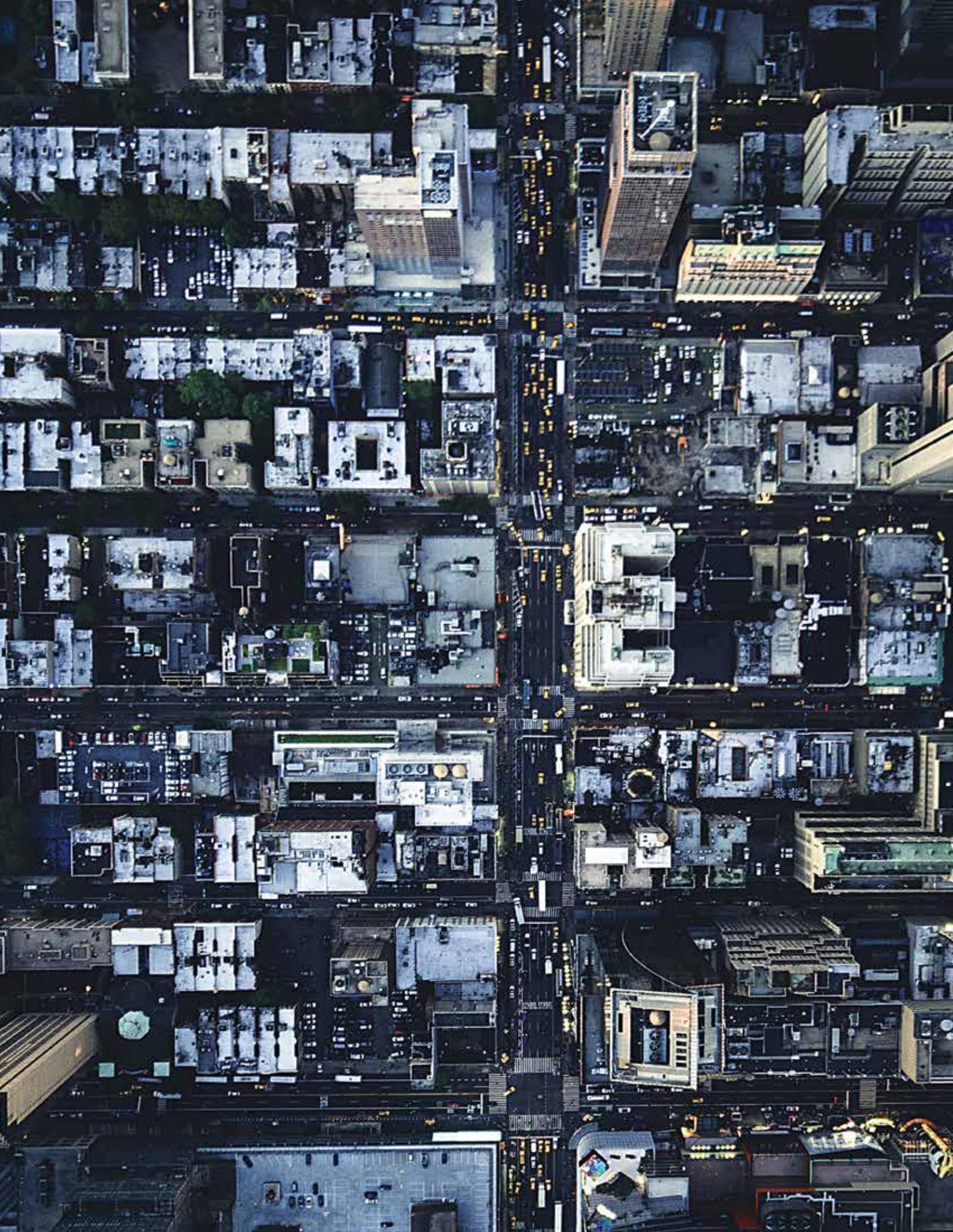


THE VALUE OF PREMIUM WEALTH MANAGEMENT

FOR INVESTORS

[CFAINSTITUTE.ORG/WEALTH](https://www.cfainstitute.org/wealth)





DETERMINING ADVISER VALUE

Choosing a wealth adviser is no easy feat. With varying degrees of skill, focus, and expertise, it can be difficult pinpointing which adviser is most suitable for your specific needs. Here are five important factors to consider when deciding who to work with:

1

Competence goes further than personality to deliver valuable wealth advice.

2

Quality advisers view technology as a friend not a foe.

3

Clear communication, integrity, and professionalism are all a *must have*.

4

Best-in-class advisers balance IQ (technical expertise) and EQ (emotional intelligence) with a solid grounding in behavioral finance.

