Forbes INSIGHTS

FINANCIAL PLANNING

WHICH PERSONA YOU ARE AND WHY IT MATTERS

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Introduction

Finding the right financial advisor is an important decision—one that can make a real difference in your long-term financial well-being. However, with so many different types of advisors offering different services at different rates, it can be difficult to figure out the best path forward. But you're not alone. A recent Forbes Insights survey found that 78% of investors do not understand the distinctions among types of financial advisors—such as independent registered investment advisors, financial planners, registered representatives and money managers—to name a few. Additionally, more than a third of investors don't know if their advisor is a fiduciary—someone who is legally required to act in their clients' best interests at all times—and 29% are unclear about how their advisors charge for services.

This lack of knowledge is unsettling, especially since our survey also found that investors who are the most financially literate are also the most satisfied with their advisor. So what can you do to become better informed and get the most from this important relationship? Forbes Insights surveyed more than 300 individual investors to find out. After reviewing the data, we identified three unique personas of financial literacy—Novices, Apprentices and Experts—and then analyzed their differences to identify four steps you can take to make a difference:

1. **Understand and outline your goals**

2. **Combine recommendations from family and friends with your own due diligence when selecting an advisor**

3. **Confirm fee structures with your advisor up front and ensure you understand exactly how they're being paid**

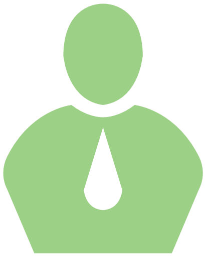
4. **Engage with your advisor often**

This report details these four steps and provides key findings from the Forbes Insights research. Before jumping in though, it's important to first determine where you fall on the financial literacy spectrum.

Are you a novice, apprentice or an expert? Keep reading to find out.

The Three Personas Of Financial Literacy

Investors are, of course, not all alike. Not only do people have varying asset levels and degrees of complexity in their financial lives, they also have different life goals and priorities. After surveying more than 300 individual investors, we identified three distinct investor personas.

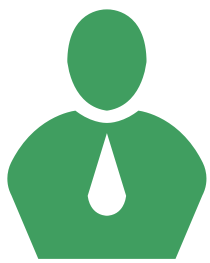


Novice

Novices make up 18% of the sample. These investors are unsure what fees they are paying when using an advisor, don't know if their advisor is a fiduciary or not, and have a limited understanding of the differences among types of advisors.

Apprentice

Apprentices make up 50% of the sample. These investors fall somewhere in the middle on industry knowledge. They are unsure of the differences among types of advisors, but are clear on what they're being charged and if their advisor is or isn't a fiduciary.



Expert

Experts are 32% of the sample. These investors are able to correctly identify the different types and affiliations of financial advisors, know what they're being charged for and know if their advisor is a fiduciary. They are at the top of their game in terms of financial knowledge.

Which of these personas best describes you?
Take our short quiz to find out.

Quiz: Which Persona Are You?

Given the complexity of investing, financial literacy is important. As the Forbes Insights research indicates, a majority of investors lack an understanding of the industry and the different types of advisors available to them. Even more critically, less informed investors tend to be less satisfied with their advisor, meaning transparency and understanding, not just returns, drive satisfaction.

All investors can benefit from better information about changing industry terminology, affiliation models and compensation practices, but knowing where you stand on the financial literacy spectrum can help you determine which questions you need to be asking of yourself and your advisor. Not sure where you stand? Take our short quiz to find out.

QUESTION 1: On a scale from 1 to 5, where 1 is "not well at all" and 5 is "very well," how well do you know the difference between a registered representative, financial planner, financial advisor and money manager?

1 2 3 4 5

QUESTION 2: What is your level of understanding of what you are being charged?

- I receive a full accounting at every billing and understand the charges
- It's not always clear to me what I'm paying

QUESTION 3: Is your financial advisor a fiduciary (i.e., someone who is legally bound to look out for your financial interests)?

