Building Trust While Delivering Value

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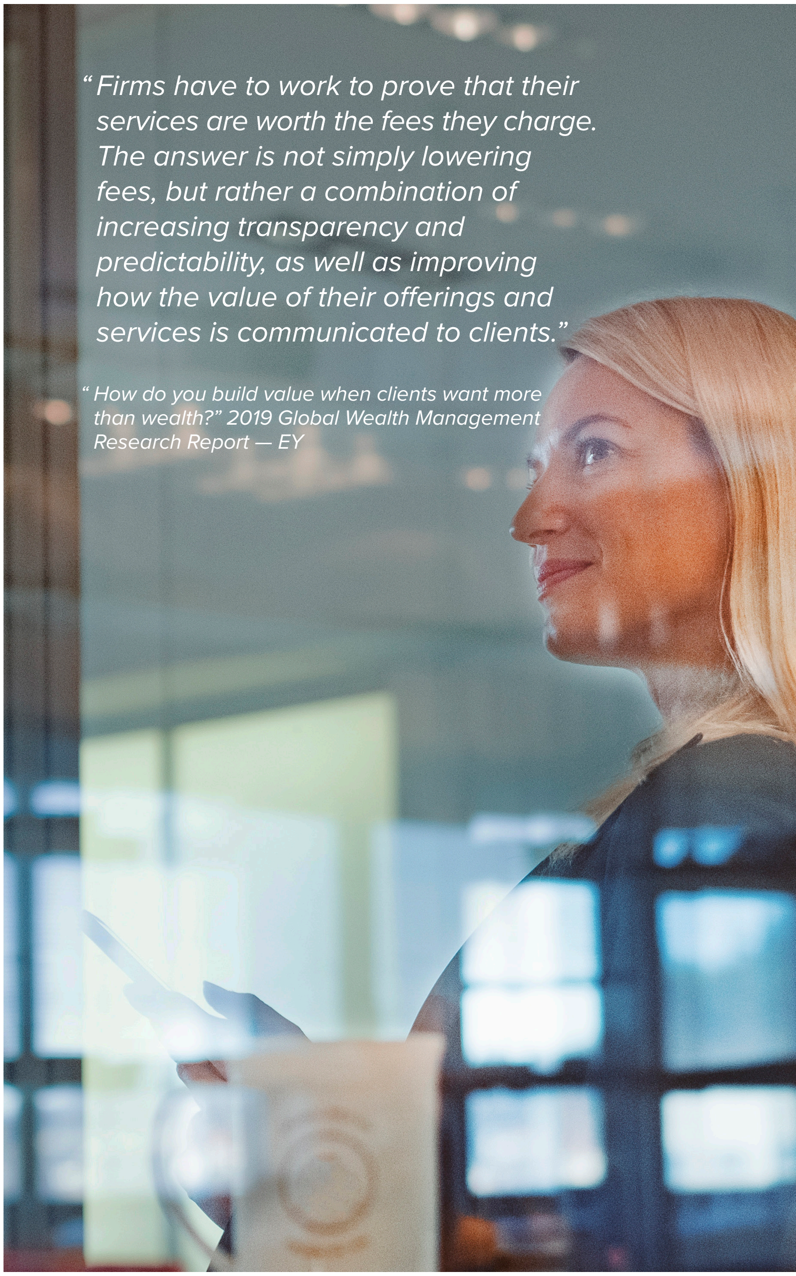
Trust is a revered and delicate thing. It takes a lot to build, but a small misstep to lose. The 2019 EY Global Wealth Management Research Report "How do you build value when clients want more than wealth?" reinforces that sentiment, warning advisors that distrust is starting to creep back into the minds of the wealth management client. According to this report, polling shows that forty-five percent of wealth management clients do not trust their advisor to charge them fairly. And the report goes on to say: "Firms have work to do to prove that their services are worth the fees they charge. The answer is not simply lowering fees, but rather a combination of increasing transparency and predictability, as well as improving how the value of their offerings and services is communicated to clients."