5

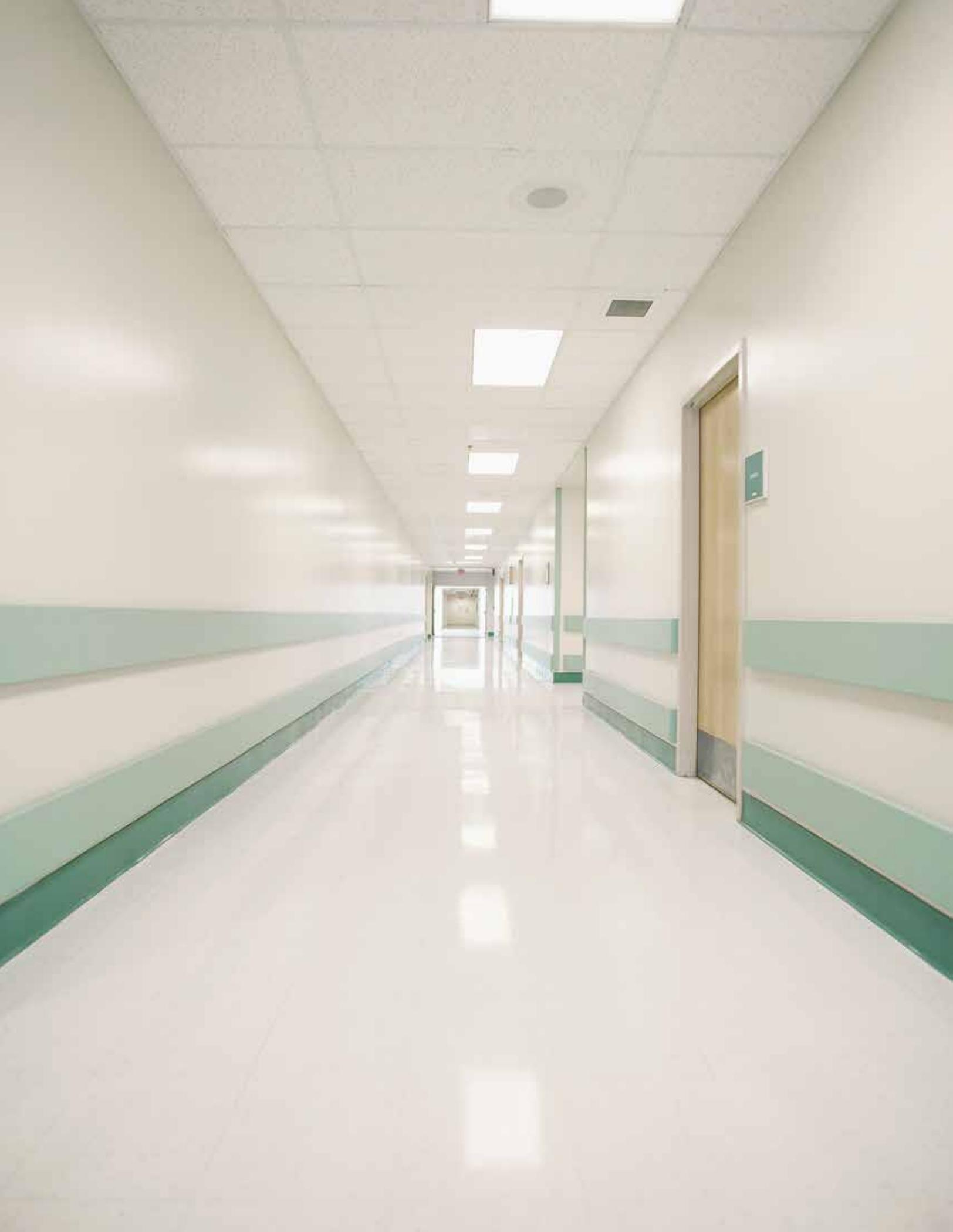
Credentials matter: Professional qualifications make a difference in competence and expertise.

INTRODUCTION

HEALTH
WE
AND WIS

A misty forest background with tall evergreen trees. The scene is captured in a soft, hazy light, with the trees appearing as dark silhouettes against a pale, overcast sky. The overall mood is serene and atmospheric.

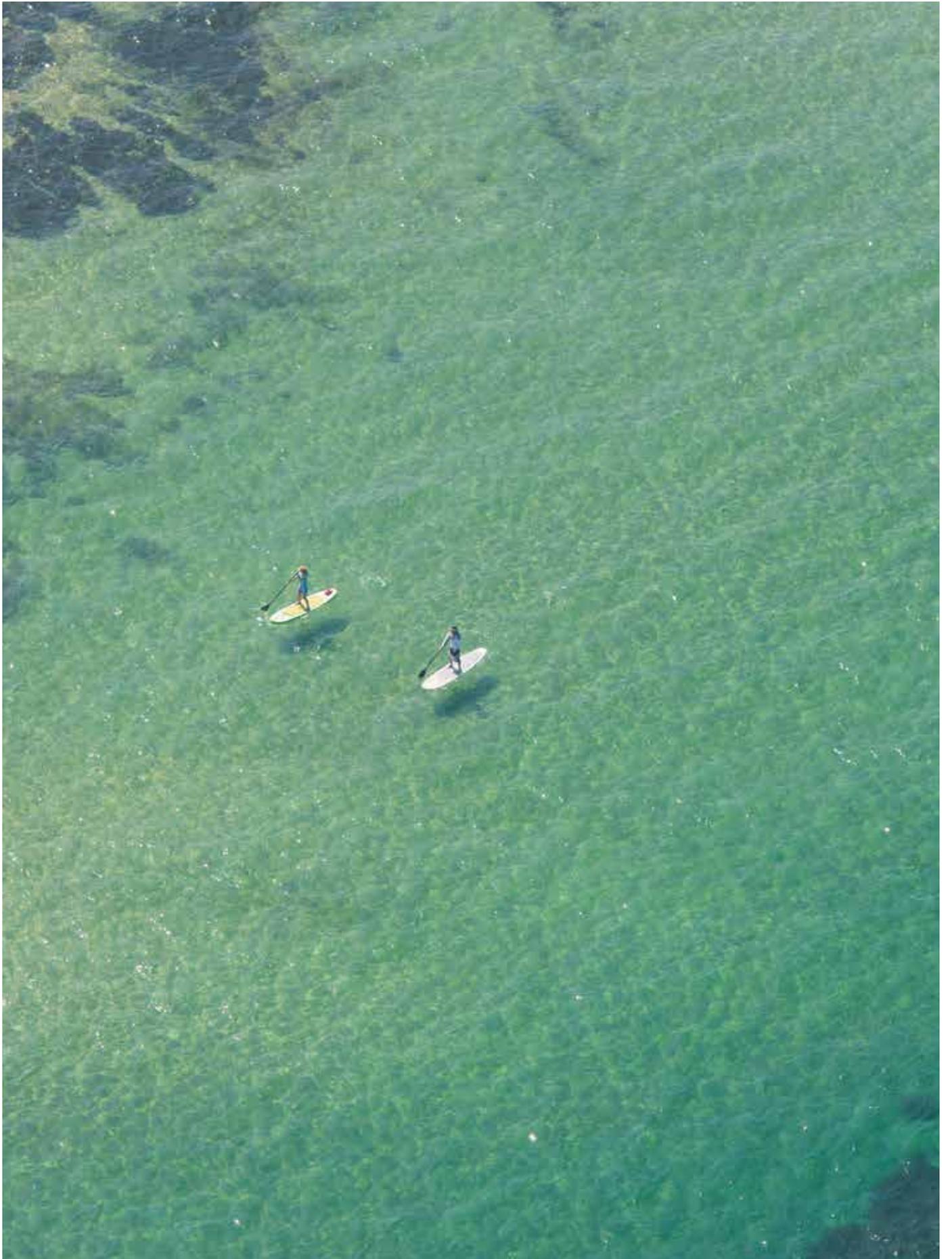
*Y,
ALTHY,
E*



HEALTHY, WEALTHY, AND WISE

Think about it: You would never work with a doctor who did not have the proven intellectual capability to make an accurate diagnosis. Similarly, you would probably not work with someone who lacked the emotional intelligence to understand the thoughts and feelings that could affect you during your treatment.

Why should managing your wealth be any different from managing your health? Actually, the process and emotional journey involved are remarkably similar.