Yes No Not sure

Key: Award yourself the following points for each response:

Q1: 1=2; 2=2; 3=5; 4=8; 5=8

Q2: Full accounting = 4; Not clear = 2

Q3: Yes = 3; No=3; Not sure = 1

Below 10—You're a Novice

You're still in the early stages of navigating through the complexity of the financial planning industry. Start by visiting the "Learning Hub" on FindYourIndependentAdvisor.com to learn the differences among the types of advisors and how to connect with one near you.

10—15—You're an Apprentice

You have a reasonable grasp on the financial planning industry and what your advisor offers, but there's still room to learn. If you're considering switching advisors, check out "Choosing an Advisor" on FindYourIndependentAdvisor.com to understand what questions you need to ask yourself in order to make the best choice.

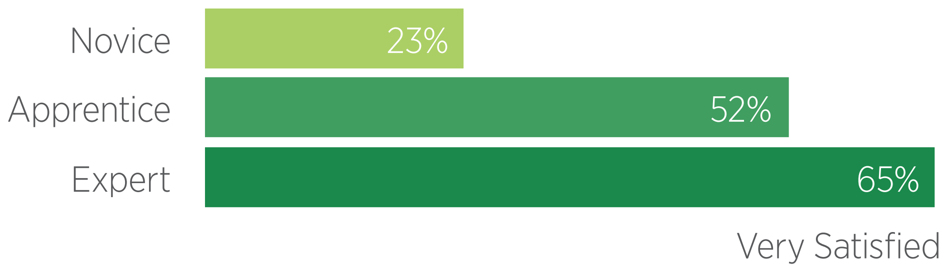
Above 15—You're an Expert

You have a strong understanding of the financial planning industry as well as your advisor's designation. As the industry continues to change though, there's no reason to stop learning and educating yourself. Consider browsing the Investing channel on Forbes.com or reading 2016 Wealth Management Trends, a recent report by PwC that highlights how the industry is changing and what trends are reshaping the advisor-investor relationship.

Why Do Personas Matter?

By classifying investors into these personas, we can get a clearer picture of the factors that contribute to a successful advisor relationship. Perhaps not surprisingly, it turns out that it pays to be an informed consumer—the more you know about how your financial advisor works, the more likely you are to be satisfied with the results.

Figure 1. How Satisfied Are You With Your Advisor?



Four Steps To Improving Financial Literacy

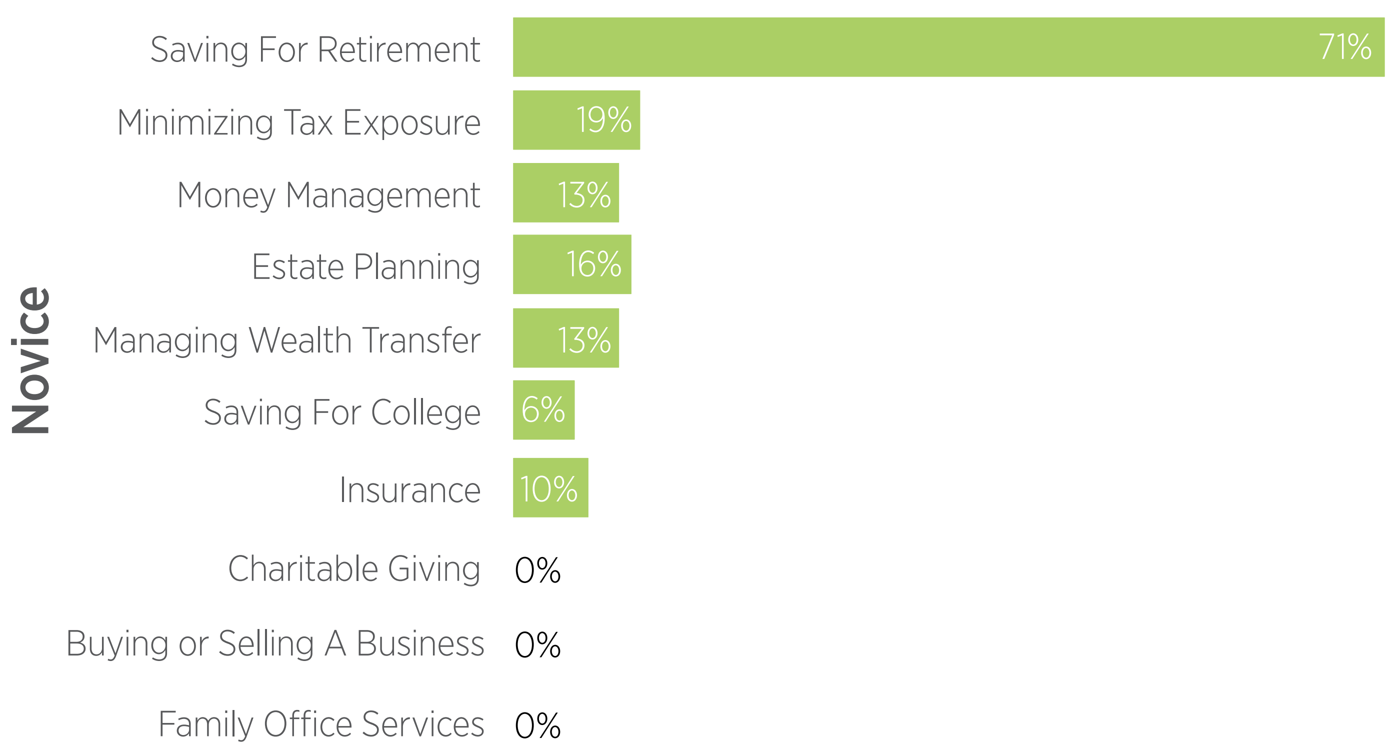
No matter which persona you fall into, there are four steps you can take to become a more knowledgeable investor and improve your satisfaction with your advisor.

