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GOALS-BASED WEALTH MANAGEMENT

Coaching Through Biases—Yours and Your Clients'

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INVESTMENTS & WEALTH INSTITUTE®

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Trust persists as a pivotal factor in client behavior. Without it, clients can veer off course, lowering the likelihood of achieving their goals. We acknowledge that human behavior is often at odds with achieving financial goals, particularly in volatile markets. In this article, we examine how the co-planning process can enhance the client experience and increase your value in your clients' eyes.

By combining the core tenets of traditional, advisor-driven wealth management with behavioral finance, we discuss how you can deepen relationships and construct investment solutions that are aligned more closely with client goals. Rather than expound on the virtues of behavioral finance, we adjust our lens to explore your role in managing the behaviors that can sabotage client success. We focus on the steps you can take to deepen the discovery process and effectively coach clients through market ups and downs to increase the likelihood of achieving their various distinct goals. We also consider how goals-based wealth management can lighten your workload, and how client behavior and choices—not market events—drive outcomes.

WHY GOALS-BASED WEALTH MANAGEMENT IS MORE RELEVANT THAN EVER

Following the dot-com bust of 2000, we published a thought leadership paper that introduced an innovative framework for investing. Drawing on our research and evidence from psychology and behavioral finance, "Goals-Based Investing: Integrating Traditional and Behavioral Finance" (Nevins 2004) represented a shift in the way we thought about how advisors could help clients achieve long-term investment success. We proposed that advisors could combine traditional modern portfolio theory (MPT) with behavioral finance to deepen relationships by constructing portfolios that were aligned more closely with client goals.

Since then, goals-based investing has evolved into a broader goals-based wealth management (GBWM) framework, forging a link among financial planning, investment advice, and risk management (see table 1). The GBWM approach starts with understanding and recognizing biases—both yours and your clients'—in a way that forces both of you to be objective and focused on outcomes. In this framework, traditional advisor-driven financial planning is replaced by co-planning, an ongoing engagement process supported by the use of technology, which places the client at the center of the conversation with you serving as coach.

The dot-com crash served as a catalyst that changed how we think; the 2008 Global Financial Crisis changed how we work dramatically, making adoption of a GBWM approach more relevant than ever.

WEIGH BEHAVIORAL VS. MARKET RISK TO COACH CLIENTS TO BETTER OUTCOMES

How we make economic choices, and how those choices affect our financial decision-making, is the subject of a large body of academic research underpinning behavioral finance. As behavioral science has demonstrated effectively, we humans have a wide variety of preferences and are all subject to cognitive biases of one sort or another—even financial advisors. These preferences and biases are hard-wired into the human brain.

Behavioral economists generally have disproved the fundamental assumption behind MPT that human beings always behave rationally when facing economic

Table 1

GBWM IS CO-PLANNING, GOALS-BASED INVESTING, AND GOALS-BASED REPORTING

Approach	Planning	Investments	Reporting
Traditional advisor-driven wealth management	Traditional approach	One portfolio, multiple goals	Performance vs. benchmark
Approach	**Co-Planning**	**Investments**	**Reporting**
Goals-based wealth management	Collaborative approach	Multiple portfolios, multiple goals	Probability of success

and market events that will affect their financial lives. Among the implications of this research is that, left unchecked, behavioral biases may cause us to make choices that lead to suboptimal financial outcomes. For example, in early 2000 and 2008, many investors and their advisors forgot that rising markets also can fall. Professional and amateur investors alike were convinced that despite the experiences of past boom and bust cycles, stocks would continue to rise—that it was different this time. This, of course, was not the case.

Too often, due to behavioral biases in action, the risk of a client not achieving a goal is behavior based, not market based. That observation, based on our years of research, fundamentally supports the case for implementing a GBWM framework. As your clients' financial coach, you can help them understand that although the act of pursuing and maintaining risk exposure runs against their instincts to try to prevent losing money, those same instincts can undermine their ability to achieve specific longer-term goals.

The need for effective coaching is apparent given the results individual investors produce. In its most recent annual report on investor behavior, financial research firm DALBAR[1] found that U.S. investors timed sales and purchases of diversified mutual funds poorly over the past 10 years, from 2008 through 2018—a period that experienced the Global Financial Crisis and a significant market selloff, as well as calm and rising markets.[2]

CLIENT BIASES OBSERVED

These findings are consistent with the results you would expect from clients whose emotions and biases dictate their investment choices. In our April 2019 survey, we asked financial advisors to select the behavioral biases they have observed that affect clients' decision-making the most.[3] Of the 576 responses we received, advisors selected the overreaction bias as the most common (36 percent), followed by hindsight (22 percent) and belief perseverance (19 percent).

