

Why do people hire their financial advisors?

Morningstar Behavioral Research

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Introduction

People often seek a financial advisor to assist with a specific financial need, but is that the only factor that motivates someone to hire a financial advisor? In other words: Do we evaluate financial advisors on their ability to accomplish a specific financial need, or do we consider other qualities of an advisor when making hiring decisions? In our research, we dove into understanding what motivates a person to hire a financial advisor. Although we see the expected importance of seeking an advisor to address specific financial needs, we also found more emotionally based factors can contribute to hiring decisions.

Summary of findings

- Overall, we found people chose their financial advisor for numerous reasons — not just to help with a specific financial issue. Particularly, participants indicated the influence of other factors such as their own discomfort handling financial issues and the desire to get help in making good decisions and staying the course (that is, behavioral coaching). These findings suggest it is important for advisors to lead with their ability to provide both financial and emotional support when courting new clients.
- Our findings suggest people are motivated to hire a financial advisor because of reasons pertaining to client discomfort handling financial issues as often as they hire one because of reasons pertaining to a specific financial need.
- However, new clients may not always be willing or able to express the emotional needs they are hoping a financial advisor can meet when seeking one out. Still, advisors can address these emotional drivers by demonstrating to prospective clients the ways in which they can address both financial and emotional concerns in a research-backed way.

Hiring is more than a numbers game

Why a person hires a financial advisor may seem like a simple question at first. In addition to advisors' reported experience, research on the topic tends to confirm that people seek out financial advisors to deal with specific financial issues such as retirement planning, receiving a windfall, increased income, and more.¹ As such, it can seem like a forgone conclusion that the decision to hire a financial advisor is driven by a person's specific financial needs. However, handling specific financial issues is not the only way that financial advisors contribute value to their clients; the behavioral coaching advisors provide contributes demonstrable value to client outcomes, too.² Moreover, financial advisors are found to provide better emotional support (for example, peace of mind) than robo-advisors.³ Despite these benefits, people often view the financial support advisors provide as more valuable than the emotional support.⁴ As such, an open question is whether hiring decisions are driven by just financial concerns or whether emotional concerns also serve as motivators.

"Please list some reasons why you hired your advisor..."

To better understand what motivates hiring decisions, we asked people who currently had an advisor to list some reasons why they hired them. The question was open-ended, allowing us to collect people's thoughts in their own words. We featured this question in three different surveys, which included a total of 3,003 people, conducted during specific periods of 2021 and 2022. We were able to collect 623 responses from people who indicated that they currently had an advisor.⁵ We randomly selected 312 responses (half of the data) for manual analysis.⁶

As part of the analysis process, we examined existing research to identify common motivations behind a person's decision to hire an advisor (Exhibit 1). These motivations can be further categorized as to whether they are related to strictly financial factors (cost, performance, specific financial needs) or to more emotionally driven factors (comfort, trust, guidance). Using this master list of common motivations, we manually categorized responses into one or more motivation categories⁷ based on the topics a person mentioned in their response.

¹ Investment Company Institute (2007). Why do mutual fund investors use professional financial advisors? Research Fundamentals, 16(1), 1-8.; Cummings, B. F., & James, R. N. (2014). Determinants of seeking financial advice among older adults. Available at SSRN 2434268.

² Kinniry Jr., F. M., Jaconetti, C. M., DiJoseph, M. A., Walk, D. J., & Quinn, M. C. (2022). Putting a value on your value: Quantifying Vanguard Advisors' Alpha. Vanguard.

³ Costa, P., & Henshaw, J. E. (2022). Quantifying the investor's view on the value of human and robo-advice. Vanguard.

⁴ Lamas, S., Murphy, R. O., & Sin, R. (2019). The value of advice: What investors think, what advisors think, and how everyone can get on the same page. Morningstar.

⁵ This research is part of a series of papers where we asked individuals questions regarding their decision to hire, fire, not hire, and continue to work with an advisor. The paper regarding a person's decision to fire an advisor can be found here. The other papers are forthcoming.