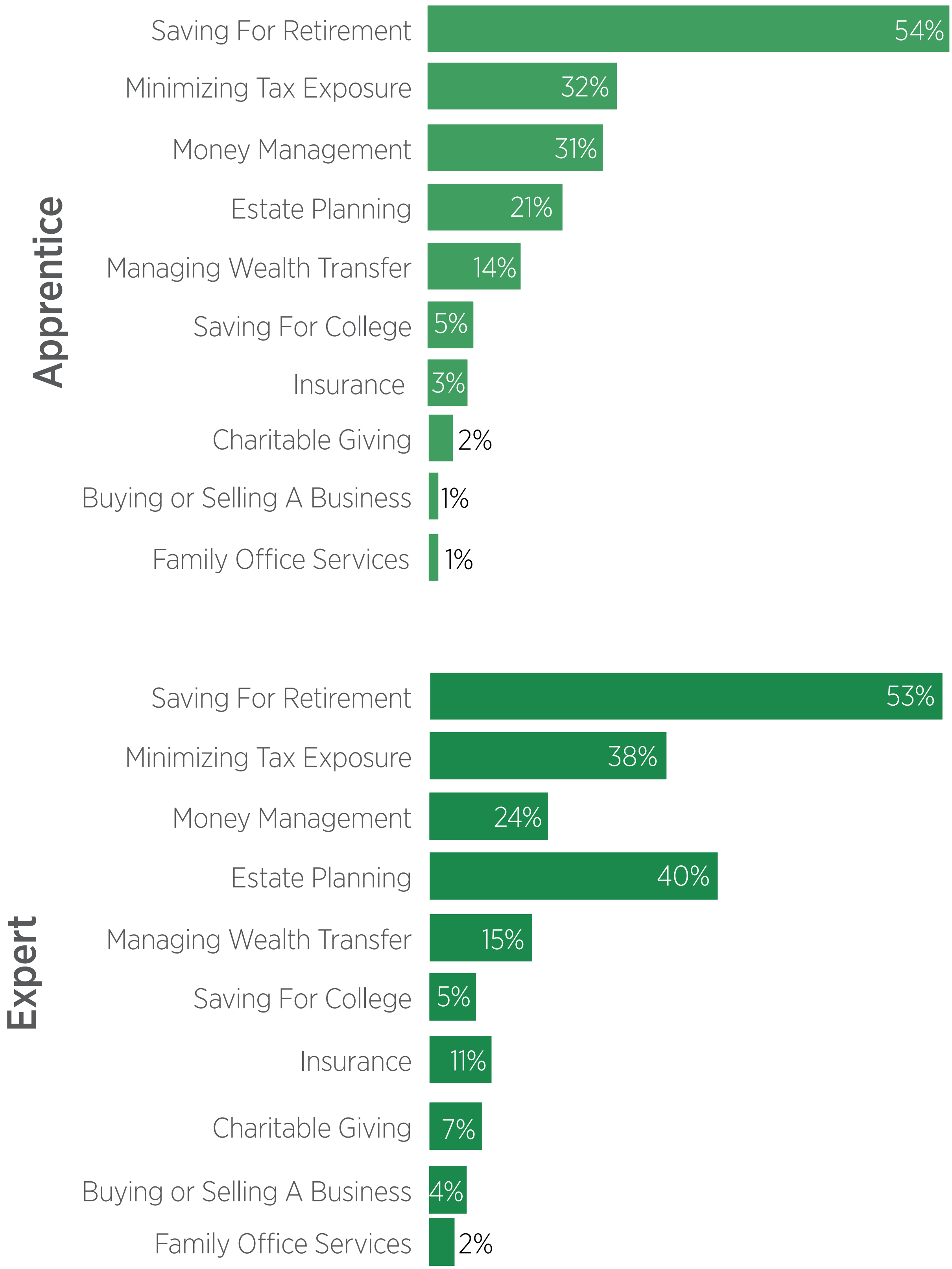
STEP 1 Understand and Outline Your Goals