Often, it starts with a simple thought: *I need help*. And a choice: *Who do I turn to?*

For some, the experience that follows can be emotional. A practitioner is found for a consultation. A full assessment is given. A diagnosis is provided, followed by a prescription and advice of things to do differently.

Regardless of the outcome, the process evokes a degree of soul-searching: *Will my family be okay? Have I achieved everything that I want to? Have I made enough of a difference? Where do I go from here?*

If done right, the practitioner is a trusted expert. The consultation is personal. The assessment is comprehensive; the diagnosis, intelligent; the advice, holistic; and the prescription, clear and effective. What's more, questions you inevitably have are explored comfortably, confidently, and without judgment.

Just as each body has a different genetic code and is subject to independent pressures, influences, and decisions, so too an individual's wealth has an entirely unique construct. Wealth is created in myriad ways and driven by personal hopes, fears, needs, beliefs, and aspirations. This complexity requires careful treatment.

And yet, typically, individuals do not invest the same amount of time in finding the best-suited wealth advice as they do when looking for someone who can address their medical concerns. With tens of thousands of wealth advisers across North America, the question "what are the defining characteristics of the premium client adviser?" is an increasingly important one for private investors to consider.

WEALTH IS CREATED IN MYRIAD WAYS AND DRIVEN BY PERSONAL HOPES, FEARS, NEEDS, BELIEFS AND ASPIRATIONS. THIS COMPLEXITY REQUIRES CAREFUL TREATMENT.





It is an important question for CFA Institute, too. Our mission is to promote the highest standards of ethics, education, and professional excellence among advisers, so they can deliver the best outcomes for investors.

With this in mind, CFA Institute in conjunction with Scorpio Partnership reached out to 4,000 private investors to understand the most desirable attributes of a wealth manager. We also obtained the views of 1,370 private wealth advisers to determine their perspective on the future of their client relationships. The insights provide a valuable guide for individuals considering wealth advice for the first time, revisiting the idea of utilizing financial advice, or changing the adviser with whom they work.

Our research indicates that the signal point of an adviser's quality is his or her grasp of both the practical skills required and the external forces that can affect a client's wealth. Investors want to work with someone who understands the intricacies of decision making and the pathways to sound outcomes.

In other words, advisers must have technical expertise, or IQ, to understand the dynamics of different financial products and solutions and how they can be integrated into a strategic financial plan. But they must also have emotional intelligence—or EQ—empathy, and a solid grounding in behavioral finance. This awareness can steer through the human impulses that affect decision making and can derail progress towards objectives.





TRUST



IN WEALTH ADVICE

TRUST IN WEALTH ADVICE

The heart and soul of the wealth management relationship is trust. Advisers know that gaining and maintaining the confidence of their clients is requisite to a relationship. But trust is hard won, and the importance of receiving wealth advice is not always immediately obvious.

While it may be tempting for investors to go-it-alone, in doing so they could miss out on many of the benefits that a professional adviser can bring to the process.

Historically, the fast track for wealth advisers to foster trust was to penetrate the client's already established support network of lawyers and accountants and acquire new accounts through referrals. This practice was not malicious. In fact, it was born from a desire not to pursue prospective clients too insensitively.

However, it has pushed the wealth industry into developing bad habits; advisers now often struggle to actively demonstrate their relevance, instead choosing to wait for clients to come to them. In fact, we found that almost half of advisers still rely on referrals from existing customers as a primary source for new clients.

For clients, referrals go a long way, but they are not proof of the qualities or capabilities that may

matter specifically to them. In fact, only 11% of customers in our survey state that they find suitable financial providers through a recommendation.

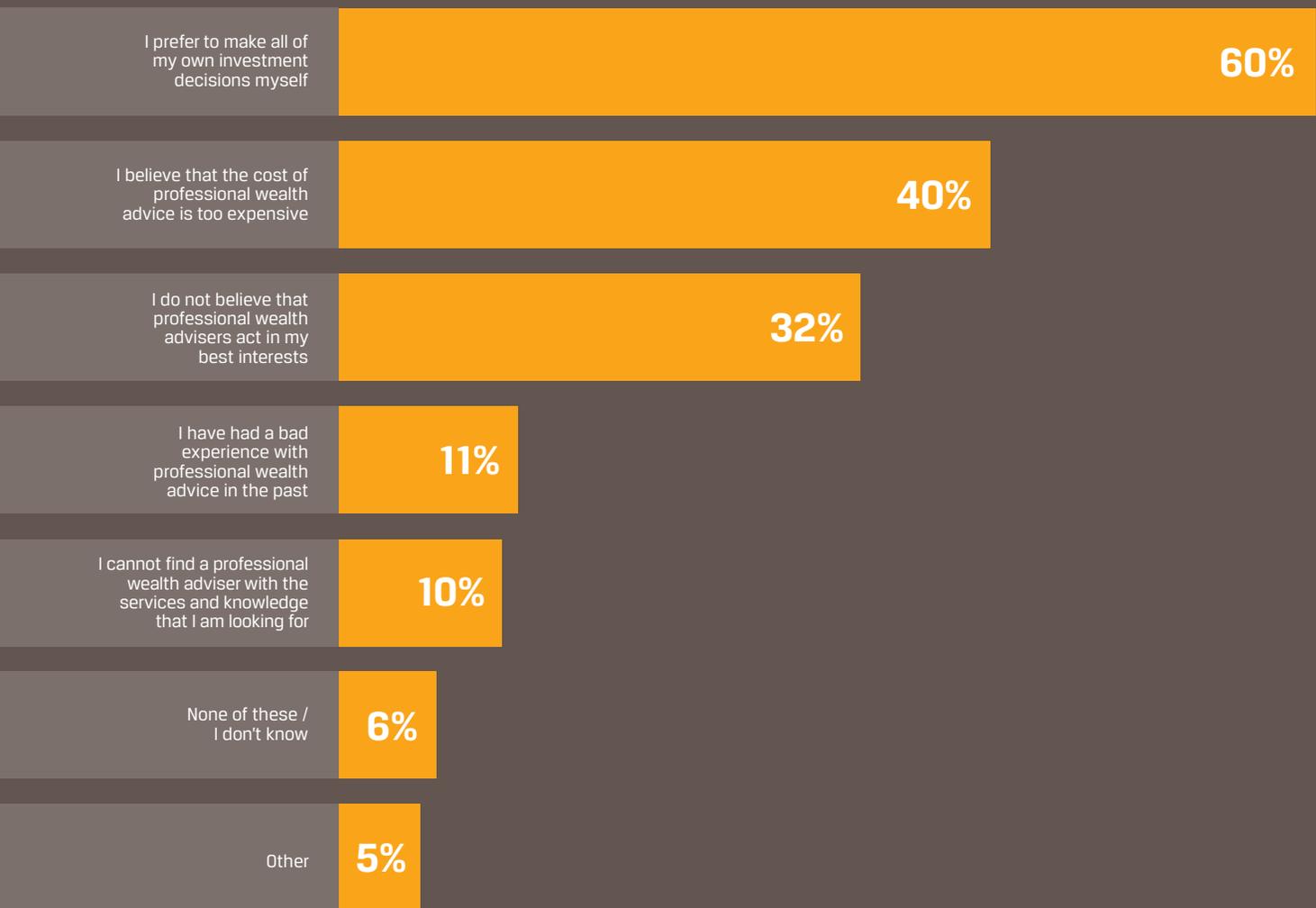
Naturally, for some investors, if the relevance of wealth advice is not immediately clear, then its necessity is immediately doubted. Just over 1,000 private investors out of the 4,000 we surveyed do not take wealth advice, although only one in 10 of these claimed to have had a bad experience with a wealth adviser. For a majority, the core drivers for not working with an adviser are rooted in their preconceptions about the quality or value to be gained from the relationship [Figure 1].

