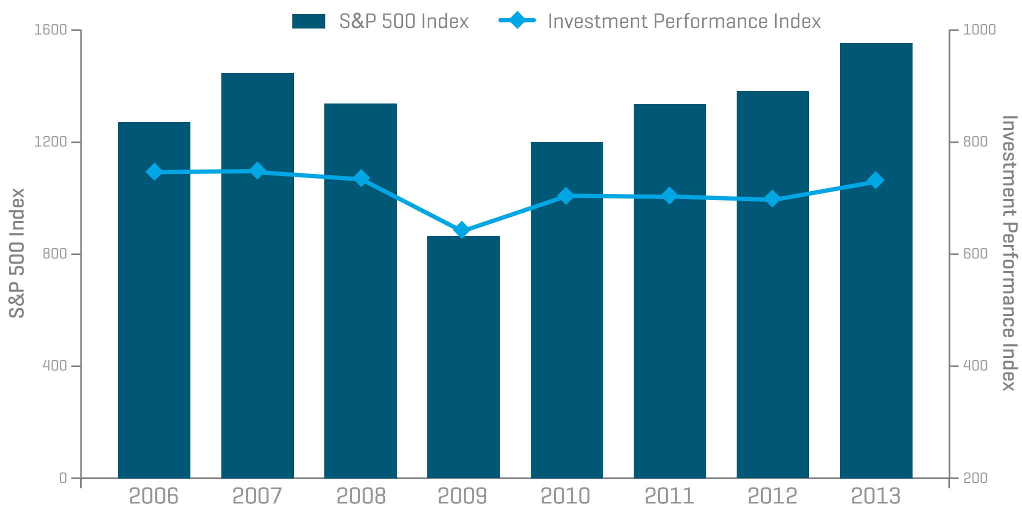
J.D. POWER
McGRAW HILL FINANCIAL

J.D. Power
Insights

Beyond Portfolio Management—What Do Investors Really Want?

When the market is doing well, satisfaction among full service investors is generally high. This is evident by examining the correlation between satisfaction in the Investment Performance factor during the past 7 years and trends in the S&P 500 index during the same period. At a minimum, investors expect their financial advisor to provide the most effective guidance with respect to the performance of their portfolio.

S&P 500 INDEX AND INVESTMENT PERFORMANCE INDEX TRENDS



Source: S&P 500 Index Data—Standard & Poor's Index via Yahoo! Finance at http://finance.yahoo.com

Analysis at the investor level shows that among the majority of investors, Investment Performance satisfaction aligns with the relative returns reported for their portfolio. In other words, approximately 60% of investors combined fall into the high portfolio performance/high Investment Performance satisfaction quadrant or low portfolio performance/low Investment Performance satisfaction quadrant, as shown in the following figure.

"When the market is doing well, satisfaction among full service investors is generally high."

	Low portfolio performance	High portfolio performance
High Investment performance satisfaction	**Low/High—14%** Low portfolio performance and High performance satisfaction	**High/High—26%** High portfolio performance and High performance satisfaction
Low Investment performance satisfaction	**Low/Low—35%** Low portfolio performance and Low performance satisfaction	**High/Low—26%** High portfolio performance and Low performance satisfaction

Source: J.D. Power and Associates 2013 U.S. Full Service Investor Satisfaction Study[SM]

However, investment performance alone isn't the driver of performance satisfaction among some investors. A significant proportion of investors do not follow the script and fall into the high portfolio performance/low Investment Performance and low portfolio performance/high Investment Performance quadrants (approximately 40% combined). The large number of investors in these quadrants raises the question, what can firms and advisors do to enhance investors' perceptions of their portfolio performance?

One very simple answer is to drive higher levels of overall satisfaction. The connection between portfolio performance and overall investor satisfaction is clear, with firms that achieve the highest overall scores appearing in the upper right quadrant of the above figure. Beyond improving overall investor satisfaction, there are three key practices that may help enhance investors' perceptions of their portfolio's performance.