ADVISORS ARE HUMAN, TOO

Most research on behavioral finance demonstrates that clients' decisions may be subject to common behavioral biases, but we wondered what advisors think about their own biases. We believe that, to be an effective coach, it is essential to understand both your clients' biases and your own. To get a sense for how investment professionals viewed biases in their own decision-making, the CFA Institute administered a survey in 2015 asking readers to select the behavioral bias that affects investment decisions the most (Kunte 2015).

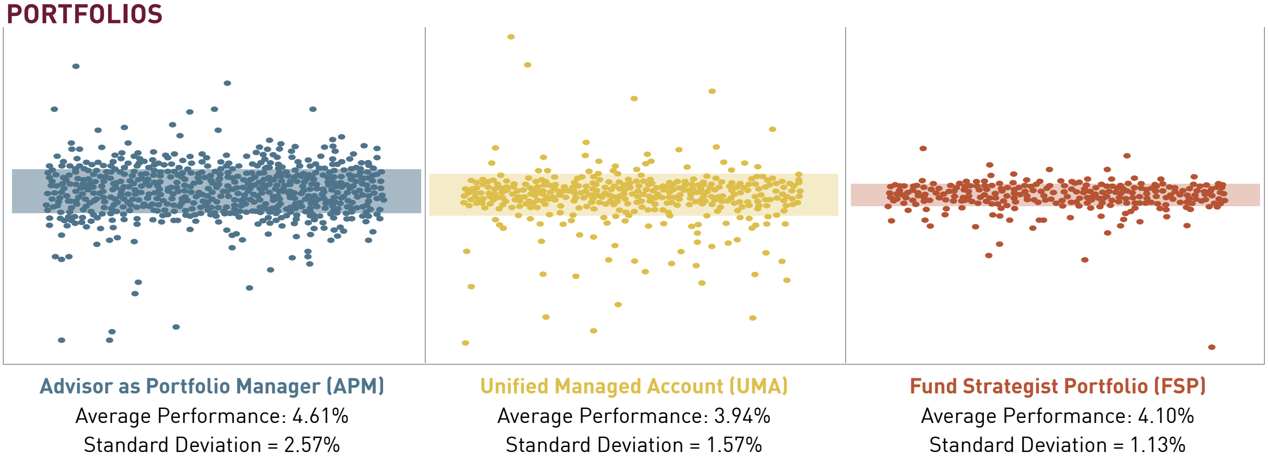
The survey generated responses from 724 practitioners from around the world. Herding—the idea that people feel most comfortable following the crowd—garnered 34 percent of the votes and stood out as the top bias affecting investment decision-making in the eyes of poll participants. Our April 2019 financial advisor survey produced similar results. Respondents identified with all five of the common biases we presented (overconfidence, hindsight, overreaction, belief perseverance, and regret avoidance), but ranked overconfidence (26 percent) and regret avoidance (21 percent) as the top two behaviors they themselves must keep in check.

COULD OVERCONFIDENCE MAKE YOU THINK YOU'RE A BETTER PORTFOLIO MANAGER?

It is our position that overconfidence plays a major role in the life of many advisors. For example, over the years a category known as "advisor as portfolio manager" (also referred to as "rep as portfolio manager") has evolved in the advisor community to identify the advisor as the portfolio manager for their clients. Many such advisors rarely tout their individual performance on a case-by-case basis, if ever.

Figure 1

ANNUALIZED THREE-YEAR PERFORMANCE BY PROGRAM FOR MODERATE/MODERATE GROWTH PORTFOLIOS



Note: Fund strategist portfolios were selected as a good comparable because they are asset allocated portfolios, akin to what advisor managed portfolios would be.

Source: Envestnet Analytics. Performance data from more than 400,000 accounts in the Moderate/Moderate Growth risk tier, spanning April 1, 2015, to March 31, 2018.

However, research[4] based on the analysis of 400,000 accounts over the three-year period ending Q1 2018 found that standard deviations were much higher for advisor as portfolio manager (APM) accounts and unified managed accounts (UMA), where advisors manage the portfolios (see figure 1). UMA volatility was in large part due to performance of the advisor-managed portfolio sleeve. Fund strategist portfolios (FSPs) generated both attractive returns and the smoothest ride for investors. FSPs also had the tightest performance cluster, whereas APM and UMA models tended to have greater performance dispersion (accounts that generated 20 percent or more in gains or lost 20 percent or more in value). The research also revealed that volatility for APM accounts was double that of the FSPs, where the asset management is outsourced to money management professionals. There is no doubt that portfolios that have significantly higher volatility relative to the markets can increase a client's anxiety and trigger the impulse to panic.

The likelihood of making judgment errors increases if we neglect the impact biases have on our own thinking. This neglect can cause you to minimize important information or discount a client's emotion as unimportant. Although many behavioral biases are unconscious, being mindful that we're all subject to them is a good place to start to help avoid them. Here are a few techniques that might help:

- Develop disciplined, repeatable processes that can minimize shortcut thinking.
- Make a habit of considering other possibilities by frequently checking your conclusions and recommendations.
- Reframe errors as opportunities to learn and grow rather than evidence of your competency or status.
- Check your ego and take time to reflect. Are you overly invested in being right rather than discovering what you might have missed?