Most significantly, 60% of individuals, who currently are not clients, reference wanting to make independent investment decisions as a reason for steering clear of professional advice.

FIGURE 1: REASONS FOR NOT SEEKING WEALTH ADVICE

[Asked to wealthy individuals who did not work with a wealth adviser] Why do you not currently seek advice from a wealth management firm or professional wealth adviser?

PERCENTAGE OF RESPONDENTS



87%

of wealthy individuals believe that the core value of wealth management is rooted in the development and management of a goals-based financial plan, rather than the actual advice and direct management of investments.

While some individuals may have the proficiency to manage their investments independently, this approach means that they miss out on the broader holistic advice offered by professional wealth managers. Whether it be planning for a secure retirement, addressing the needs of succeeding generations, or crafting a philanthropic strategy, a professional wealth adviser can support broader objectives beyond investment returns.

Specifically, 87% of wealthy individuals believe that the core value of wealth management is rooted in the development and management of a goals-based financial plan, rather than the actual advice and direct management of investments. As such, those who have chosen to make autonomous investment decisions may be overlooking the invaluable strategic input that can be offered by advisers.

As a further proof point to this, active clients report extensive value offered by their advisory relationships, whether it be the efficiency and clarity that is brought to their wealth decisions, the enhancing of their confidence and knowledge, or the

support received in family financial discussions [Figure 2].

Today's investors are information hungry and resourceful. They do not want to be working with empty suits. They are looking for proactive advisers who can clearly outline their value add from the offset.

Proving value? In loose terms, that can be quite difficult. Advisers recognize the significance that investors assign to professional standards and so pursue qualifications with gusto. However, this stands at some risk of confusing consumers with an "alphabet soup" of acronyms and business cards.

Notably, the likelihood of advisers delivering quality outcomes for clients is higher when their professionalism has been evidenced. In fact, over half of clients who work with a qualified adviser believe that they have significantly reduced the time and effort spent managing their wealth, compared to just 40% of those unaware of their adviser's credentials. Among clients who work with CFA® charterholders, the proportion rises to 61%.

FIGURE 2: REASONS FOR SEEKING WEALTH ADVICE

[Asked to active private clients] To what extent do you believe that your wealth advisers have improved your personal wealth management in each of the following areas?