⁶ The median age of respondents was 50. Median income was \$90,500. The median amount of investable assets was \$190,000. The proportion of male respondents was 50.5%. Lastly, 86.5% of respondents identified as white. Also, the entire sample of 623 responses was analyzed using a topic modeling technique. The results from this analysis were in line with the manual coding, where topics found via topic modeling were similar to the most commonly cited categories found via manual coding.

⁷ To ensure the quality of the manual coding, we first established inter-rater reliability — as established by a Krippendorff's alpha ≥ 0.64 — on 20% of the data.

Exhibit 1: Common motivations behind hiring decisions

Emotional

Discomfort handling financial issues

Advisor was hired because of the client's lack of confidence in their own skills needed to reach their financial goals or their knowledge regarding finances.

Quality of relationship with advisor

Advisor was hired because the client felt they could have a good relationship with their advisor owing to any number of factors such as a match in values, having trust in the advisor, and having a good rapport.

Quality of communication with advisor

Advisor was hired because client liked the communication they had with their advisor regarding financial services.

Self-presentation of advisor

Advisor was hired because of how they presented their business (for example, office, staff, and so on) to their client.

Recommended by friends/family

Advisor was hired because client was encouraged to do so by trusted individuals.

Behavioral coaching

Advisor was hired because they could provide sufficient support to help the client act in a way beneficial to their finances such as explaining the financial plan, motivating the client to stick to the plan, or providing guidance on what not to do in certain financial situations.

Financial

Specific financial needs

Advisor was hired because the client had a specific financial issue that needed to be resolved such as planning for retirement, handling the loss of a spouse, or tax planning.

Quality of financial advice and services

Advisor was hired because their financial services were perceived as being able to help the client achieve their financial goals.

Return performance-driven factors

Advisor was hired because the client expected they would see the return performance they wanted.

Free to me

Advisor was hired because their services were provided for free.

Other

Moved away

Advisor was hired because the client or former advisor moved away and were no longer local.

Emotion-related reason

Advisor was hired because the client had an emotional issue otherwise not categorizable.

Finance-related reason

Advisor was hired because the client had a financial issue otherwise not categorizable.

About the survey

It's important to note that the survey environment provided a unique opportunity to get to the heart of why someone hires a financial advisor. Participants were able to take the survey in the privacy of their own home and at their own pace, allowing them to think carefully about their answers and respond without any social pressures. This environment may make respondents less susceptible to social desirability bias, the tendency to respond to a question in a way that conforms to societal norms and preserves standing. In the real world, people may provide more "socially acceptable responses" when meeting with an advisor in person (such as needing advice when managing a retirement account) because they are speaking directly to an advisor and/or because they are accompanied by their spouse/loved ones. Addressing a person's motivations separately may provide an unvarnished look into what drives people as they seek advice.

Who hires a financial advisor?

Of the 3,003 people who answered one of the three surveys, only 623 reported they currently worked with a financial advisor—roughly 21% of the full sample. In the US, about one third of Americans report working with a financial advisor, yet 62% report needing to improve their financial planning.⁸ In the UK only around 11% of adults have paid for financial advice in the past two years.⁹ The US numbers demonstrate that there are a number of people who would benefit from working with a financial planner but do not yet do so, and this points to the importance of understanding what factors compel people to hire an advisor in the first place.

We examined demographic variables to determine whether there were differences between those who hire a financial advisor and those who do not. Given that a certain level of asset ownership is a limiting factor for having a financial advisor, we compared just those who reported at least \$50,000 in investable assets (N = 1,574). We found that individuals who had hired an advisor had higher income,¹⁰ had a higher amount of investable assets,¹¹ tended to be older,¹² and on average had more experience investing¹³ than those without. In our sample, we also found a greater proportion of women reported having a financial advisor compared to men (34% versus 28%),¹⁴ and a greater proportion of white participants reported having a financial advisor compared with nonwhite participants (32% versus 23%).¹⁵ Those who had a financial advisor were as likely to think they were an investor as those who did not,¹⁶ and both groups reported equivalent levels of investing expertise.¹⁷