CO-PLANNING, COACHING, AND THE GOALS-BASED INVESTING FRAMEWORK

Co-planning is not simply collaborating with your client to develop a financial plan. It is an ongoing process of engagement and coaching, revising assumptions together, and reframing expectations based on your client's evolving needs and priorities. You guide those ongoing discussions, supported by technology—such as co-planning software, mobile technology, or video-conferencing.

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When you're perceived as a collaborator, you are better able to gain insight into both the financial and nonfinancial aspects of your client's life. When clients are actively involved in the planning process, they become more invested in and more knowledgeable about the decisions that come from your discussions. Trust then grows, leading inevitably to a deeper client-advisor connection.

COACHING IS THE KEY TO COMBATTING EMOTIONAL DECISION-MAKING

Your role in a goals-based approach is to manage behavior to help clients maximize the likelihood of achieving success. Among the behavioral tendencies most relevant to GBWM is mental accounting, which describes our tendency to segment our wealth into buckets for reaching various goals. As behavioral theorists have shown, investors may have multiple attitudes about risk depending on the goal in question. For some goals and investment accounts, risk tolerance may be low; other goals and accounts may accommodate a high risk tolerance. For instance, most clients are unwilling to risk capital that has been allocated to their children's education costs. However, they may have other accounts, sometimes described as "fun money," that they don't need for lifestyle expenses and can invest adventurously, seeking the highest return opportunities.

"Behavioral coaching," writes Sarah Newcomb, PhD, a behavioral economist with Morningstar (2018), "might help clients to understand their own decision-making biases, help them overcome the inevitable obstacles that emotions and cognitive biases bring to the mix, and challenge them to focus on how their own behavior (more so than the market's behavior) affects their ability to meet their goals." She said she believes that advisors can coach more effectively if they understand the areas of psychology that may affect financial decision-making. As a coach, you can help your clients develop and maintain motivation, foster a sense of financial empowerment, and help them create a vision for their financial futures in which they are both emotionally and financially invested.

Coaching also can help clients resolve the trade-offs among preferences, constraints, and goals. Preferences are behavioral and represent attitudes that affect an overall level of risk tolerance, e.g., "I am willing to take moderate risks." Preferences often interact with behavioral biases such as loss aversion and affect clients' responses to market dynamics. Constraints relate to the client's limitations or capacity to take on risk, such as, "How much am I able to save?" or "Do I need to have a cash reserve?" Together, preferences, constraints, and goals interrelate in a financial plan. For example, you can address loss aversion by developing strategies that seek to mitigate losses for parts of an overall portfolio. Similarly, you can accommodate mental accounting by developing strategies that can be aligned with investors' separate goals and accounts.

The benefits of a co-planning approach and ongoing coaching cannot be understated. Research suggests that "behavioral coaching is the single most impactful thing an advisor can do, adding, on average, 150 basis points."[5] In the same report, consumer research revealed that when 693 survey participants were asked to rank 15 unique attributes of advisor value, "Helps me stay in control of my emotions" ranked first. It may point to an opportunity to leverage co-planning and better educate clients about the role emotions can play in decision-making. Making it a practice to talk with clients routinely about emotional biases in every meeting becomes the anchor to helping manage bad client behavior. When volatility spikes, or market headlines create alarm, you can assuage fears and refocus clients on their goals.

THE EVOLVING PRACTICAL FRAMEWORK OF GOALS-BASED WEALTH MANAGEMENT

Some may ask, isn't all investing goals-based? Yes and no. Many would argue that the traditional wealth management approach begins with client conversations that address the big questions about what clients want to do with their money: things like help ensure a quality retirement, send kids or grandkids to college, build a dream home, care for an aging parent, fund a legacy, etc.

In the discovery process, the advisor asks a range of questions, and the client answers. When fully engaging clients and executing a plan for those goals, though, a holistic GBWM approach can differ from the traditional approach many advisors employ. Specifically, GBWM emphasizes the risk of not meeting financial goals as much as the investment risk required to meet particular goals. Each goal is aligned with its own individual investment strategy and time horizon. In the traditional method of investing, all goals and risks are combined into one MPT-based strategy derived from a separate risk tolerance questionnaire.

ARE YOU REALLY DOING GOALS-BASED?

Among the advisors who participated in our survey, 41 percent report they typically construct client portfolios using an MPT approach, and the majority (59 percent) indicate that they employ a goals-based framework.