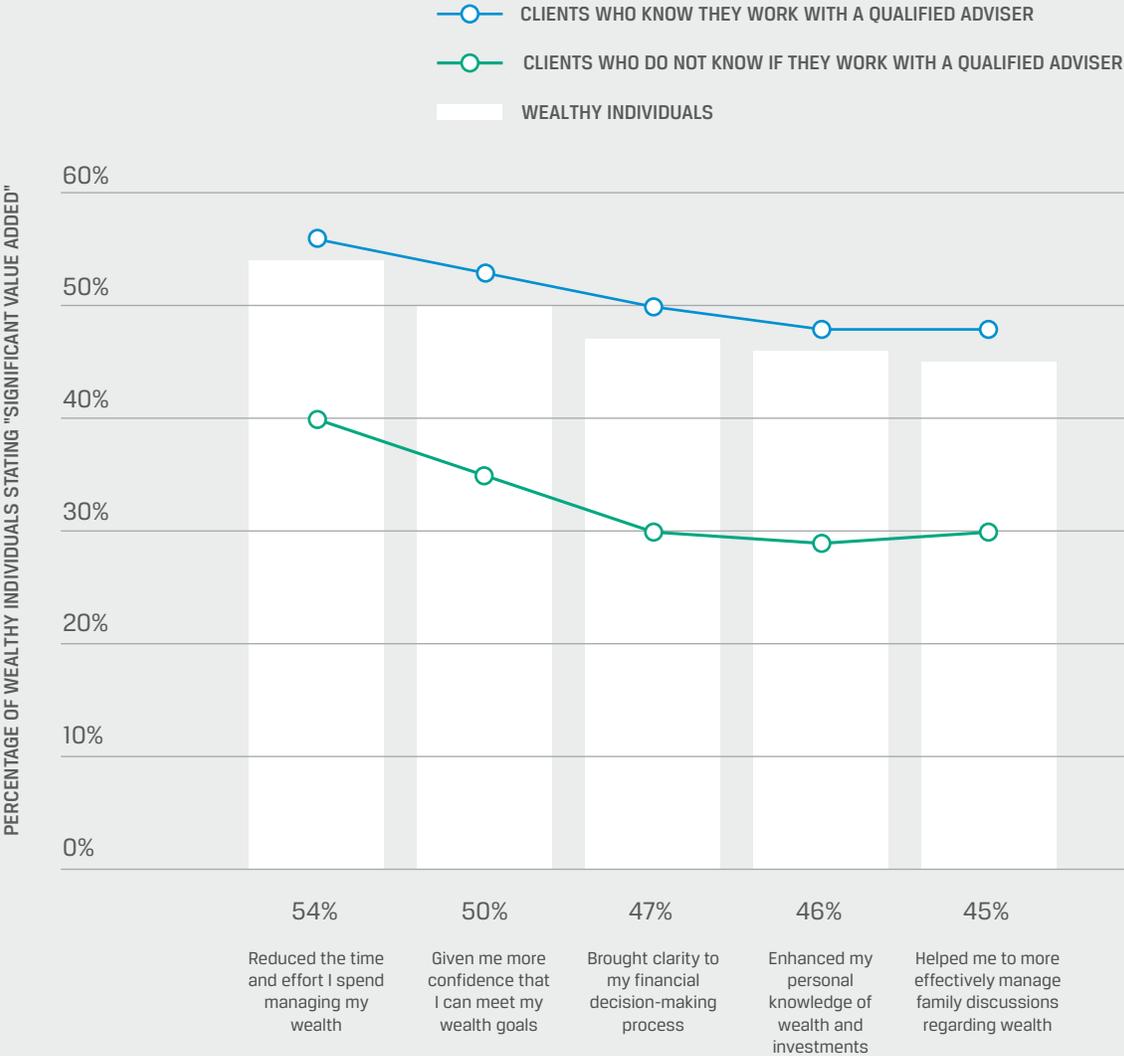


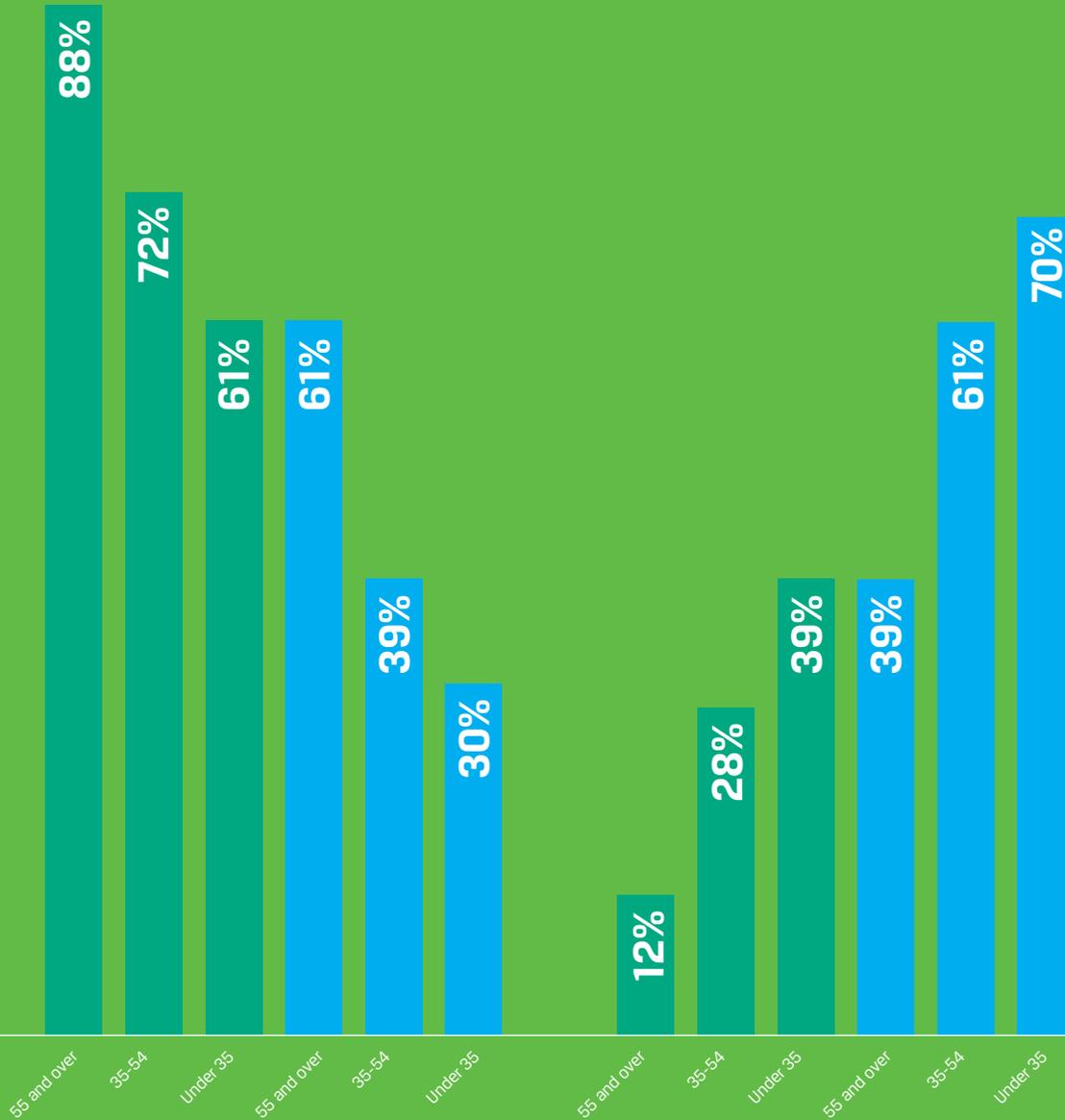
FIGURE 3: THE CORE VALUE OF WEALTH MANAGEMENT

[Asked to wealth practitioners and wealthy individuals] In each of the following pairs of statements, which sentence most closely aligns with your view about the core value of wealth management?

ALL WEALTH PRACTITIONERS
WEALTHY INDIVIDUALS

A core value of wealth management is the access to skilled professionals at any time

A core value of wealth management is the strength and breadth of the digital offering made available to the client



In spite of this, the requirements of the professional wealth adviser are certainly in a state of flux. With new tools and technologies now available for managing wealth, the role of the wealth adviser and the value they can deliver to clients is shifting.

In fact, although over two-thirds of advisers feel that wealth management's value is defined by "having access to skilled professionals at any time," investors place another proposition element front and center [Figure 3]. Over half of private clients outline the principal function of wealth management as "the strength and breadth of the digital offering made available to the client." The perception gap widens with millennials.