First, spend some time thinking about your life goals and priorities. Then, with those in mind, begin to outline your financial goals. "With prospective clients, we go through a process and ask a series of questions, starting with, 'What's important to you?'" says Gregory Sullivan, founder, president and managing director of Sullivan, Bruyette, Speros & Blayney. "We have a frank and open discussion about their needs and determine how we can best meet their objectives."

Novices, who have the least assets of all three groups, are disproportionately focused on retirement (71%). They may be best served by an advisor with deep experience helping investors with similar asset levels plan for a comfortable retirement. Apprentices, who tend to have slightly higher asset levels, may be more likely to benefit from an advisor who can address retirement planning, as well as a broader range of financial concerns including money management and estate planning. Experts, who are comparatively wealthy, may need an advisor with deep expertise around issues like minimizing tax exposure and charitable giving. Having a clear sense of your personal goals can help you evaluate whether an advisor is a good fit for you (Fig. 2)

Figure 2. Aspects of Your Financial Situation That You Need the Most Help With



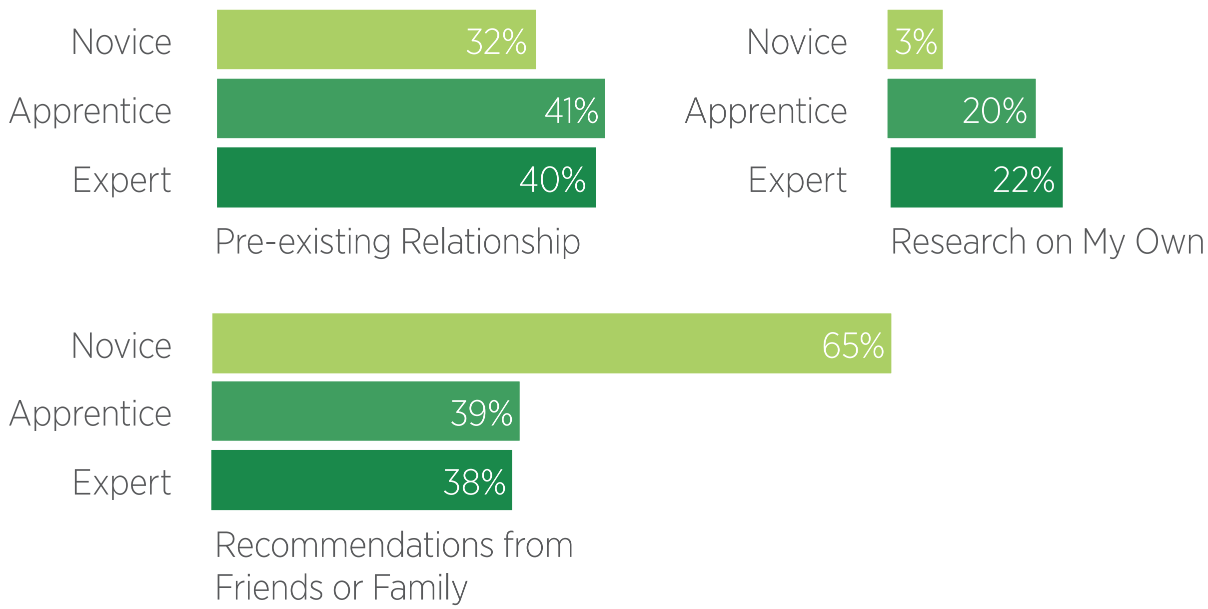

Apprentice
Saving For Retirement 54%
Minimizing Tax Exposure 32%
Money Management 31%
Estate Planning 21%
Managing Wealth Transfer 14%
Saving For College 5%
Insurance 3%
Charitable Giving 2%
Buying or Selling A Business 1%
Family Office Services 1%
Expert
Saving For Retirement 53%
Minimizing Tax Exposure 38%
Money Management 24%
Estate Planning 40%
Managing Wealth Transfer 15%
Saving For College 5%
Insurance 11%
Charitable Giving 7%
Buying or Selling A Business 4%
Family Office Services 2%

THE TAKEAWAY: Regardless of what your goals are, identify where you need the most help. By having a sense of your priorities, you can seek advisors with the specific expertise and services that you need and direct your advisor's attention to what matters most, thus increasing the likelihood of a successful relationship and satisfaction with the outcomes.

STEP 2 Combine Recommendations From Family and Friends With Your Own Due Diligence When Selecting an Advisor