- Survey responses show that nearly all (86 percent) advisors align individual portfolios with individual goals. Yet, curiously, according to our survey participants, 52 percent of advisors manage only one or two portfolios per client. We believe that the separation of assets by advisors has more to do with account constraints driven by qualified versus nonqualified money than the actual separation of unique goals.
- We also believe that the term "goals-based" is used so liberally by advisors that they may think they employ a goals-based process but, more than likely, they do not. When it comes to implementation, each goal should be associated with a unique risk framework and strategy. If the implementation is accomplished through a single portfolio, clients won't be able to measure progress to goal or truly understand how the portfolio relates to their goals. How will clients discern the percentage of their wealth allocated to current cash flow, or which assets are earmarked for retirement or a child's education 10 years out? If the client can't understand, the probability of panicking in volatile times may be higher.

We believe advisors who suggest they are implementing a goals-based investment approach typically fall short in two distinct areas when selecting the right strategies:

- Failure to match multiple client goals to multiple investment strategies
- Failure to construct portfolios that match the risk and return needs of each specific goal

HOW GOALS-BASED AND TRADITIONAL WEALTH MANAGEMENT DIFFER

Goals-based and traditional approaches are quite different and may lead to different client experiences and perceptions of value (see figure 2). Responses from our 2018 high-net-worth (HNW) investor survey reveal that clients want advisors to understand their goals more deeply and collaborate on solutions to meet their evolving needs.[6] Other research findings mirror our own, underscoring the value of a client-centered, goals-based approach: "Advisor practices that are focused on a client-centric experience not only have median client sizes that are 93% larger, they also have lower attrition rates and the ability to move upmarket" (Satter 2018).

With a traditional investment process, a single measure of a client's overall risk tolerance is established through risk profiling. The risk tolerance estimate is then mapped to an efficient portfolio that is designed to maximize risk-adjusted returns for a given level of risk. Finally, client assets are invested in a single pool. The challenge for advisors and clients is that in this traditional one-portfolio, one-utility investment relationship, client expectations are centered on the actual performance of the whole portfolio without considering the ability to achieve any particular financial goal.

If a single portfolio was designed to meet multiple goals that have different time horizons, and the client's risk tolerance for each goal varies, the client would be more likely to experience strong discomfort in volatile markets. That's because how they think about their goals doesn't align with how their money is being managed.

GBWM seeks to improve upon the traditional method by aligning individual investment strategies with each investor goal and time horizon. Although we believe this is an especially effective

