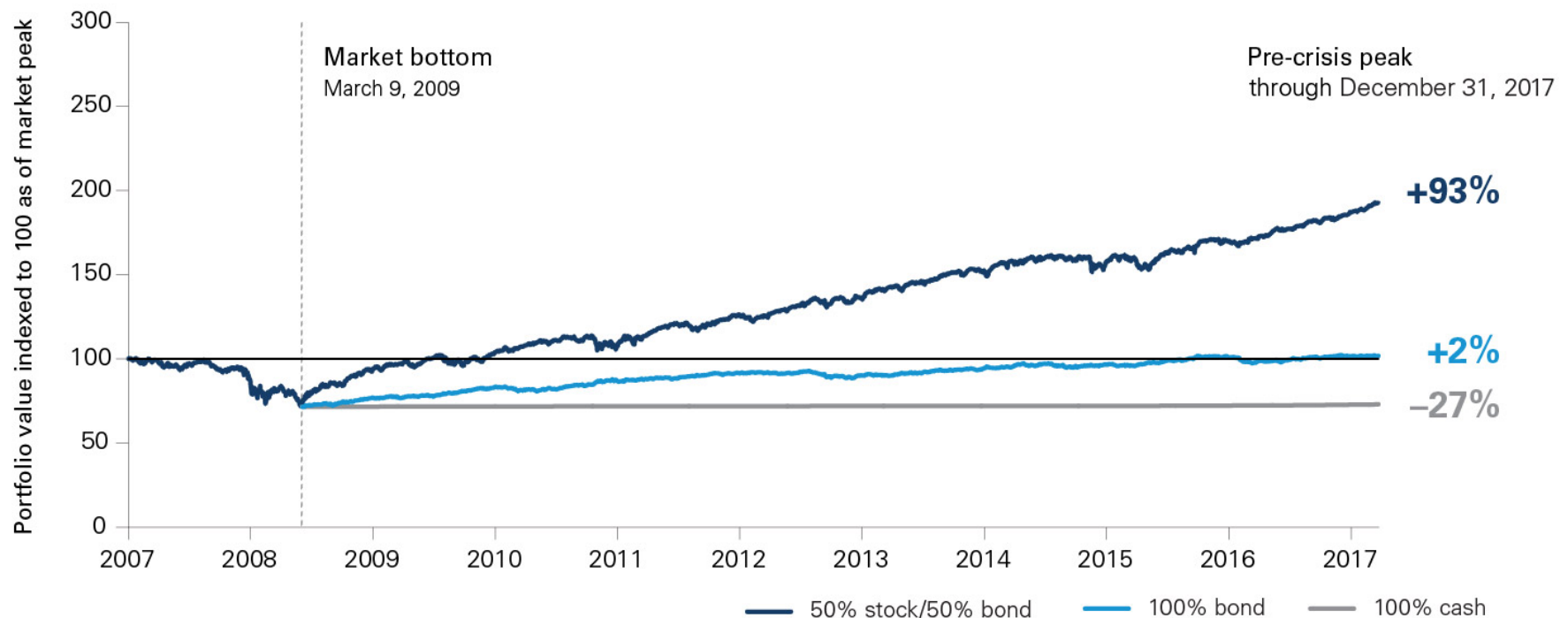
Notes: Stocks are represented by the Standard & Poor's 90 Index from 1926 through March 3, 1957; the S&P 500 Index from March 4, 1957, through 1974; the Dow Jones Wilshire 5000 Index from 1975 through April 22, 2005; the MSCI US Broad Market Index from April 23, 2005, to June 2, 2013; and the CRSP US Total Market Index thereafter. Bonds are represented by the S&P High Grade Corporate Index from 1926 through 1968; the Citigroup High Grade Index from 1969 through 1972; the Lehman Brothers U.S. Long Credit AA Index from 1973 through 1975; the Barclays U.S. Aggregate Bond Index from 1976 to 2009; and the Bloomberg Barclays U.S. Aggregate Float Adjusted Bond Index thereafter. Data are through December 31, 2018.

**Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.**

## Client fear:

# Losing money in a market downturn

**Solution: Stress the importance of sticking to a financial plan.**



Source: Vanguard.