Research methodology

We began our analysis by reading through each response and identifying which categories were mentioned in the response. Two human raters completed this part of the analysis. To ensure that the human raters were categorizing responses in a consistent and aligned manner, we first established inter-rater reliability with 20% of the sample before proceeding.¹⁸

Each response could be placed into more than one category. For example, the response "1. To explain the complexities of it all. 2. To help me maximize my assets 3. to save me time and worry 4. to save me taxes 5. to sell me insurance" incorporates multiple categories. The respondent notes that they went to a financial advisor for help with their taxes and insurance needs, which fits under the Specific financial needs category. They also mention they hired an advisor to "explain the complexities of it all" which fits under the Behavioral coaching category and speaks to an advisor's role as a teacher. Lastly, their reference to an advisor saving them "time and worry" fits under the Client comfort/discomfort handling financial issues category.

⁸ Planning & Progress Study (2022). Northwestern Mutual.

⁹ the lang cat Advice Gap Research 2023

¹⁰ The difference in average income between those who have (M = 139,308, SD = 237,471) and do not have (M = 111,600, SD = 82,285) an advisor (t(527.63) = 2.49, p = .013, d = 0.16) was statistically significant.

¹¹ The difference in average investable assets between those who have (M = 710,867, SD = 1,028,076) and do not have (M = 379,515, SD = 563,563) an advisor (t(605.69) = 6.63, p < .001, d = 0.40) was statistically significant.

¹² The difference in average age between those who have (M = 52.27, SD = 13.49) and do not have (M = 46.46, SD = 13.89) an advisor (t(509.9) = 5.30, p < .001, d = 0.39) was statistically significant.

¹³ The difference in average years investing between those who have (M = 21.50, SD = 13.18) and do not have (M = 16.48, SD = 12.59) an advisor (t(933.04) = 7.79, p < .001, d = 0.42) was statistically significant.

¹⁴ The difference between the proportion of participants by gender who have and do not have an advisor ($\chi^2(1, N = 1566) = 6.35, p = 0.012$) was significant.

¹⁵ The difference between the proportion of participants by race (white/nonwhite) who have and do not have an advisor ($\chi^2(1, N = 1574) = 6.93, p = 0.008$) was significant.

¹⁶ The difference between the proportion of participants who did or did not believe they were investors who have and do not have an advisor ($\chi^2(1, N = 1485) = 2.58, p = 0.108$) was not significant.

¹⁷ The difference in reported investing expertise between those who have (M = 4.63 SD = 1.19) and do not have (M = 4.71, SD = 1.17) an advisor (t(525.12) = 0.93, p = .351, d = 0.07) was not statistically significant.