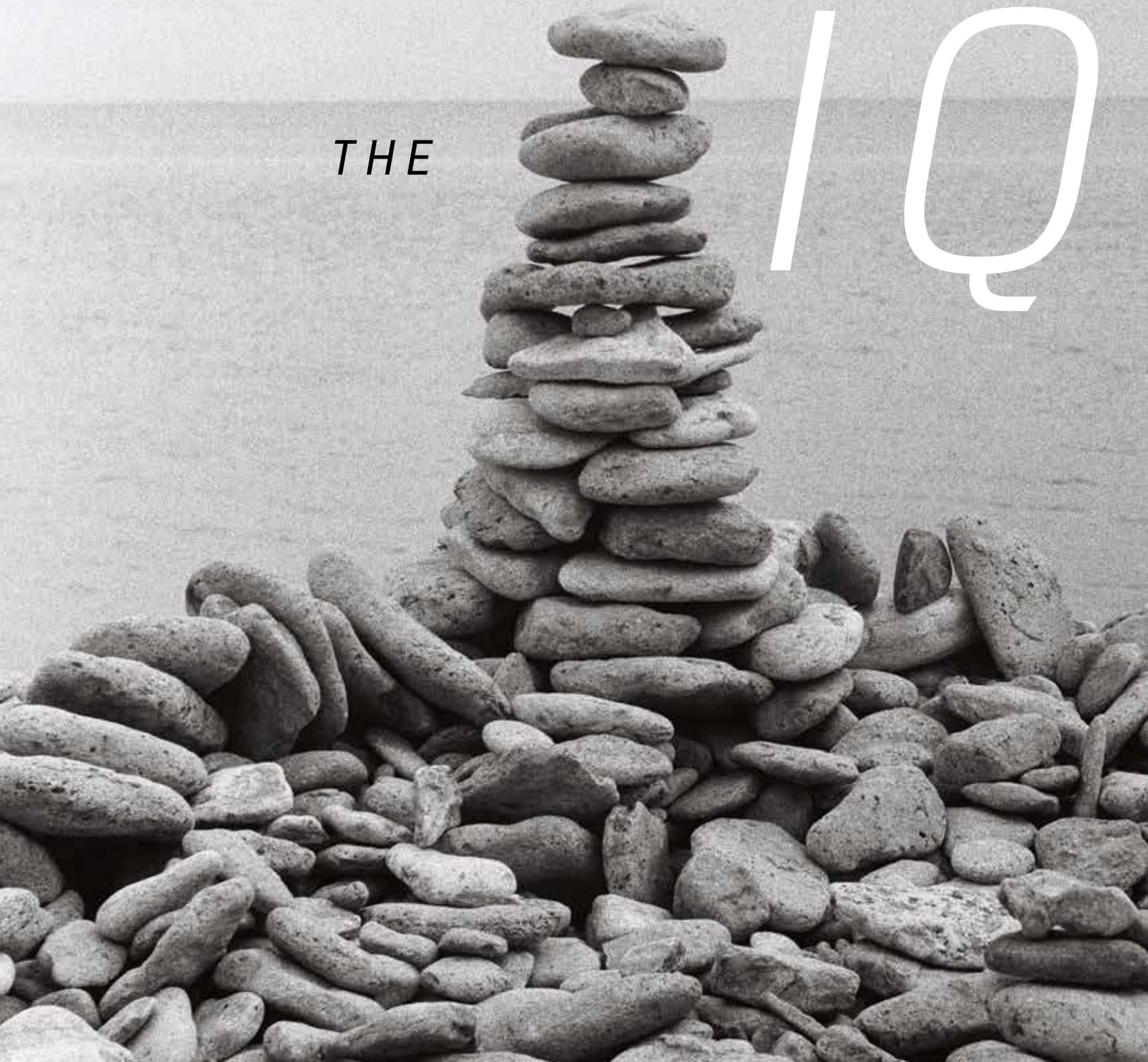
Yet, the predominance of a digitally enhanced relationship does not mean that the role of the adviser is set to disappear. As we have already seen, the appeal of the do-it-yourself model is limited to a relatively small portion of consumers. Instead, a majority of clients want an enhanced experience that incorporates technologies alongside their adviser partner.

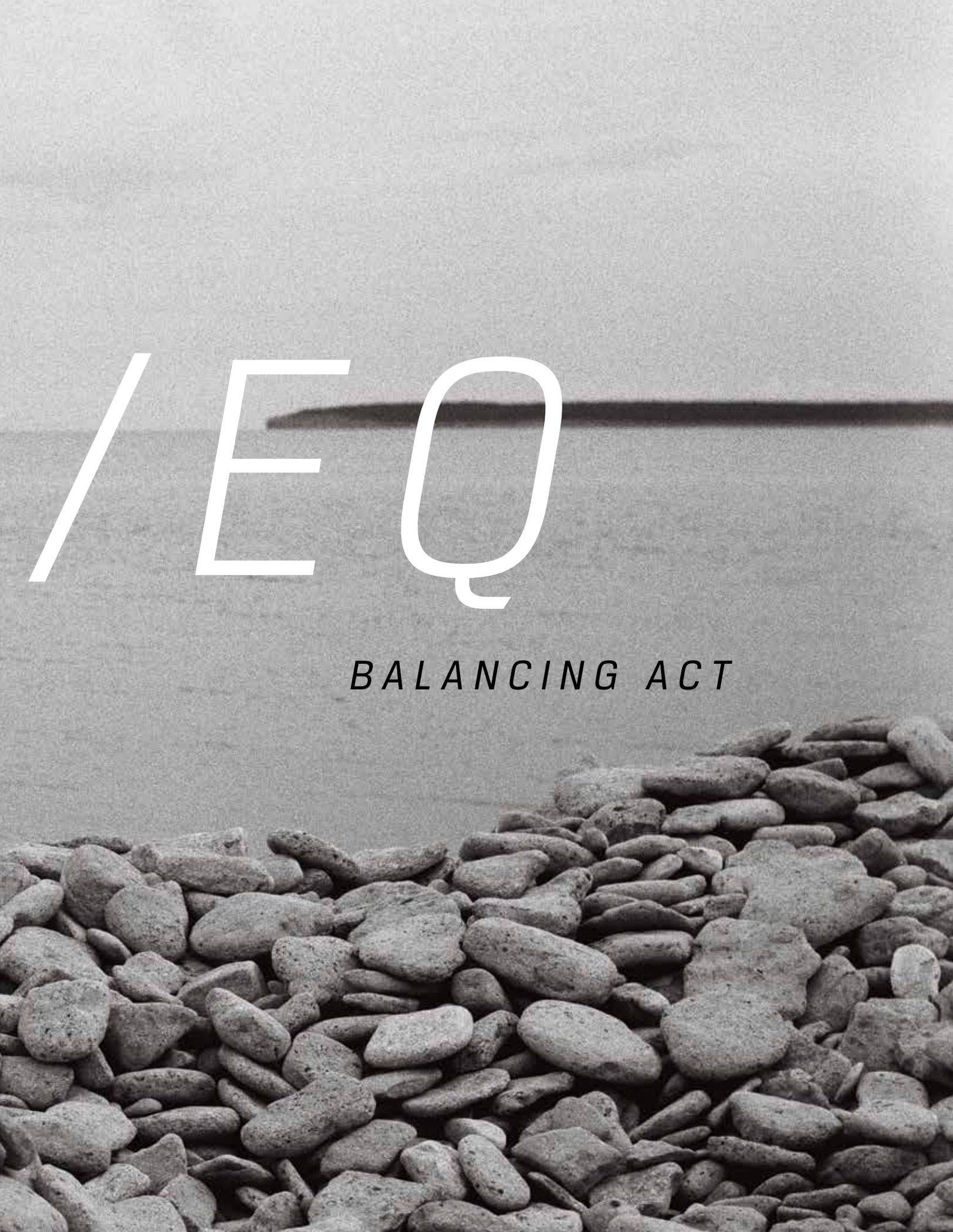
However, the integration of these solutions has highlighted the need to re-evaluate the qualities of the professional wealth advisers. It will be those advisers who have the flexibility to work alongside new technologies, as well as technical expertise and emotional intelligence to add value beyond them, who will deliver successful client relationships in the future.