Figure 2

COMPARING GOALS-BASED AND TRADITIONAL WEALTH MANAGEMENT

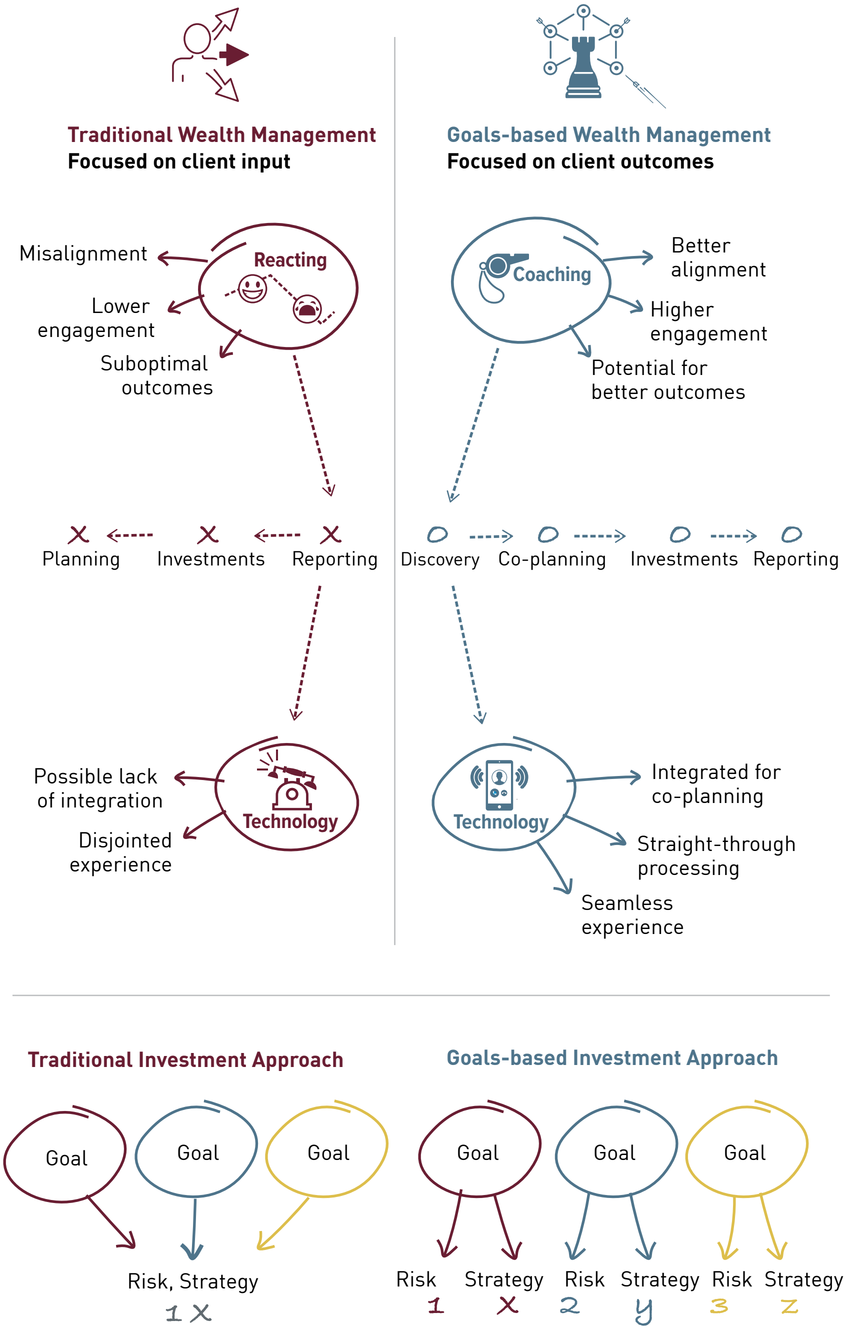


Table 2

CLIENT GOALS, TIME HORIZON, AND POTENTIAL STRATEGIES

Common client goals	Time horizon	Potential strategies
Growth	Long-term	Moderate to high levels of risk
Stability	Short-to-medium term	Low to moderate risk, with an emphasis on capital preservation
Income	Ongoing	Strive to maximize income while controlling risk

method for clients with clearly defined goals, it also can be useful in a very general form for clients whose goals aren't well defined (see table 2).

As a coach, you align a client's individual goals—be they growth-, stability-, or income-oriented—with your best asset allocation to support their realization. You're reframing investment choices solely as a means to a desired end while toning down the desire to chase performance.

Each combination of goal and asset allocation may comprise a separate subportfolio or asset pool. These pools combine to create a full investment solution. It is important to note that, although the strategies differ (e.g., growth and stability), so should the underlying components. You may have two portfolios (80/20 and 40/60), but the underlying investments may be different as well.

- Each goal and associated strategy is reevaluated over time, maintaining consistency with new circumstances.
- Portfolio efficiency is defined in terms of performance relative to client goals rather than to indexes.
- Risk management also is based on client goals, using measures to capture the risk of failing to achieve those goals instead of traditional measures such as standard deviation.

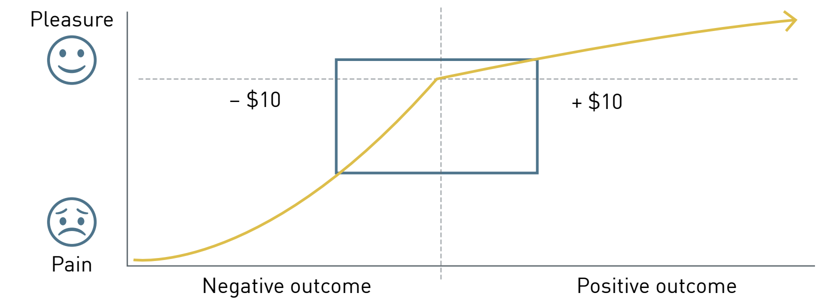
COACH CLIENTS EFFECTIVELY BY REFRAMING RISK AND INVESTMENT SUCCESS

It's unlikely that your average client thinks about risk in terms of volatility of returns or other metrics our industry has used for decades. Client perceptions of risk often are driven by emotions and, therefore, are easily misunderstood or discounted by professionals who take a strictly rational approach to the subject.

Sometimes, the way we frame questions about risk can negatively impact client perceptions about risk. Defining risk or asking clients questions about their risk

Figure 3

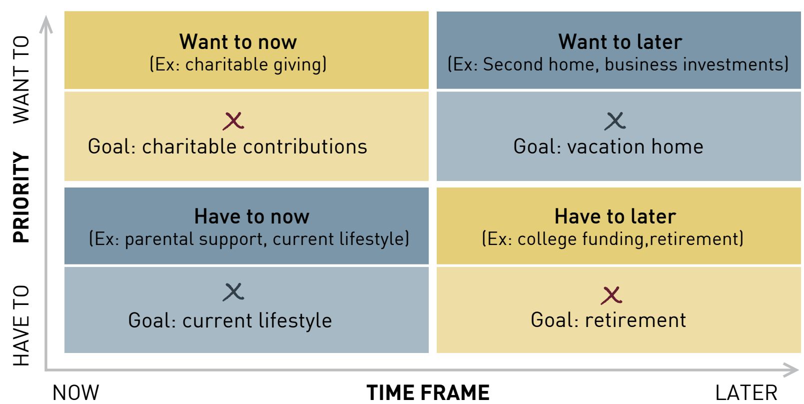
ANALYSIS OF FINANCIAL DECISION-MAKING WITH LOSS AVERSION



Source: Koekebakker and Zakamouline (2008); Figure 1: Alternative shapes of the utility function, (c) Behavioral II, Pg. 12

Figure 4

GOAL IDENTIFICATION, PRIORITIZATION, AND TIME HORIZONS



tolerance can be complicated and error prone. Risk means different things to different clients, and many often confuse risk and volatility.

