Financial Adviser FT Adviser FINANCIAL TIMES

Better Business

Advisers need to review the process they use to turn a prospect into a client, maybe looking to how their counterparts in the US do it

Making that someone say 'Yes'

BRYCE SANDERS

THE business of providing financial advice would be a lot easier if people said yes more often. Often you present your recommendations and the prospect replies: "Let me think about it". The prospect may become difficult to reach and an account is never opened.

Written surveys and interviews with financial advisers across the US revealed reasons why prospects act the way they do and strategies advisers utilise to encourage the prospect to accept the recommendations on the adviser's timetable.

Advisers gave six primary reasons prospects postpone making decisions.

First of all there is fear – the old adage the market climbs a wall of worry is appropriate in this case.

Prospects are also afraid of losing money. Some see the market as too high. They see the indices in a trading range and assume the market will decline. Others see the stock market in a low, dormant state and consider other asset classes, such as real estate, a more attractive investment.

Next there is delay. Often people do not focus on serious issues, such as planning their retirement. They procrastinate. They do not see any immediate risk with their current strategy and choose to keep things as they are. The lack of focus is a major reason why scheduled portfolio reviews are an excellent idea with existing clients.

> "Prospects are afraid of losing money – some see the market as too high, or see indices in a trading range and assume the market will decline"

Then, there is the claim that there are too many alternatives. A prospect indicates an interest in income. The adviser describes government bonds, corporate bonds, unit investment trusts, preferred stocks, utility stocks, real estate investment trusts and separately managed accounts. Next the adviser asks the prospect which choice he prefers. The bewildered prospect, face with multiple choices among investments he does not understand, chooses to sit tight and do nothing.

Also, the prospect does not see value added. He does not feel he has a need the adviser will address. He assumes all advisers are the same, complain fees are too high and looks to get it done cheaper elsewhere.

The prospect could also be in another relationship. Maybe he currently has another adviser who is not doing a bad job. He is reluctant to leave. The current adviser may also be a family member.

Finally, there is lack of trust. The prospect assumes advisers are more interested in making money than helping the client. He may assume advisers comply with the letter but not the spirit of the law. He is influenced by newspaper stories highlighting some advisers who acted improperly.

Advisers across the US shared many strategies for meeting with the prospect, presenting their recommendations and asking to make a decision.

The first strategy is the classic approach used by many advisers. It assumes advisers use a multiple step investment process, which varies from four to six steps based on the firm.

The steps frequently include: developing a financial plan, determining risk tolerance, choosing asset allocation, selection of investments, periodic portfolio reviews and face-to-face annual reviews.

Often each step is supported by software or report preparation tools enabling the adviser to deliver professional proposals and reports.

STEPS

In the classic approach, the prospect completes a financial plan, which can range from simple to complex. The adviser indicates no recommendations will be made until the plan is delivered. Why? Because we need to consider the big picture.

The adviser and prospect review the plan, securing agreement and confirmation at each step with questions such as, does that make sense to you? Or are you comfortable with this? The adviser confirms the plan, addresses the client's investment objectives by relating how each recommendation may help the prospect get closer to his goal. Finally he returns to the multiple step investment process and explain implementation is the next part of the process.

The classic approach is best with new relationships because you are establishing the rules of engagement. The adviser also demonstrates professionalism by waiting to make recommendations until the plan is reviewed instead of looking for easy business the first day the client sits down.

When gaining approval in advance, the strategy is similar to the classic approach with one addition when the adviser explains no recommendations will be made before the return of the plan.

Why? Because we will review the plan and you will decide at that meeting to implement or not implement the entire plan.

The prospect leaves the meeting having agreed to make the go or no go decision.

The gaining approval in advance strategy is also best with new relationships. The adviser is communicating he has the prospect's interests at heart because he will be presenting his recommendations after careful thought and expect the prospect to make a decision at that time.

The prospect arrives understanding this is a decision-making meeting. The risk is the prospect never agrees to a second meeting, however the adviser realises the outcome is probably the same as a review meeting ending in I will think about it.

The recommendations are not inflexible. If a prospect forgot to mention he avoids tobacco stocks and brings it up at the plan review meeting the adviser would certainly be accommodating.

Another strategy is identifying need then offering solution. Often prospects do not take action because they do not see a need to make changes. Today software for financial planning goals such as retirement analysis plus resources such as Monte Carlo Analysis to estimate the probability of reaching their goals can help the adviser use this strategy.

The adviser identifies an issue such as retirement and uses tools to determine if a prospect will meet their investment objective with their current assets and allocation strategy.

If the report indicates the client has a shortfall and will run out of money in retirement, the adviser asks "Are you willing to save more each year?" or "Retire later?" or "Will you accept a lower level of income in retirement?" Often the answer to all three questions is no.

The adviser then asks, would the client be interested in a strategy offering a greater potential of reaching your goals? Often this involves a different asset allocation and a different degree of risk tolerance – the prospect needs to understand the difference. It also may involve different investments.

The Monte Carlo Analysis shows how the new allocation and investments may offer a greater probability of achieving their goals.

The strategy has a simpler version too. The prospect has a need – perhaps he always takes a cruise around the Christmas holidays. You research the cost and determine £2000 would cover it. You design a portfolio where the income portion returns certain amounts around the time the first and final cruise deposits would be required. The client is funding the cruise with their own money however they intend to do this anyway. Costs can change over time and the adviser makes this clear.

The strategy is good for new and established relationships. It demonstrates you understand the issues important to the prospect and you use the prospect's motivator as part of the closing process.

DECISIONS

Often a prospect may listen to your recommendations and choose not to accept them. They decide to leave things as they are. They may assume taking your advice involves assuming a risk whereas staying put with their current investments is not taking a risk. They do not understand they are making an investment decision when they decide to stay put with their current investments.

Suppose the client owns 90 per cent long-term fixed income securities and 10 per cent growth stocks. In this strategy the adviser explains his suggestion of changing the allocation to 50 per cent short to medium-term fixed income securities and 50 per cent growth stocks support the assumptions that interest rates will rise and the equity markets will improve.

By sitting tight, the client's 90 per cent long-term fixed income and 10 per cent growth stock allocation assumes interest rates will stay steady or decline and the stock market will not improve.

Which set of assumptions does he believe? Can he articulate his reasons?

The strategy is good with new and established relationships. It opens the negotiation dialogue. It puts the prospect in the position of justifying their current investments in the present economic climate instead of simply rejecting your recommendations.

RISK

A sign on the seat of a London taxicab said it well: "People who take no risks are already taking one". Many advisers find asking for the order difficult. They may assume the prospect will stop them and say: "You have convinced me. I am ready to go ahead".

Often the adviser pauses at the end of the presentation and the prospect replies, let me think about it. Advisers across the US had several ways of asking for the order.

Here are a few examples:

- Are you ready to address the issues?
- Are you comfortable enough with the recommendations to proceed?
- What do you think? Can we proceed with the plan?
- Can I have your business?
- Can you see yourself benefiting from the strategy?
- I want to work for you. I need the go ahead from you.

What do the six examples have in common? They are closed end questions requiring a yes or no answer. Also, no is an uncomfortable answer.

KEY POINTS

- Advisers gave six primary reasons prospects postpone making decisions
- **Advisers across the US shared many strategies for meeting with the prospect, presenting their recommendations and asking to make a decision**
- Closed-ended questions requiring a yes or no answer are the best way to push a prospect to make a decision

Bryce Sanders is president of Perceptive Business Solutions in New Hope, Pennsylvania and is the author of Captivating the Wealthy Investor