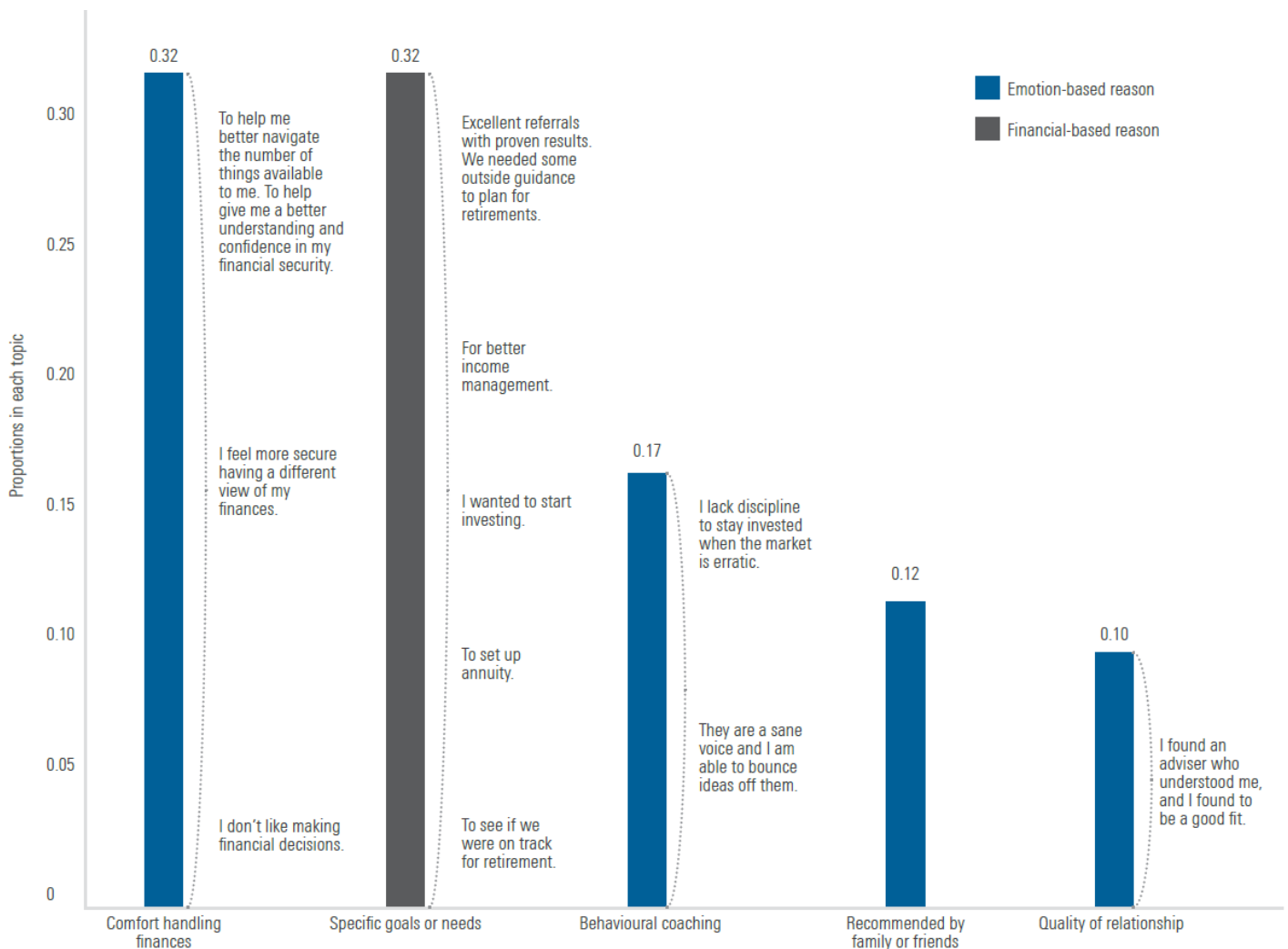
¹⁸ To establish reliability, raters both categorized the same subsample of 20% of the total responses. Raters were found to agree with each other on average 98% of times across all the categories and reliability was established (mean Krippendorff's $\chi = .80$). Disagreements were discussed and resolved by the two raters.

Why did participants hire their advisor?

After categorizing each response, we examined the frequency with which participants cited each reason (that is, what are the most common reasons for hiring an advisor). The two most-cited reasons given for hiring an advisor were Discomfort handling financial issues (32% of responses) and Specific financial needs (32% of responses). Participants also commonly cited Behavioral coaching (17%), Recommended by friends/family (12%), and Quality of relationship with advisor (10%). See Exhibit 2 for the five most common reasons for hiring an advisor with examples. The bars in the exhibit are color-coded by whether the motivation can be traced back to an emotional- or financial-based factor.

We found clients hired their advisor not just because they were looking for assistance with a specific financial problem. Indeed, they more often listed an emotional reason (60% of responses) than a financial reason (40% of the time) for hiring a financial advisor.¹⁹ This suggests that although financial issues certainly are a common driver of client hiring decisions, there is an additional thread of emotional drivers—like the degree to which someone feels comfortable making financial decisions and their ability to stay the course.

Exhibit 2: Proportion of responses in each topic



¹⁹ The difference between the proportion of responses in an emotional category and a financial category (Cochran's Q (1, N = 336) = 22.48, p < .001) was significant.