When it comes to choosing an advisor, Novices, Apprentices and Experts all agree on what's important—honesty, integrity and reasonable fees. However, the personas differ sharply in the process they follow to find an advisor. Novices tend to rely on recommendations from family and friends. While Apprentices and Experts also get recommendations from their family and friends, they are more likely to conduct their own research and tap into their existing relationships with other professionals (such as CPAs, attorneys, etc.) to help identify advisors who might meet their needs (Fig. 3).

Figure 3. The Best Way to Find an Advisor



These differences between the personas also carry over to the process they follow to vet potential advisors. Here, Novices continue to rely mainly on input from family and friends, while Experts do their own due diligence, conducting more online research and interviewing several advisors before making a decision (Fig. 4).

Figure 4. Process for Vetting an Advisor


Apprentice
Relying On Advice From Family or Friends
37%
Aligning on How Often & How We Would Communicate
44%
Interviewing Serveral Advisors
28%
Conducting Online Research
25%
Asking About The Client He/She Has
23%
Speaking To Some Of The Clients
28%
Meeting Other People In The Office
11%
Checking with Regulators
10%

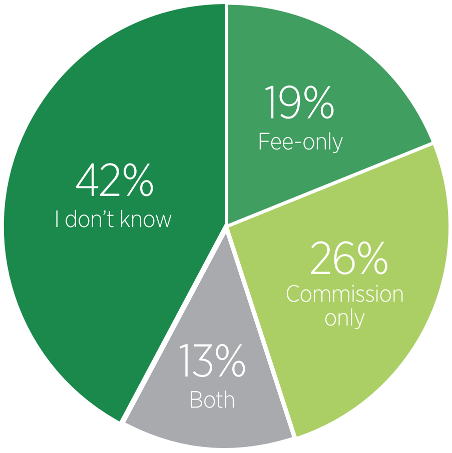

Expert
Relying On Advice From Family or Friends
47%
Aligning on How Often & How We Would Communicate
36%
Interviewing Serveral Advisors
40%
Conducting Online Research
33%
Asking About The Client He/She Has
31%
Speaking To Some Of The Clients
16%
Meeting Other People In The Office
25%
Checking with Regulators
15%

THE TAKEAWAY: When selecting or vetting an advisor, do not rely on only one source. Seek out personal recommendations from family and friends, but also do your own due diligence to make sure the advisor is a good fit for your individual needs. Research different firms to learn about their offerings and rates, as well as their investing philosophy, which can differ greatly from firm to firm. The more time you invest up front to finding an advisor suited to your specific needs, the more satisfied you'll be with the relationship in the long run.