WITH NEW TOOLS AND TECHNOLOGIES NOW AVAILABLE FOR MANAGING WEALTH, THE ROLE OF WEALTH ADVISERS AND THE VALUE THEY CAN DELIVER TO CLIENTS IS SHIFTING.

THE

10





EQ

BALANCING ACT

THE IQ/EQ BALANCING ACT

Private investors suffer no shortage of experts ready to lend assistance. But, in an industry characterized by jargon and often opaque product design, it is sometimes difficult to decide who is able to appropriately guide financial decisions while taking all of the client's relevant information into account.

At some peril, choices are often made solely on personality rather than the competence of the adviser.

Of course, competence doesn't necessarily evoke feelings of excitement or delight, but it is essential to give investors confidence that advisers can handle the breadth and depth of issues that influence their wealth. An adviser has to account for each individual investor's risk tolerance, innate biases, ethics, solution preferences, tax exposure, assets, family construct, and so on. Consequently, they must filter these various components into a strategy that is aligned to their unique goals.

As such, when choosing an adviser, proven intellectual capability and knowledge is paramount. Investors must select an adviser who has the proficiency to be all-in on whatever unique challenge their situation poses.

Our research found that CFA charterholders strongly align to clients' interests in demonstrating investment expertise, knowledge, and skills required to address investors' needs. For example, 54% of clients believe that portfolio management

is a required area of expertise for advisers and half also agree that asset allocation and financial plan creation are crucial [Figure 4]. These are also the most referenced knowledge areas by CFA charterholders, with a respective 56%, 65%, and 43% of CFA charterholders surveyed.

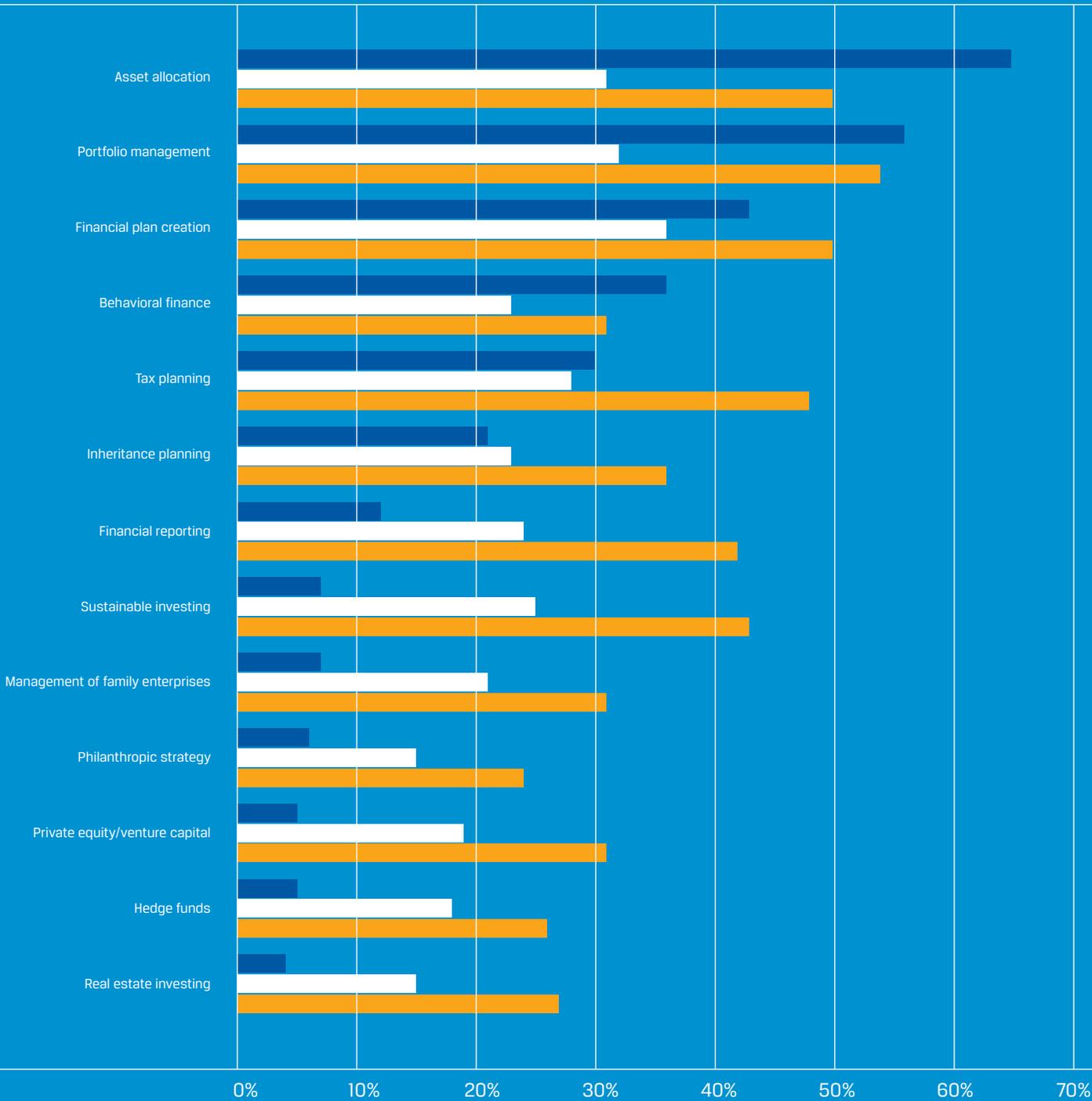
Among the advisers we surveyed who do not hold the CFA charter, the importance of strategic expertise is underplayed. Just 31% of other wealth practitioners referenced asset allocation as a key insight area for advisers and only 32% referred to portfolio management. When advisers underplay the requisite rigor and investment knowledge required to confidently advise clients, they are unlikely to sustain productive relationships.