Takeaways for advisors



1. Emotions come into play at every stage

Financial advisors are often aware of the role emotions can play when working with clients and know that ignoring them can be costly. Our research extends the importance of recognizing the emotional needs of prospective clients. Most people reported hiring an advisor based on some emotional reason like their discomfort handling finances themselves, the need for behavioral coaching, and the quality of the relationship with the advisor. This means that advisors should be addressing emotions from the start—beginning with recruitment. See our exercise below to get practice on incorporating these motivators into your pitch.



2. Recognize that some needs may remain unspoken

When a client walks in your door, they will likely tell you about a specific issue they are hoping to resolve. This often can be helpful in guiding conversations to demonstrate how you as an advisor can provide support to their financial needs. However, you shouldn't expect that they will lay out their emotional reasons for seeking help as well. Clients may feel reluctant to discuss their feelings about why they are seeking help with their finances (especially with someone they just met) because such topics can make people feel some degree of powerlessness.²⁰ Yet our research shows that three in five prospective clients sitting across the desk from you will have some emotional driver that brought them in to talk with you.

Regardless of whether a client brings up an emotion-based explanation for seeing you, you can address some common emotional reasons for hiring an advisor. Even if a client doesn't have that particular concern themselves, our previous research suggests they may still be surprised to learn about the value advisors add through things like behavioral coaching.²¹ For example, you may highlight how your current clients feel peace of mind about their finances when working with you, to demonstrate how you can alleviate discomfort handling finances.



3. How you say it matters

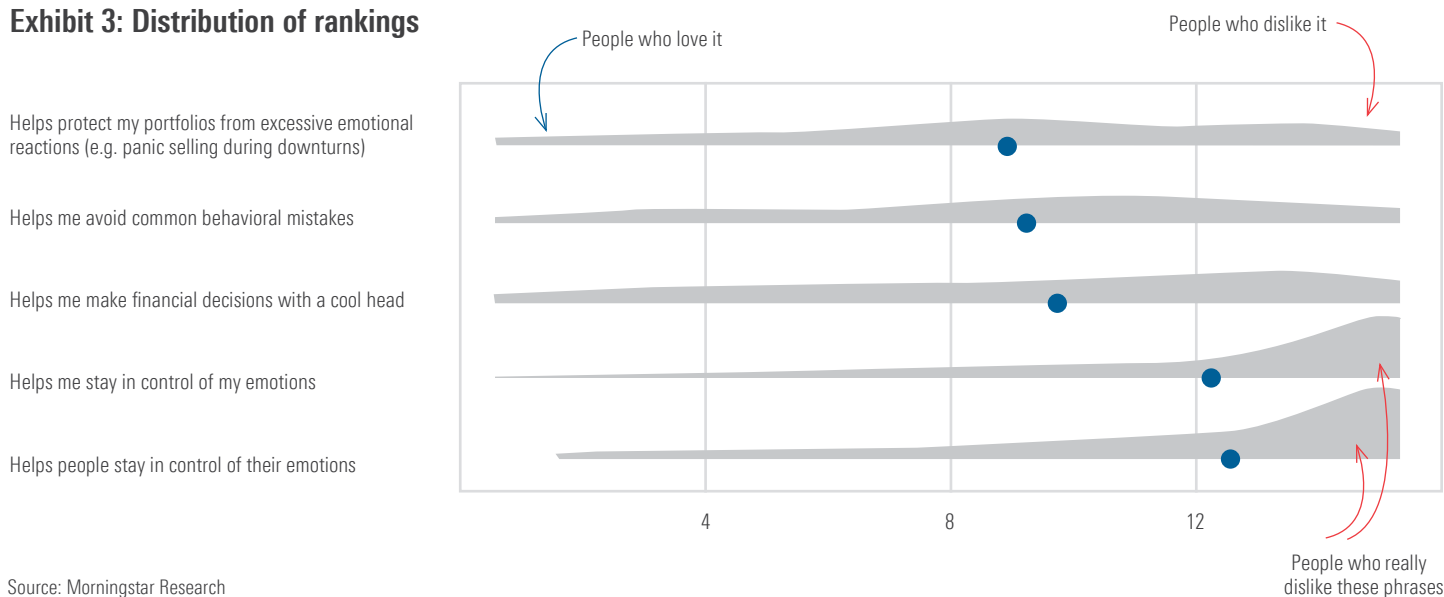
As previously noted, many people may not acknowledge, or may refuse to acknowledge, their need for emotional support from a financial advisor. However, previous research conducted by Morningstar may provide a silver lining.²² We found that how one describes the emotional benefits of working with a financial advisor can bring more people on board. We ran an experiment where we presented participants with different advisor attributes and asked them to rank order the attributes in terms of how important each was when working with a financial advisor (with 1 being the most important attribute). Participants were randomly selected to see one of five different phrases that described behavioral coaching as part of this longer list of attributes. Exhibit 3 shows the distribution and ranking of each behavioral coaching attribute. These findings suggest that there are a few ways to help more clients see the value of emotional benefits: using colloquial language, providing an example, and clarifying that these are issues we all face. Conversely, talking about “staying in control of emotions” might be a misstep.