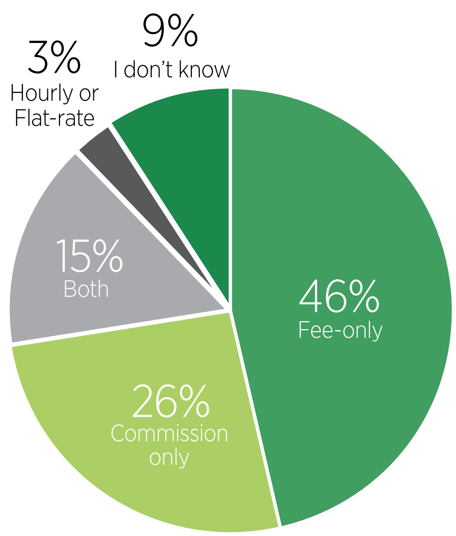
STEP 3 Confirm Fee Structures With Your Advisor Up Front and Ensure You Understand Exactly How They're Being Paid

There are a number of ways advisors earn money for their services. Some advisors operate on a "fee-only" model, and are paid a flat fee or a fee based on their clients' portfolio size. Some receive commissions for recommending specific investment products. Others earn a mix of fees and commissions. As an investor, it's critical to know both what you are paying your advisor and what, if any, compensation they are receiving from other sources. One hundred percent of Novices are unclear on what they're paying for when using an advisor, which is in sharp contrast to Experts, 100% of whom are clear on what their advisors are charging. In addition, almost half (42%) of Novices do not know the fee structures of their advisors (Fig. 5).

Figure 5. How Does Your Financial Advisor Charge for Services?

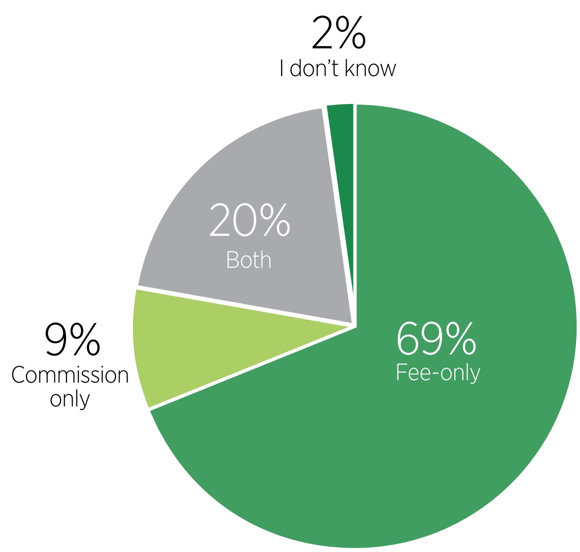


Novice



Apprentice

Note: Does not add to 100% due to rounding



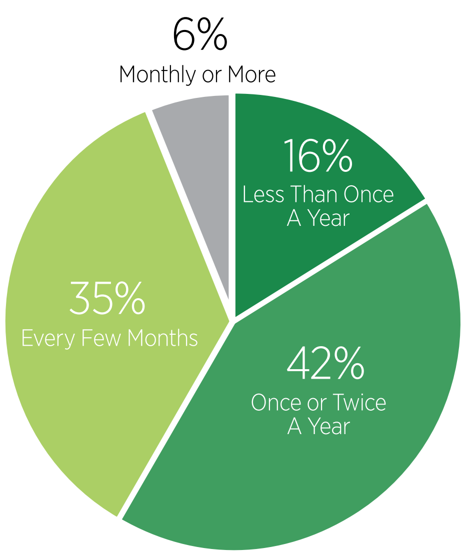
Expert

THE TAKEAWAY: Make sure you understand how, and by whom, your advisor gets paid. "How you are compensated is one question clients don't always ask, but it's one of the most important," says Damon White, chief operating officer and co-founder of Evermay Wealth Management, LLC. "To create a successful advisor relationship, and one that's built on trust, there has to be transparency and a mutual understanding of the fee structure." By clarifying up front how your advisor earns money, you can prevent confusion down the road.