Our industry uses complex statistics to measure risk, such as standard deviation, tracking error, and Value-at-Risk. But these metrics fail to capture actual investor behavior and are not intuitive for most clients. In a goals-based approach, risk is defined as the failure to meet specific financial goals.

When you discuss retirement with clients, for example, talk about risk as the possibility of a shortfall—the risk that they can't retire when or how they hope to. By linking clients' goals, time horizons, and economic constraints, the notion of risk becomes more meaningful and can help clients stay invested and prevent them from making costly mistakes. The approach also helps clients understand what financial markets can and cannot do for them.

COACH AS THE VOICE OF REASON: HELP CLIENTS STAY THE COURSE

Reframing the client experience on holistic engagement, emphasizing goals, and focusing the risk conversation on the probability of not meeting a goal is a far more intuitive way to explain risk to clients and coach them through the volatility that undoubtedly will come. Risk management can be challenging in any market environment, but you can help clients mitigate the pitfalls of complacency and recency bias (the tendency to believe that what occurred in the past will continue to occur in the future) through consistent coaching, education about the impact of behavioral biases, and the management of investment expectations.

THE HEALTHY PURSUIT OF RISK

Intentionally seeking volatile investments is counterintuitive for most clients. Seeking risk is an important aspect of achieving most investment goals, but it can be a difficult practice for many clients. Research shows that investors are naturally loss averse—that is, they feel the pain of an investment loss much more acutely than the joy of a gain. The idea that clients are not risk-averse but loss-averse is one of the main tenets of behavioral finance.[7]

The notion of loss aversion is an important concept associated with prospect theory. It describes why clients tend to avoid risks they should take given their desired outcomes. We know, though, that risk is something to be actively, yet intelligently, pursued. Striking the right balance of specific risk exposures—with the goal of increasing returns, both at the asset class and overall portfolio levels—may mean increased returns in favorable environments and limited losses during unfavorable ones (see figure 3). In a GBWM model, the greatest risk facing clients lies in the failure to achieve their objectives and cover future liabilities. The fundamental premise of GBWM is that clients should achieve their goals. As an advisor, you have the tools to help clients understand the risk exposures that may help increase returns to help them achieve their goals.

IMPLEMENTING A GOALS-BASED APPROACH IN A CO-PLANNING PRACTICE

Co-planning begins by using goal identification in an in-depth conversation where you and your client prioritize goals and time horizons. This exercise distinguishes between wants and needs, and it ranks goals in a now-or-later context (see figure 4).

For each goal, you and your client:

- Discuss the importance of the goal
- Define the time horizon and the desired outcome

- Determine acceptable percentage probability of failure
- Choose the metrics for reporting/evaluating performance
- Assign a dollar amount for allocation

While doing this, you'll also educate your client about behavioral biases and the impact the client can have on investment outcomes, and you'll enlist your client in an agreement to stay the course to help meet the defined goals. You'll emphasize ongoing coaching and avoiding behavioral pitfalls.

STRATEGIC VS. DYNAMIC ALLOCATION

Your implementation can use the classic strategic approach to asset allocation or a more robust, dynamic approach incorporating multi-asset products designed with behavioral tendencies in mind. Further, differences in the underlying sub-asset class exposures of the dynamic approach can provide additional diversification benefits.

For example, a strategic allocation with a stability focus might link large allocations to short-term fixed-income products and cash. Conversely, you could design a more dynamic allocation with a specific drawdown limit. It could include products with the flexibility to assume incremental, low beta exposure when markets are calm and de-risk as market volatility increases by shifting all or part of assets to cash. In a market environment like 2008, when even some traditionally safe fixed-income sectors were stressed, the strategic allocation might have exceeded a drawdown threshold. At the same time, the dynamic strategy should have de-risked before breaching any limits, thus preserving capital and achieving its stability-focused objective.

VOLATILE MARKETS AND CLIENTS' BEHAVIOR

Volatile markets tend to trigger discomfort in the minds of many professional and retail investors. After several years of unusual calm, market volatility returned with a vengeance in the fourth quarter of 2018. In March 2019, we worked with the research firm Phoenix Marketing International to explore affluent households' views of market volatility. Our questions centered on whether they expected to experience market volatility in 2019, whether they discussed it with their advisors, and what they plan to do if it occurs.