²⁰ Lee, F. (1997). When the going gets tough, do the tough ask for help? Help seeking and power motivation in organizations. *Organizational Behavior and Human Decision Processes*, 72(3), 336-363.

²¹ Lamas, S., Murphy, R. O., & Sin, R. (2019). The value of advice: What investors think, what advisors think, and how everyone can get on the same page. Morningstar.

²² Murphy, Ryan O., Samantha Lamas, and Ray Sin. 2020. "Identifying What Investors Value in a Financial Advisor: Uncovering Opportunities and Pitfalls." *Journal of Financial Planning* 33 (7): 44–52.

Exhibit 3: Distribution of rankings



Source: Morningstar Research

Conclusion

Our research suggests that addressing a specific financial need is only one of many potential reasons someone hires an advisor. We find that some emotional-based factors may play a large role in hiring decisions. Although it's not too surprising that people go to a financial advisor to address a specific financial need, it may be surprising that they go to an advisor to address an emotional reason — their discomfort handling finances themselves — to the same degree. For advisors, this means they must acknowledge both financial and emotional drivers when meeting with a prospective client. Although addressing financial needs can be done in a straightforward manner, addressing a client's emotional needs must be done in a tactful and subtle way. To help advisors incorporate these insights in their practice, we created a three step exercise (on the following page) that advisors can use when formulating their first talking points with prospective clients.