STEP 4 Engage With Your Advisor Often

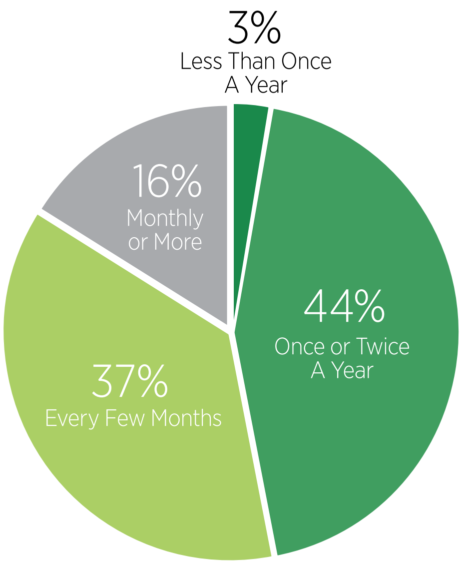
Working closely with your advisor will improve your satisfaction with the relationship. Highly financially literate investors engage much more frequently with their advisor than other groups do. Experts communicate with their advisor once every month, while Apprentices and Novices do so much less often (Fig. 6).

Figure 6. How Often Do You Engage With Your Financial Advisor?

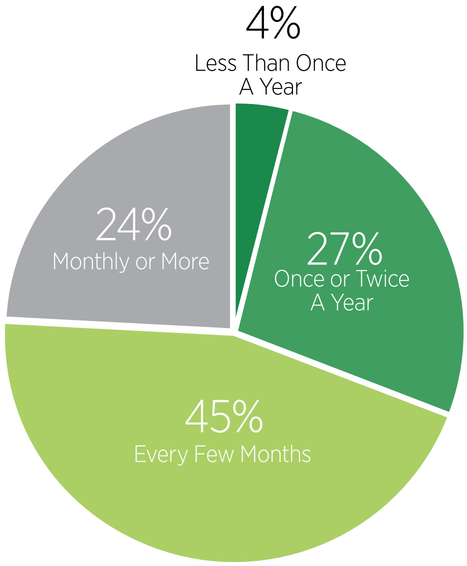


Novice

Note: Does not add to 100% due to rounding



Apprentice



Expert

THE TAKEAWAY: To improve your relationship with your advisor, outline how you will communicate up front. Opt to engage more frequently, whether it be over the phone or in person, to ensure you're both in alignment. Seek out an advisor who is open and transparent about his or her approach, and who takes the time to address your questions and concerns.

Becoming An Educated Investor Will Improve Satisfaction With Your Advisor

No matter where you fall on the persona spectrum—Novice, Apprentice or Expert—following these four steps can help you become a more educated investor and get the most from your relationship with your financial advisor.

The key thing to remember: by asking questions and being engaged, you are more likely to find an advisor who is aligned with your needs and motivated to help you meet your goals. "As an advisor, it is our role to help clients understand the market and the opportunities available to them," says Roger Scheffel, portfolio manager at Wilbanks, Smith & Thomas. "But more importantly, we're there to do everything in our power to help them achieve financial success."

Methodology

Based on a 2016 survey of 328 U.S.-based individual investors, including high net worth individuals, conducted by Forbes Insights in partnership with Charles Schwab. A portion of respondents (173) were segmented into the three personas (Novice, Apprentice and Expert) based on how well they understood the differences among types of advisors, what they were being charged when using an advisor and whether they could identify their advisory as a fiduciary.

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