Volatile markets tend to trigger discomfort in the minds of many professional and retail investors. After several years of unusual calm, market volatility returned with a vengeance in the fourth quarter of 2018.

In our April 2019 advisor survey, we asked advisors if their firms have a process to combat emotional behavior caused by market volatility. Of those who answered the question, 59 percent claimed to have a process in place. Most (60 percent) reported they stress the need to stay the course from the beginning of the relationship and would continue to emphasize it. More than a quarter (28 percent) said they proactively contact all of their clients—either digitally or by phone—when markets are turbulent.

We then compared the consumer research with our advisor survey responses to see if advisors' views of client behavior correlated with what affluent households said they would do during volatile markets. Table 3 shows the disparities we uncovered. Advisors can help bridge these gaps through coaching and education to help clients avoid regrettable decisions that can distance them from achieving their goals.

KEY TAKEAWAYS

- The views of both affluent investors and financial advisors are excellent examples of behavioral economics. Investor responses demonstrate the loss aversion preference, and advisor responses clearly exhibit an overconfidence bias.
- Advisors have work to do to educate clients about emotional biases and to demonstrate their value as a coach. Their clients need to see them as sounding boards to consult before taking independent action when there is an uptick in volatility.
- Advisors should prioritize contact with HNW clients, because they are most at risk, to talk about behavioral bias and to reconsider moving money out of more volatile asset classes. Because 17 percent of HNW households revealed they would shift money into bonds, advisors may need to spend more time educating these clients about the consequences of such a move. More than half (62 percent) may require additional reassurance if volatility continues because they risk sabotaging their own success.

SIX STEPS TO IMPLEMENTING A GOALS-BASED WEALTH MANAGEMENT APPROACH

Be mindful of your own potential biases: Review for overconfidence. Instead of looking at individual performance, look at consolidated advisor-as-portfolio-manager overall performance. Are you really as good as you think you are? Survey clients about what they value. Are you putting your emphasis (and overconfidence) in something they don't value?

Co-plan with your clients: Move away from selling product and become a co-creator of interactive plans that are unique for every client. In the true sense of the word "partner," transition from relationship manager to coach and collaborator. Be your clients' coach, expanding the conversation beyond

Table 3

CLIENT VS. ADVISOR VIEWS OF RESPONSES TO MARKET VOLATILITY

How affluent households say they'll respond to market volatility	The Disconnect	How advisors believe their clients will respond to market volatility
• When asked, "If there is volatility in the market, how likely are you to make changes to your overall portfolio?" a relatively high percentage of high-net-worth investors (37 percent) said they would likely or very likely make changes to their portfolios. Nearly half of millennial investors (46 percent) said they would likely or very likely make changes to their portfolios. Even when analyzed through the advisor-assisted lens, half of these affluent investors' survey responses (50 percent) reveal they are likely or somewhat likely to make changes to their portfolios, leading us to believe that your clients are expecting you to take action. • At the first sign of volatility, affluent silent generation (64 percent) and boomer (63 percent) investors reveal they are more likely to call their advisors and rely more on advisor advice for what to do. But millennial (43 percent) and Gen-X (43 percent) investors are less likely to call. • When asked, "If there were market volatility, would you rely more or less on your advisor for advice on what to do?" a fairly high percentage of affluent investors answered they were unsure or would rely somewhat less on an advisor's advice; emerging affluent: 26 percent; mass affluent: 28 percent; HNW: 24 percent. • HNW households are different from the rest of the investors in our survey. They are less likely to call their advisors (37 percent) and more likely (43 percent) to start moving money from one investment vehicle to another. Perhaps they are more confident in their investment skills than other investors. • Two-thirds of the respondents describe their investment philosophy as "buy and hold," yet 40 percent are likely to make changes to their portfolios in an effort to protect them during volatile markets. • About half of the survey participants said they would make adjustments to their risk and tolerance levels as well as the goals and asset allocations during volatile markets.	• Affluent investors say they'll make changes when volatility spikes; advisors think their clients will take a wait-and-see approach. • Boomer and silent generation affluent investors say they will call their advisors during periods of elevated volatility; most advisors say their clients don't call. • Significantly fewer HNW investors will call their advisors for advice; they're also more likely to move money, but 90 percent of advisors believe clients won't deviate from their plans. • Forty percent of "buy and hold" households likely would make changes to their portfolios—more than half of advisors think they won't, and about a third neither agreed nor disagreed, indicating that they really don't know.	• Most advisors (84 percent) believe that their clients will take a wait-and-see approach during volatile markets. • Almost all (81 percent) survey participants believe clients won't want to make changes to their portfolio. • Nearly half of survey respondents (49 percent) disagree or strongly disagree that their typical client is more likely to look for alternatives in an effort to protect their overall portfolio during volatile markets; again, nearly one-third (29 percent) neither agreed nor disagreed. • According to the survey, 69 percent of advisors report that clients don't typically contact them during periods of elevated volatility. • Only 10 percent of advisors believe that clients deviate from their investment plans during periods of volatility. • Half (50 percent) of the advisors disagree that clients will want to adjust their risk and tolerance levels, and a fair number (30 percent) didn't know or neither agreed or disagreed. • Survey respondents agree or strongly agree (43 percent) that clients are more likely to want to revisit their plans during volatile markets; 70 percent agree or strongly agree that clients contact them for reassurance but make no changes.