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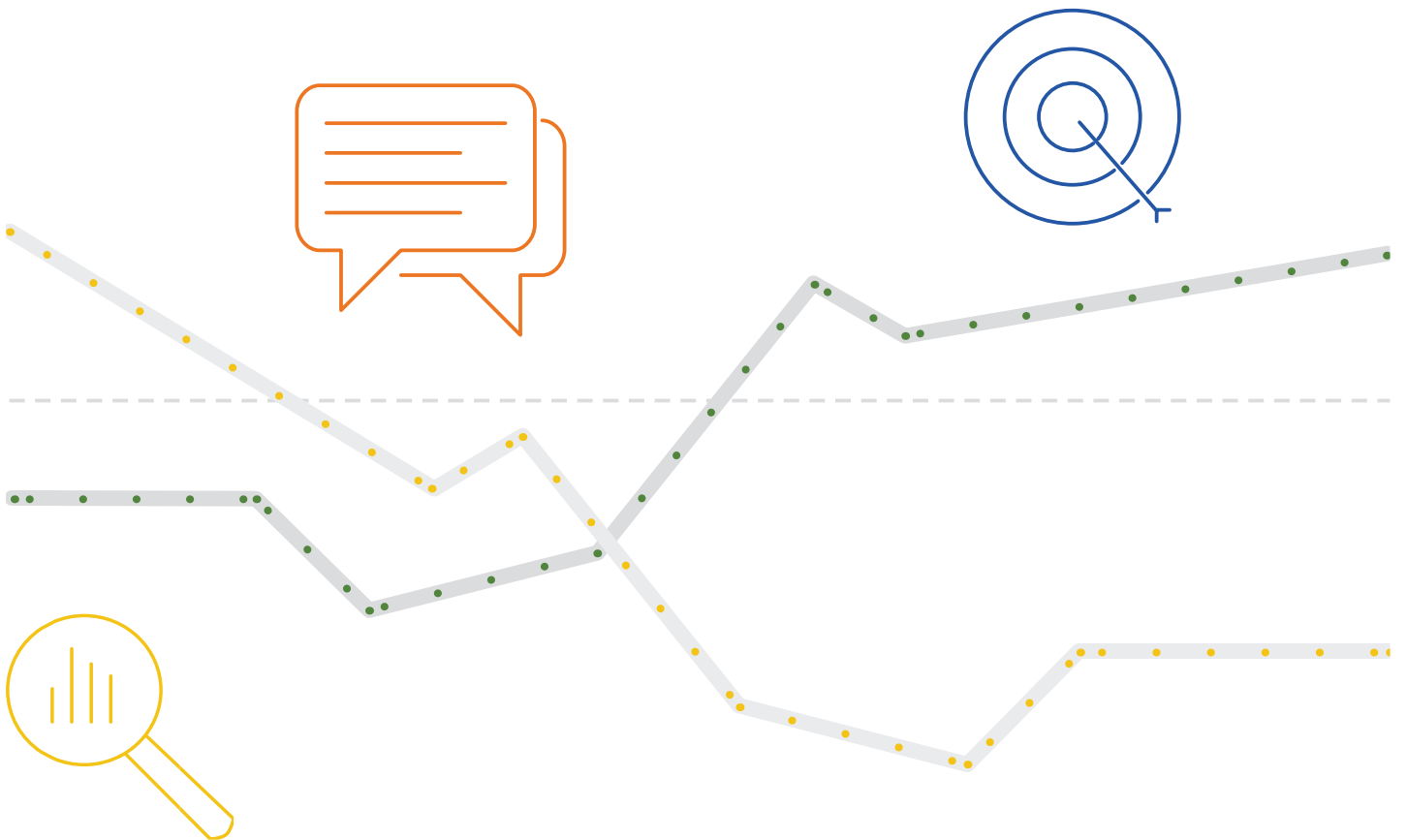
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Advisor value proposition makeover

Three simple steps to align your value proposition to your prospective clients' hiring decisions



Findings from our recent piece of research **Why people hire a financial advisor** show that people hire an advisor because they're looking for someone to help them manage the emotional-side of financial decision-making, as often as they're looking to hire one because of a specific financial need.

For advisors, this means addressing financial and emotional drivers in your value proposition and prospective client touchpoints such as your website, or initial meeting. Our research also found that whilst addressing financial needs can be done in a straightforward manner, addressing a client's emotional needs must be done in a tactful and subtle way.

To help advisors incorporate these insights into their practice, we've created a three step exercise you can use when formulating your messaging to prospective clients.

Step 1: Identify the ways in which you address the top three categories found in our research

Think about all that you do for your current clients, including both the financial and emotional support you provide. Organize those activities into each of these categories.

Client discomfort handling financial issues:

A lack of confidence that they have the skills needed to reach their financial goals, or a lack of knowledge regarding financial issues.

Behavioral coaching:

A need for help acting in a way beneficial to their finances, including explaining the financial plan, motivating the client to stick to the plan, or providing guidance on what to do or not to do in certain financial situations.

Specific financial needs:

A need for a specific financial issue to be resolved – like retirement planning, handling the loss of a spouse, or tax management.

Step 2: Work these topics into your messaging

Review your website homepage, client brochure or what you talk through in an initial meeting, keeping the ideas below in mind when crafting your phrases. **How you describe these topics in your messaging matters.**

Discomfort Handling Financial Issues:

Even though many clients don't feel comfortable handling their own finances, it's best not to highlight this discomfort, as it may increase the client's negative feelings. Instead, highlight how your expertise can reduce decision-making anxiety, promote peace of mind, and help them reach their goals.