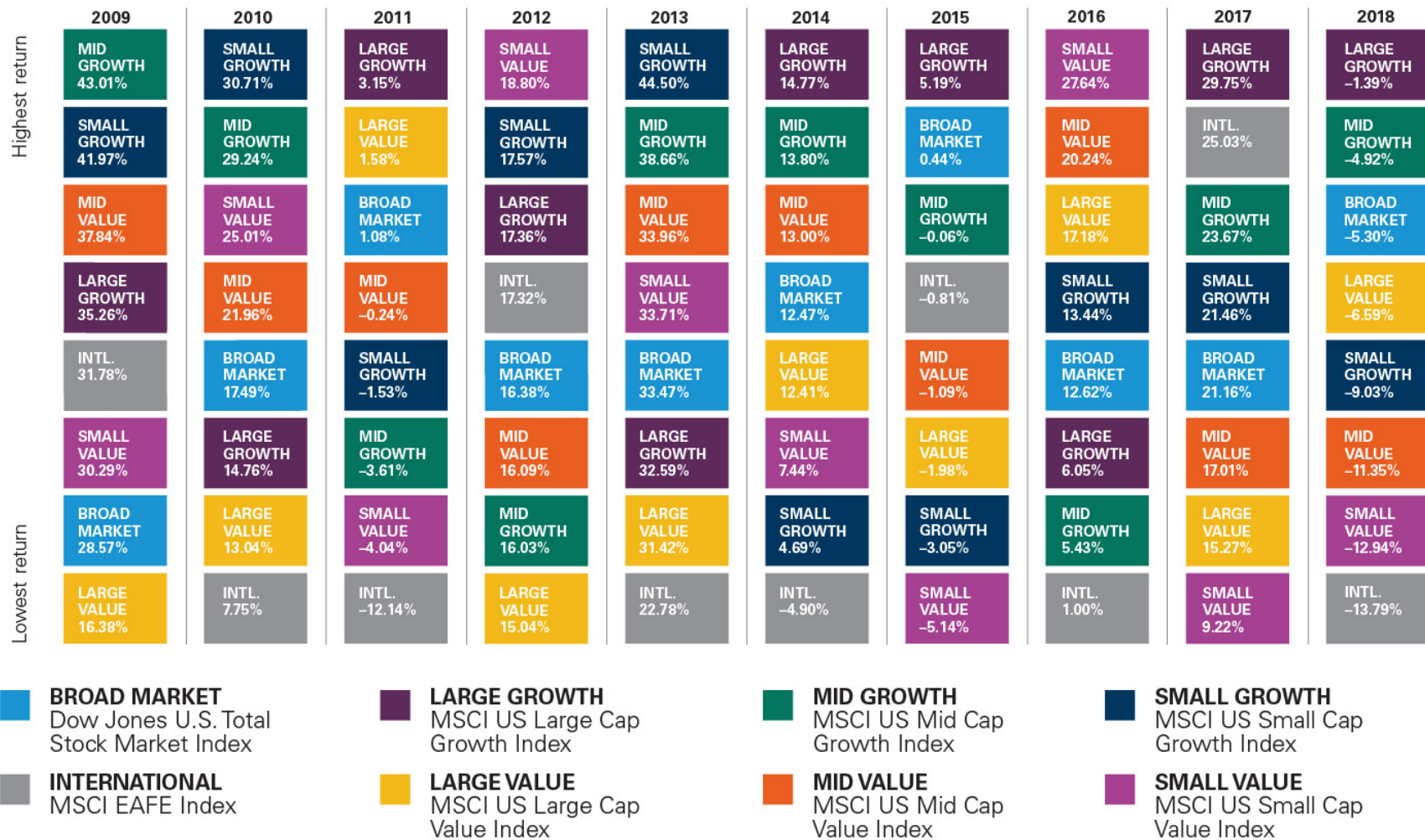
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# Client fear: Uncertain world events

Solution: No one can predict the future.



Source: Vanguard.

**Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Diversification does not ensure a profit or protect against a loss.**

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A photograph of two women in an office environment. The woman on the left, with blonde hair, is smiling and looking towards the woman on the right. The woman on the right, with dark hair, is seen from the side, looking back at the first woman. They are both wearing professional attire. The background is bright and out of focus, suggesting a large window or a well-lit office space. A red vertical bar is positioned to the left of the word 'Positivity'.

# ■ Positivity

# Vanguard's view

- Avoid wording or framing that could be perceived as derogatory or condescending.
- Acknowledge that you are human, too, and can be emotional, chase returns, and make decisions you regret.
- Demonstrate that we can learn from our mistakes.