finances and investing. Put clients at ease by setting expectations and clearly explaining how you'll make their financial life easier.

Reinforce your value proposition: Explain how you deliver wealth management services that are highly personal, consistent, and worthwhile. Discuss how a goals-based investing framework links client goals to investment strategies and risk management objectives. Concentrate on developing your listening skills; let clients know you truly understand what matters most to them. Frame the risk conversation to address potentially not meeting goals.

Segment your goals-based clients: Identify which clients tend to overreact and create a communication plan that's focused on them. Consider developing behavioral profiles for your goals-based clients. Segmenting clients into personas can help you tailor your communications more effectively and plan more appropriately for client meetings. Every meeting or conversation is an opportunity to deepen your relationship and enrich that profile.

Educate your clients about behavioral finance: Use every meeting and conversation as an opportunity to reinforce the fundamentals of their goals-based plan. Direct conversations away from investment benchmarks and toward the notion of helping to reduce the risk of not achieving goals by showing "progress to goals." Continual progress-to-goal feedback will help clients understand the value of goals-based investing. Don't sabotage your efforts by sending out communications that reinforce market ups and downs or uncertainty that leads your clients to worry about the S&P 500 or why interest rates are woefully low.

Define success: Explain the metrics you'll use to measure progress and success of the investment plan. Use multiple portfolios and strategies addressing the behavioral biases of clients to bucket their goals. Help minimize emotional decisions and manage irrational behavior by focusing on goals.

CHANGE THE CONVERSATION; CHANGE YOUR GAME PLAN

We believe goals-based wealth management is driven by processes that help you change the conversation with clients from one based on product and performance to one based on advice related to the potential achievement of personal goals. The approach offers a way for you to differentiate and elevate your service, and it can help you build deeper relationships with your clients.

GBWM helps you streamline your advice delivery. It aligns your advice with the way clients think about their wealth. In turn, your clients may make more-rational investment decisions and may be able to stay invested during periods of market volatility instead of focusing on arbitrary benchmarks.

GBWM enables you and your client to align multiple goals with multiple portfolios, which we believe is more effective than trying to force multiple goals into a single strategy/single portfolio solution. For clients, the GBWM approach can help them stop worrying about beating a benchmark or agonizing over market fluctuations, allowing them to focus instead on striving to achieve the goals that are most important to their financial lives.

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ENDNOTES

1. "Quantitative Analysis of Investor Behavior, 2019," DALBAR, Inc. www.dalbar.com.
2. Average stock investor and average bond investor performance results are based on a DALBAR study, "Quantitative Analysis of Investor Behavior (QAIB), 2018" DALBAR is an independent, Boston-based financial research firm. Using monthly fund data supplied by the Investment Company Institute, QAIB calculates investor returns as the change in assets after excluding sales, redemptions, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses, and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for the period.
3. Primary research: SEI Financial Advisor Survey, Behavior Finance; April 2019, n=608. SEI, in partnership with Phoenix Marketing International, March 2019, n=653 total affluent U.S. households.
4. Envestnet, "Digging into Portfolio Performance Outliers." *Envestat Report* (May 2018), https://www.envestnet.com/files/Envestat-Report/images/05-18/EN-STATREP-0518.pdf.
5. "The Value of Advice: What Investors Think, What Advisors Think, and How Everyone Can Get on the Same Page," Morningstar, https://www.morningstar.com/lp/value-of-advice.
6. Independent Advisor Solutions by SEI. "Your High-Net-Worth Client Strategy: It's What They Want, Not What You Know" (2018), https://s1281045713.t.en25.com/e/er?s=1281045713&lid=1981&elqTrackId=C0B94F62C7F324124BAF902CB1914087&elq=00000000000000000000000000000000&elqaid=1172&elqat=2.
7. Kahneman and Tversky (1979) considered the implications of loss aversion in a landmark paper in which they questioned the validity of the utility function of standard finance. In its place, they introduced a model of investor preferences called a value function. Their value function accommodates the observation that investors are not risk-averse but loss-averse. More broadly, their approach, which they called prospect theory, measures value using reference points rather than total wealth outcomes and, therefore, is more consistent with the behaviors that researchers have observed.

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