1. Develop a collaborative relationship between investors and their advisor

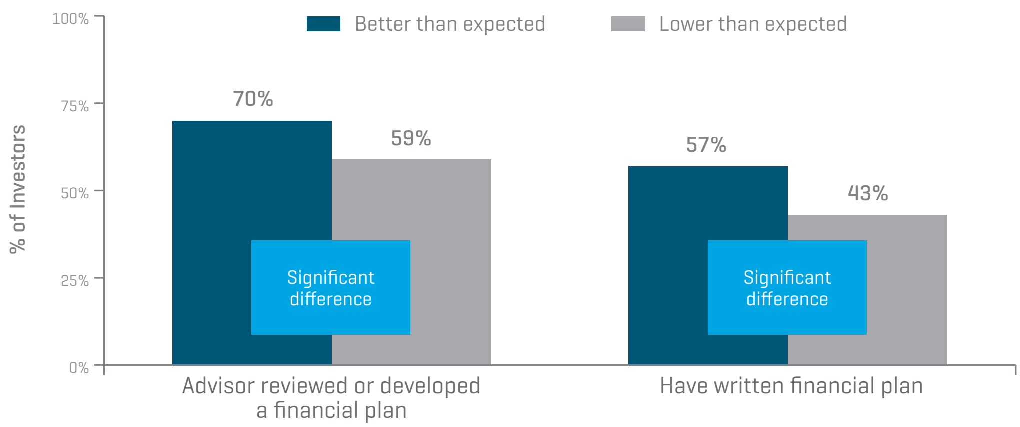
Investor control matters—An analysis of the types of relationships investors have with their advisor shows that firms in the **better than expected** category have a significantly lower incidence of delegator/passive investors, or those who rely on their advisor to make all financial decisions on their behalf. Firms in the **lower than expected** category have the lowest rates of sounding board customers (i.e., the advisor listens to the investor's ideas, but the investor makes all the decisions). These findings indicate investors prefer having some control over the performance of their portfolio rather than relying totally on their advisor to manage their money. In brief, the type of relationship between investors and their advisor may influence their perceptions of the performance of their portfolio, particularly when investors actively collaborate in the investment decisions.

Taking credit for portfolio performance—It may seem intuitive that whoever is given credit for the change in portfolio performance has an impact on Investment Performance satisfaction; however, findings of the *2013 U.S. Full Service Investor Satisfaction Study* show that the reality is somewhat different and suggests that when investors completely delegate investment responsibilities to their advisor, their expectations for performance increase.

2. Make sure the financial plan is clear

Having the right type of relationship is a key piece of the investment performance puzzle. To better understand how to consistently build these relationships, the individual investor-level experience must be examined. A key component of fostering effective, collaborative relationships is developing a clear financial plan. As shown in the figure below, investors in the **better than expected** category have a higher incidence of their firms delivering on two Key Performance Indicators (KPIs)—Advisor reviewed or developed a financial plan in past 12 months and Have written financial plan—compared with investors in the **lower than expected** category.

INVESTMENT PERFORMANCE, PORTFOLIO PERFORMANCE AND FINANCIAL PLAN KPIs—INVESTOR LEVEL



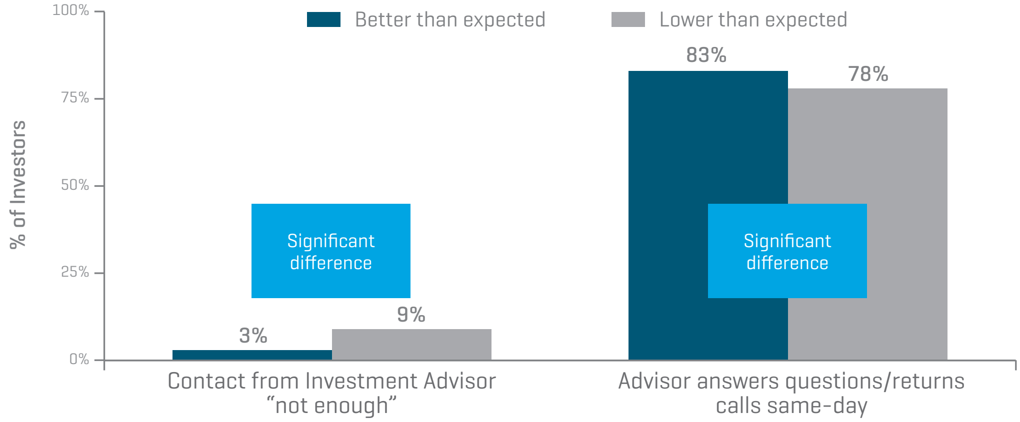
Source: J.D. Power and Associates 2013 U.S. Full Service Investor Satisfaction Study[SM]