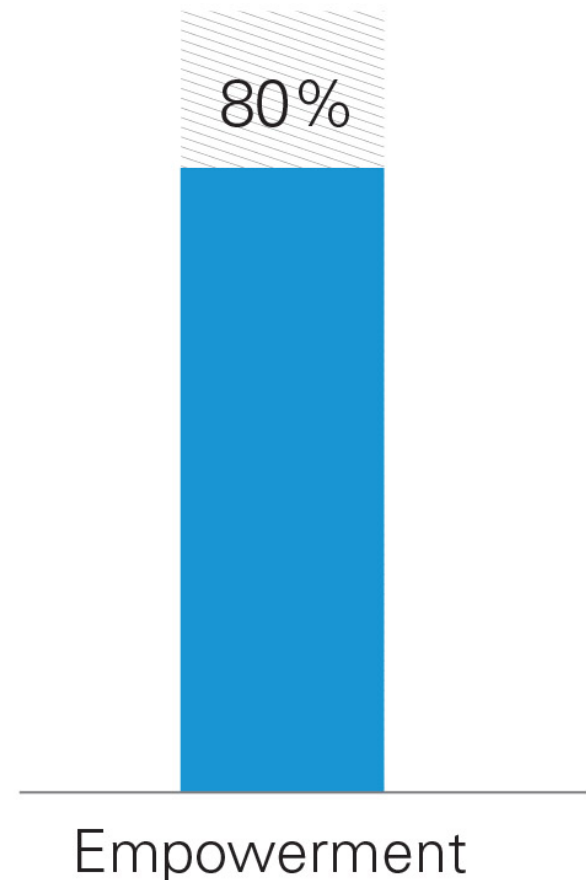


# What do clients served by traditional advisors really want?


## Underlying needs

- I need to feel like I have taken charge of my financial future.
- I need to feel like I have complete control over all of my financial decisions.
- I need to feel that I am on track to meet my financial goals.
- I need a financial plan that offers me financial freedom.

Source: Vanguard Center for Analytics and Insights, 2019.





A man in a dark suit and checkered shirt sits at a wooden table, gesturing with his hand while talking to an older couple. The couple, a man and a woman, are seated across from him, listening attentively. The woman is wearing a pink sweater and glasses, and the man is wearing a grey sweater and glasses. They are in a bright room with large windows in the background. A red vertical bar is on the left side of the slide.

# **Recommendation:** Coach your clients to take control of their lives


# Recommendation:

## Coach in parables



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BEHAVIOR | GAP



# Vanguard's 3 Ps of behavioral coaching:

**Planning**

**Proactivity**

**Positivity**

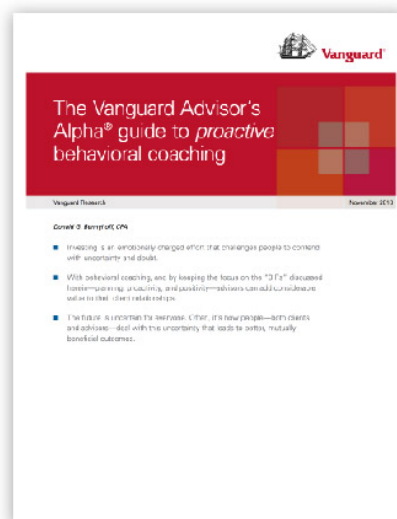
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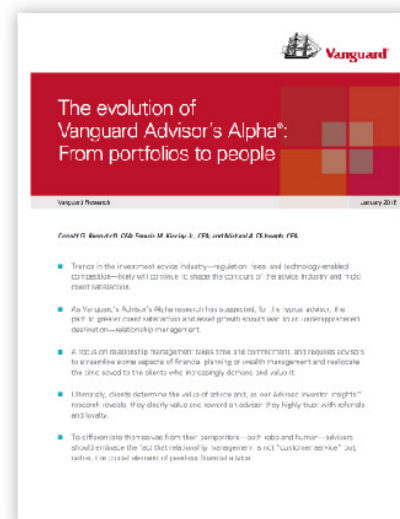
# Additional resources



**The Vanguard Advisor's Alpha® Guide to proactive behavioral coaching**



**The Vanguard Advisor's Alpha® guide to proactive behavioral coaching**



**The evolution of Vanguard Advisor's Alpha®: From portfolios to people**

[advisors.vanguard.com](http://advisors.vanguard.com) Or call a sales executive at **800-997-2798**



# Important information

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