

NEWS

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Vanguard Financial Advisory Services and Advisor Impact Release New Study on Investor Attitudes and Perceptions of Financial Advisors

Survey conducted by:



Survey sponsored by:



(March 25, 2008) CHICAGO, IL -- In a keynote presentation at this year's FPA Business Solutions conference held March 3-5 at the Westin O'Hare in Chicago, Illinois, Julie Littlechild, President of Advisor Impact, presented new information based on a survey of 1000 investors. There are implications for both investors and the advisors who serve them. The goal, according to Littlechild, was to understand what drives investor loyalty to, and satisfaction with, financial advisors and the extent to which those needs are being met today.

Littlechild's company, Advisor Impact surveyed 1,000 Americans, all of whom work with a financial advisor, are 18 years of age or older, have a minimum of \$50,000 in total investable assets and contribute to or make the financial decisions in their household. The sample was structured to provide

insights into clients with a range of assets up to and including those \$5m+. The margin of error is +/- 3.16%.

The sample itself provided the first insight as it did not include those Americans who said they did not work with a financial advisor. Almost half of individuals contacted said they did not work with a financial advisor. This finding changed based on asset levels: 37% of clients with \$1-\$4.9m said they did not work with a financial advisor whereas only 29% of those with \$5m or more said they did not work with a financial advisor.

THE CLIENT EXPERIENCE VARIES SIGNIFICANTLY

Those that do work with a financial advisor are generally satisfied, giving the overall relationship an 8.1 out of 10 in terms of satisfaction. That average is comprised of a wide range of views on the client experience. The study describes a third of clients as highly satisfied, giving their advisors full marks or a 10 out of 10 on overall satisfaction. 41% are described as somewhat satisfied, giving their advisors an 8 or 9 out of 10. The study defined the balance of clients as being complacent or dissatisfied. Any client providing an overall rating of less than 8 was considered ‘at risk’ to an advisor, based on client responses provided regarding their satisfaction levels prior to leaving a previous advisor.

CLIENTS WHO ARE AT RISK MAY STILL BE “LOYAL”

Loyalty to a financial advisor was not a strong indicator of real satisfaction with the relationship, suggesting that some clients who are dissatisfied or only moderately satisfied are not taking steps to change the situation. Of the 17% of clients who said they had thought about switching advisors, only 3% had taken any steps to doing so; another 4% had made preliminary inquiries and 10% had done nothing. Asked why they had not taken action, most of those “disgruntled” clients said they did not believe things would be any better with another advisor (43%) or that they did not know how to go about it (18%). In general, older clients said they were more loyal, with fewer indicating they had thought of switching to another advisor.

The most satisfied clients (rating a 10 out of 10) said their advisor:

- Plays a coordinating role (across all of their professional advisors) or acts as a “quarterback”:

- 52% of the most satisfied clients said their advisor plays a coordinating role, compared to 19% of the least satisfied clients.
- Manages a higher percentage of their investable assets:
 - 55% of the most satisfied clients say their primary advisor manages 75% or more of their investable assets compared to 18% of the least satisfied clients.
- Works to manage their wealth, as a family, rather than working separately with different family members (e.g. children or parents):
 - Almost three times as many very satisfied clients say their advisor works with them as a family.
- Has asked for feedback on his or her services:
 - 70% of the most satisfied clients report that they are asked for feedback on services, compared to 40% of the least satisfied clients.
- Provides them with a broader range of services, including estate planning, tax planning, planning for income needs in retirement and comprehensive financial planning
- Has a written financial plan which is reviewed annually; they meet regularly to discuss the plan:
 - Only 6% of the most satisfied clients said they did not meet with their advisor in the last 12 months; that number jumped to 21% among the least satisfied clients.

IMPORTANCE OF FINANCIAL PLANNING EMERGES AND DRIVES SATISFACTION

On average, 51% of the investors polled said they had a written financial plan. There were no significant differences in response across age groups, however assets made a substantial difference. 40% of clients with \$100,000 - \$499,000 had a plan. Of those with investable assets ranging from \$1 and \$4,999,999, 59% of those polled had a financial plan. Compare that to 67% of those with \$5m plus – all of whom had a financial plan. That still leaves a high percentage of Americans, with wealth, without a plan.