The existence of a written version of the plan provides an additional reminder and tangible record of what the advisor has recommended and why.

3. Communicate clearly with investors

Ensuring investors receive clear communications from their advisor may also help increase overall investor satisfaction. In addition to the earlier points regarding communication-related initiatives designed to develop collaborative relationships and financial plans, there are two more critical differences that differentiate investors in the two categories. Investors in the **better than expected** category indicate with almost no exception that they have the appropriate level of contact from their advisor, and they receive a same-day response from their advisor to any questions or calls.

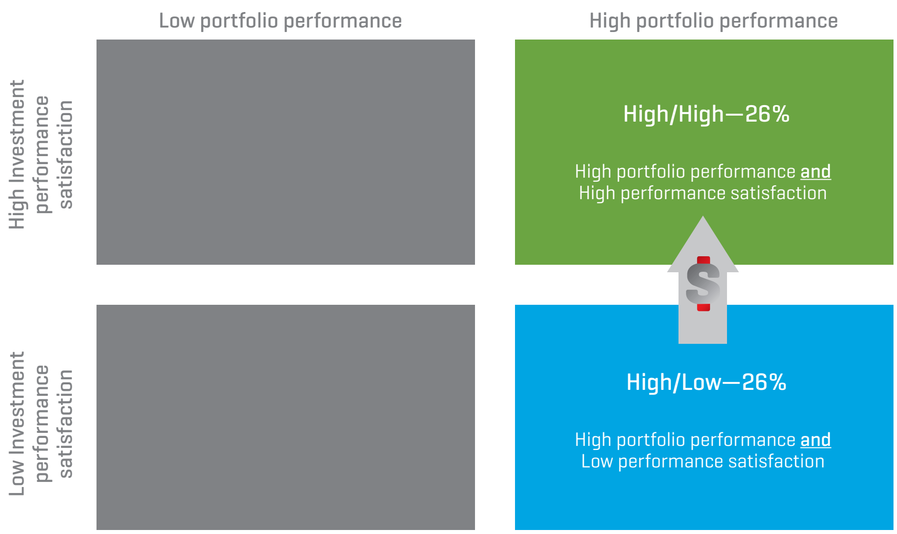
INVESTMENT PERFORMANCE, PORTFOLIO PERFORMANCE AND ADVISOR CONTACT—
INVESTOR LEVEL



Source: J.D. Power and Associates 2013 U.S. Full Service Investor Satisfaction Study[SM]

Conclusion: Perception precipitates higher ROI for investors and firms

A key to creating experiences that positively influence the size and scope of the relationship is ensuring that investors are not only satisfied with the performance of their portfolio, but that they also attribute increases in performance to their firm and advisor. When firms develop relationships that go beyond the objective financial performance metrics to engender high levels of satisfaction and partnership, the rewards are potentially substantial.



Source: J.D. Power and Associates 2013 U.S. Full Service Investor Satisfaction Study[SM]

At its core, the full service investment business is relational, which means referrals are of critical importance to both advisors and investment firms. With more than double the rate of investors who say they "definitely will" recommend and provide positive firm recommendations, there are clear benefits in not only driving higher returns on investments, but also ensuring investors are highly satisfied with that performance.

While recruiting new investors is critical to the bottom line of both firms and advisors, even more important is retaining and growing the relationships and assets already under management.

For more information, please contact:

805-418-8000
information@jdpa.com

The information contained herein has been obtained by J.D. Power and Associates from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, J.D. Power and Associates does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or for the results obtained from use of such information.