

Knowing Your Customers by Their Concerns

by Scott Smith, assistant director, Cerulli Associates

Being an effective financial planner, by definition (and law), requires a certain degree of familiarity with a client. However the discovery phase of an engagement can, and often does, stop short of truly understanding some of the broad economic factors that produce anxiety in clients. While many concerns of planners and clients overlap, the degree and causes of concern among the groups can also vary quite widely. This article will review the findings of a recent survey of the concerns of investors across investable asset tiers, then compare those results with the most pressing concerns of advisers in order to highlight some of these differences.

Investors' Economic Concerns by Investable Assets, June 2009							
Concerns	Household Investable Asset Level						All Investors
	<\$100K	\$100K-\$500K	>\$500K-\$2m	>\$2m-\$5m	>\$5m-\$10m	>\$10m	
Health of the U.S. economy	55%	64%	66%	66%	59%	41%	63%
Costs of healthcare	48%	58%	53%	52%	47%	36%	55%
Further increase in energy prices	47%	54%	42%	40%	46%	34%	53%
Federal budget deficit	46%	52%	55%	62%	59%	31%	52%
Level of inflation in the U.S.	42%	51%	37%	42%	54%	34%	48%
Possible decline of the real estate market	34%	43%	32%	34%	38%	41%	41%
Rising interest rates	37%	37%	24%	28%	41%	33%	41%
Rate of return in the stock market	27%	43%	45%	49%	43%	36%	37%
Terrorism	29%	36%	34%	39%	39%	31%	35%

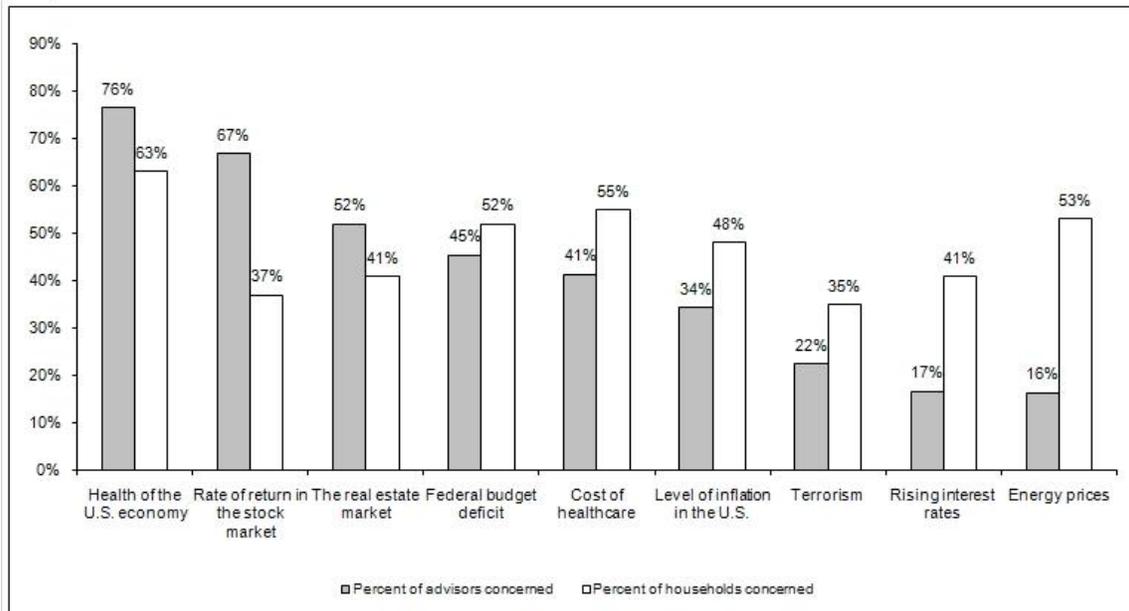
Sources: Cerulli Associates, Phoenix Marketing International

As seen in the above chart, regardless of their particular wealth tier, the most widespread concern of investors is for the overall U.S. economy. Of course, this makes sense as the general economy is the ultimate rising tide that can lift all boats. The second most widely held concern among investors is the cost of healthcare. While this is an area that has received a great deal of attention lately because of its emergence as a political “hand grenade,” healthcare has long been a top concern of U.S. investors.

Here we also see the emergence of elevated concern levels among those investors with between \$100,000 and \$500,000 in investable assets. While these investors have managed to accumulate significant assets, they have not achieved levels of wealth that allow them to begin focusing less on these threats. In many cases these investors are in the prime earning years of their careers and see any significant change in the economic landscape as a direct threat to their long-term financial plans.

While these investors do not have the most to lose, in an absolute sense, any impactful change in economic conditions would pose the greatest threat to their lifestyle—possibly changing a position of relative security and wealth to one of ongoing doubt. As a result, investors in the \$100,000 to \$500,000 in investable assets tier expressed the highest or second highest degree of concern in five of the nine categories. Even among investors who have accumulated significant assets, advisers need to remember that a wide variety of factors could affect a client’s perception of economic risk.

Comparison of Advisor and Investor Economic Concerns, 2009



Sources: Cerulli Associates, Phoenix

Also of interest is comparing these concerns of investors to those of the advisers who serve them. As seen in the chart above, advisers are also primarily concerned with the overall state of the economy, but have much less concern than their clients about the costs of healthcare and energy or increases in inflation or interest rates. While the elevated focus of advisers on market returns is understandable, as it has the most direct effect on their income, their relative lack of concern regarding healthcare and inflation could clearly affect the outcomes their clients face.

Overall, planners and advisers of all kinds need to remember that their most pressing concerns are not those of their clients and that even a comprehensive planning discovery session may not root out these concerns. By not fully understanding these concerns advisers would be depriving themselves of the opportunity to build stronger client relationships. Even if the areas of concerns are outside an adviser's scope or expertise, acknowledging them and helping ease some of the clients' fears should go a long way toward building stronger relationships.