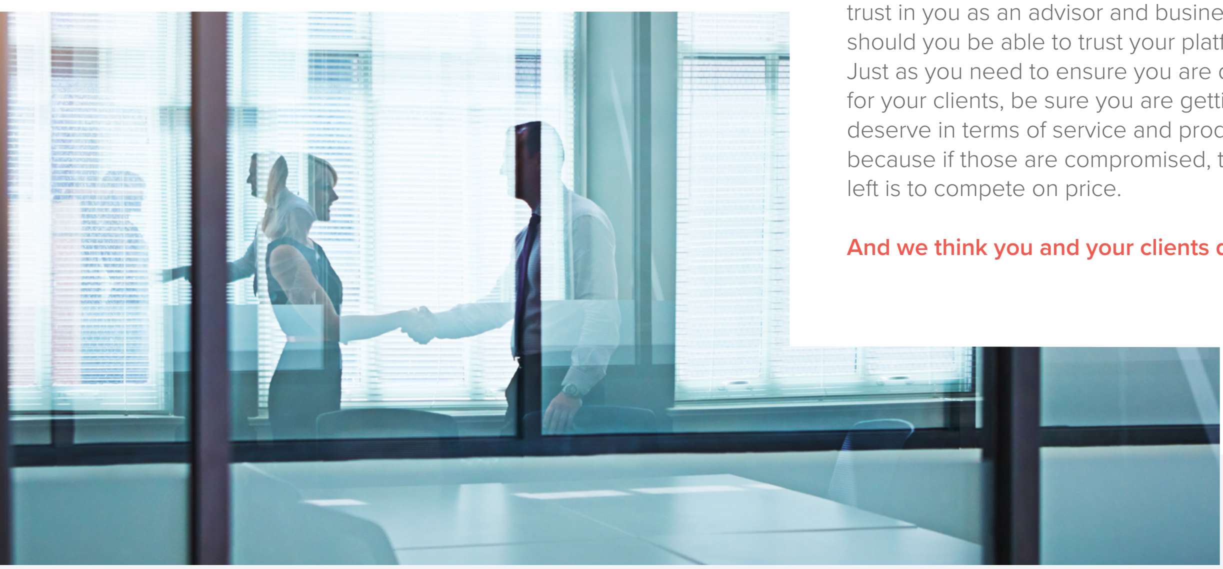
This should give advisors pause, particularly since advice is – above all else – a trust-based business. Advisors should heed this early warning indicator, and give thought to how you might handle a relationship where you personally felt you were being taken advantage of, or over-charged. It's probably simple and may go something like this: Step 1 - get an itemized bill; Step 2 - fire the vendor if it turns out they are slipping in hidden expenses or charging exorbitant fees. And that sort of reaction is commonplace for impersonal services, such as a car repair business or a restaurant. However, when it comes to deep trust-based and personalized relationships like healthcare, legal counsel or retirement planning, the bar is raised considerably, and distrust can start to manifest itself through feelings of betrayal and resentment. Advisors are unlikely to receive warning signs from clients who begin to feel this way, often leading to lost revenue and reputational damage.

The EY study shows that the distrust comes from a lack of transparency, predictability and investors' belief that there are hidden expenses present in their investments. Only half of the respondents knew how their fees were charged - which in most cases were through mutual fund revenue share arrangements or other forms of less-than-fully-transparent expenses. A recent Cerulli study reinforces this finding – 87% of advisory clients preferred transparent pricing through mechanisms like asset-based, hourly or retainer-based fee models. The Cerulli study also revealed that clients preferred visibility and itemization in advisory fees as well as unbundling of the various services that are included in the overall fee.[1] This makes sense, again, if considered through the lens of everyday life – the minute you suspect your trust is being taking advantage of, you immediately ask for an itemized bill.



[1] Cerulli Edge, 2019

But trust is also about getting value in exchange for the fees you pay, and here transparency and communication are key. When you bring your fee out into the open and display the various parts that go into it, this facilitates a discussion with clients about the value of the services you provide. As an example, on the Adhesion platform all of our fees are asset based, transparent – and can be broken down so a client can see – and the advisor can explain – the fee paid for advice, asset management, research, tax services, and transition management. This facilitates this conversation and underscores the value an advisor is delivering through a sophisticated investment management program that's tailored to each client. And it also reinforces the advisor's role as quarterback of an experienced, high powered and institutional-caliber team.



fee – if positioned properly – can serve as a continual strengthening of the value they are being provided. On the other hand, receiving what is considered free or cheap service is often an allegory for 'You Get What You Pay For', especially if that is being used to mask hidden fees underneath.

The platform business is not immune to these 'Value Traps'. Like end investors, advisors should insist that our fees are transparent, predictable, unbundled and non-proprietary as well. Most of all, advisors should insist on a trust-based relationship with their platform partners, just like their clients need to trust them. If you are presented with a seemingly 'too-good-to-be-true' offer, be sure you understand what/whether there are hidden fees or escalation clauses, sustainability of the partner etc. Just as you want your clients to have full trust in you as an advisor and business partner, so too should you be able to trust your platform providers. Just as you need to ensure you are delivering value for your clients, be sure you are getting the value you deserve in terms of service and product/platform quality, because if those are compromised, then the only thing left is to compete on price.

And we think you and your clients deserve better.

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