Behavioral Coaching:

Most people don't like hearing that they need behavioral coaching, so it's important to be careful when introducing this idea to clients. Our previous research found that using colloquial language, providing an example, and clarifying that these are issues we all face may help investors get on board.

Specific Financial Need:

Clients often focus on the specific issue that brought them into your office, but instead of reiterating those problems to them – connect them to their deeper "why." This "why" is what drives a person's financial goals. Understanding a client's deeper "why" will open the door to more fruitful conversations, allowing you to create a plan that is personalized to their true financial goals.

Example

To help illustrate this process, we've outlined how each of the three categories can be addressed in a fictitious firm's value proposition.

- In the Before, you can see that the messaging is missing a key category.
- In the After, you can see the messaging is balanced across the three hiring decision categories.

Fictitious value proposition

Before

At Lamas Wealth, we're centrally driven to provide clients with the best professional financial advice to meet their financial goals. With 30 years of financial expertise between us, we are uniquely qualified to address your financial needs, whether that be retirement planning, tax management, wealth accumulation or more.

Categories addressed

Client discomfort handling financial issues



Helps clients meet their financial goals.

Behavioural coaching



Specific financial need



Address financial needs in areas like retirement planning, tax management, wealth accumulation and so on.

After

At Lamas Wealth, we're committed to helping clients achieve their financial goals. Along the way to provide clients with the education and guidance they need to stay on track with their financial plan. Throughout your financial journey, we'll help you navigate life's complex financial decisions – whether they relate to retirement planning, tax management, growing your wealth, or another financial matter – all with your financial goals in mind.

Client discomfort handling financial issues



Helps clients meet their financial goals and navigate complex financial decisions.

Behavioural coaching



Education and guidance they need to stay on track with their financial plan. We'll help you throughout your financial journey.

Specific financial need



Retirement planning, tax management, wealth accumulation, or more – all with your financial goals in mind.

Step 3: Review and refine to make sure your message is clear and matches to a prospects hiring decisions

Benefits-led content that solves a problem or meets a need will ensure a prospective client can quickly and easily understand what they'll gain from a relationship with you. The fewer the words, the more powerful they are. Choose your key messages and don't hide them in superfluous content.

We understand that you want to convey as much as possible about your business, skills and expertise. But that can result in too much information which can detract from your key messages.

To prevent this misstep, go back to your draft, get out your highlighter and mark the benefits that relate to the three categories above. Look at what isn't highlighted and question if it's necessary. Don't be afraid to cut out any excess information.

If your content doesn't align with what a client is looking for, you're making it hard for them to find what's important to them.

Here's an example to illustrate these points:

Draft: highlight the hiring decisions

At Labotka Wealth, we like to think of ourselves more as your **financial partner** than your financial advisor. We provide highly customized and comprehensive **financial planning to help meet all your financial needs**. To do this, we look at all elements of your financial picture to ensure an **efficient solution** that is unique to you. We are centrally driven on providing clients with the best professional financial advice to **help them make informed financial decisions**. Our goal is to help **clients have peace of mind regarding their finances**. With 30 years of financial expertise between us, we are confident that we are uniquely qualified to address your financial needs, whether that be **retirement planning, tax management, wealth accumulation or more**.

Final: cut the excess, prioritize and rearrange

At Labotka Wealth, our goal is to **help you achieve financial peace of mind**. We can **create a comprehensive financial plan designed to meet your specific goals**. But we don't stop there. Throughout your financial journey, **we'll be your financial partner and guide you every step of the way**. **We'll be by your side to help you navigate life's financial decisions** – whether they relate to **retirement planning, tax management, wealth accumulation, or something else**. We understand the importance of financial security; we're here to help you get there and stay there.

 Discomfort handling financial issues

 Behavioral coaching

 Specific financial needs

Summary

We hope you find this advisor value proposition makeover process interesting and useful. It can be applied to your:

- marketing literature
- website content
- introductory letter or email
- first client meeting notes
- social media content

Let us know what you think of this makeover process and how it helped you wherever you used it. We'd love to see some 'before and after' value proposition statements so please be sure to share them with us.

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