There is a clear and direct link between having a written financial plan and satisfaction with the relationship. 60% of the most satisfied clients (10 out of 10) said they had a written financial plan and that number dropped to 27% for the least satisfied clients (5 out of 10 or less). In some cases planning still plays a role even in the absence of having a written plan. 80% of the most satisfied clients said their primary advisor provided comprehensive financial planning and that dropped to 30% for the least satisfied. Many clients recognize that they have planning needs that they have not yet addressed. 23% of

clients say they may need to address estate planning, 20% say they probably need to look at critical illness insurance, and 28% agree that long-term care insurance is probably required.

PERSONAL ELEMENTS MOST IMPORTANT TO CLIENTS

When the survey participants talked about what is most important to them in a relationship with a financial advisor, they focused first on key personal elements (“my advisor is trustworthy” and “my advisor is reliable”). From there they said they want to know the job is getting done right (accuracy, few errors and “returns my calls”).

Understanding Fees -- 11% of those polled said they don’t know how their advisor is compensated (e.g. fees vs. percentage of assets). 27% of clients said they didn’t know how much they paid their advisor in the last 12 months. There is no correlation between understanding how much was paid and overall satisfaction.

MEN AND WOMEN REPORT DIFFERENT LEVELS OF INVESTMENT INTELLIGENCE

In general, men considered themselves considerably more knowledgeable about investing than women. 31% of women considered themselves below average with respect to understanding investments and investments, compared to only 16% of men (see related chart).

	“I know very little about investing and investments.”	“I know a bit about investing, but only enough to have a limited discussion about it.”	“I have an average level of understanding investing and my investments.”	“I have an above average level of understanding about investing and my investments.”	“I consider myself a very knowledgeable investor.”
Male	3%	13%	32%	29%	12%
Female	9%	22%	44%	19%	6%

THE ONUS IS ON ADVISORS

Littlechild challenged her audience of financial advisors to focus on gathering more and better feedback from their clients to understand not only if they are satisfied but what they really value in the relationship. “Satisfied and engaged clients are not ‘born,’” she said, “they are created and to that end, understanding what you are doing right is as important as understanding what you are doing wrong.”

“As for clients,” she added, “they need to take a hard look at what they need and value, ensure that those things are being delivered or find a better fit elsewhere. It’s too important to ignore.”

Martha Papariello, principal and head of Vanguard Financial Advisor Services said: “Vanguard is proud to sponsor this study with Julie Littlechild. It provides important information for investors and advisors alike.”

A full report will be available in April, 2008. To receive a copy, please send your contact information to Greg McKernan at gmckernan@advisorimpact.com or call 877-686-0660 x222.

About Vanguard

Vanguard, headquartered in Valley Forge, Pennsylvania, is one of the world’s largest investment management companies and a leading provider of company-sponsored retirement plan services. Vanguard manages nearly \$1.25 trillion in U.S. mutual fund assets, including more than \$350 billion in employer-sponsored retirement plans. Vanguard offers more than 150 funds to U.S. investors and more than 50 additional funds in foreign markets. More information is available at www.vanguard.com.

About Advisor Impact, Inc. and Julie Littlechild

Julie Littlechild is president and founder of New York-based Advisor Impact Inc., which provides practice-management training and tools for financial advisors across North America and Britain. She frequently speaks and writes about innovation in practice management. Littlechild has developed a series of programs to help advisors increase productivity and profitability; her Client Audit tool, offered in partnership with Moss Adams, helps advisors unlock client value by gathering feedback from clients and translating that information into insights, ideas and actions to boost both loyalty and revenue among existing clients. Littlechild has also authored the Business Success Kit, a comprehensive guidebook to assist financial advisors in efficient practice management. Learn more at www.AdvisorImpact.com.

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