For CFA charterholders, the next phase of their professional transformation is about demonstrating their knowledge more broadly. Although private investors will always value core investment expertise, advisers need to highlight the same capacity of engagement on a broader range of issues relating to personal wealth.

FIGURE 4: PROFESSIONAL EXPERTISE

[Asked to wealth practitioners and wealthy individuals] In your opinion, what levels of professional expertise are required in the following areas to be considered an effective private client adviser/wealth adviser?

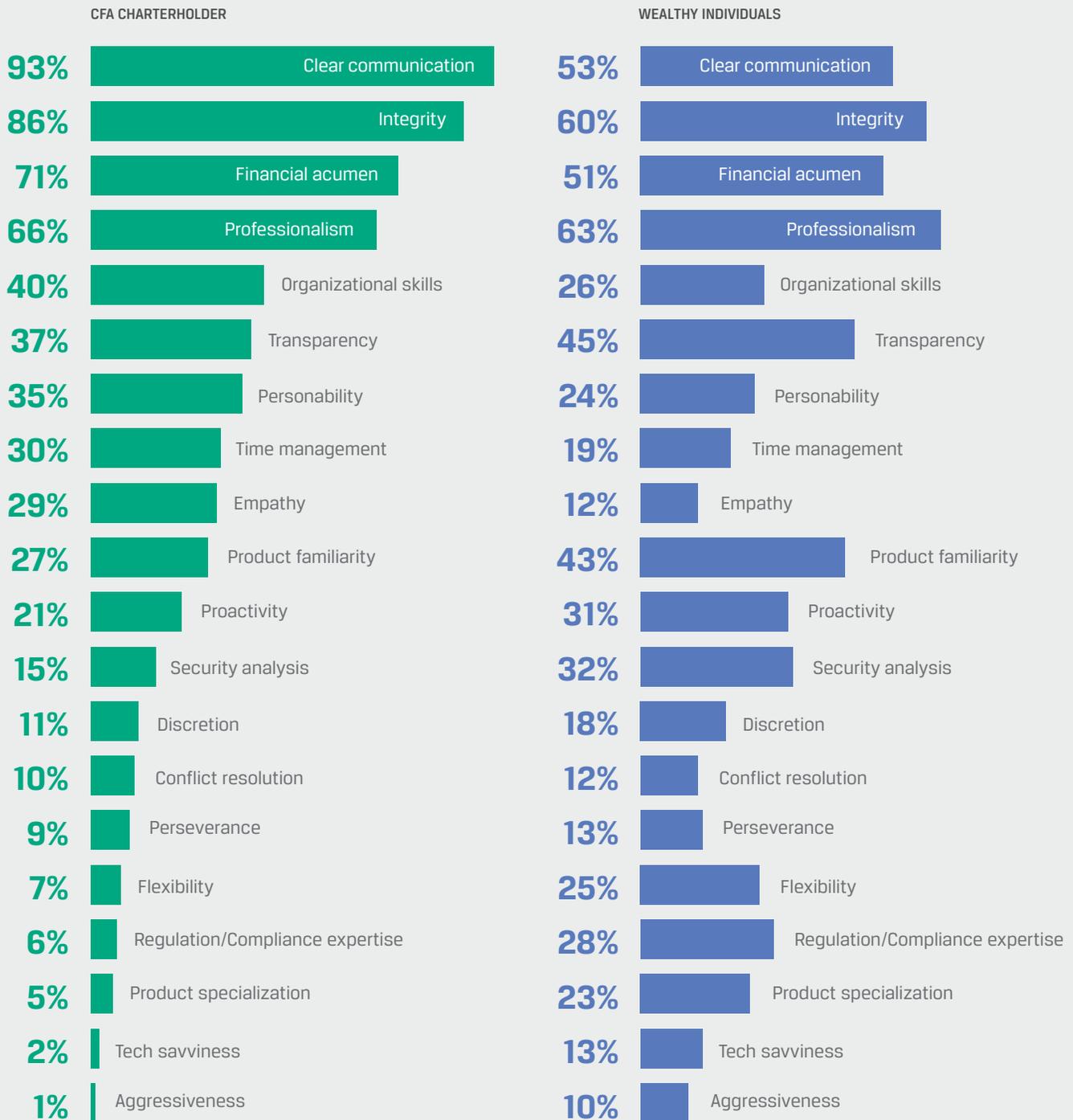
■ CFA CHARTERHOLDERS
■ OTHER WEALTH PRACTITIONERS
■ WEALTHY INDIVIDUALS



PERCENTAGE OF RESPONDENTS STATING "PROFESSIONAL EXPERT"

FIGURE 5: ESSENTIAL ADVISER QUALITIES

[Asked to wealth practitioners and wealthy individuals] From this list of qualities, what do you believe are the most essential attributes for a successful private client/wealth adviser?



Our research indicates that CFA charterholders are attuned to clients' specific knowledge requirements of the future. In the next five years, 69% of CFA charterholders surveyed intend to build further on their tax planning expertise and 60% believe inheritance planning will be requisite for future advisers. This intellectual curiosity and understanding of the wider wealth piece stands them in good stead to deliver a more holistic offer to investors.

Clearly, the true value of working with a financial professional can only be delivered if advisers can inform and enhance the wealth strategy of the client. Advisers need to be the technical experts, approaching the task of investment management strategically.

That's not to say that personality is not important. Qualities such as clear communication, integrity, and professionalism are highly desirable for clients and are acknowledged by CFA charterholders to be the core attributes for the advisory profession [Figure 5].

These qualities facilitate open dialogue over the many important facets that motivate the individual: their hopes, dreams, fears, and aspirations. They give an adviser greater insight into the client's requirements and provide the client with confidence in the individual advising them.

But alone, these qualities do not deliver the skills required to effectively service private clients. Personal rapport should not be considered a proxy for emotional intelligence.

The real edge for the adviser of the future is evidencing the emotional quotient by investing in a solid grounding in behavioral finance. This goes beyond building relationships and listening carefully to client needs. Premium quality advisers are the ones who can navigate the behavioral impulses and cognitive biases that lead clients to deviate from a sound wealth strategy.

CFA charterholders recognize the significance of this distinction. Personal relationship management is important to them. Indeed, 72% of them believe that it is the factor that leads them to winning the most business.

However, they are also cultivating an understanding of the innate influences that drive decision-making. Over a third of CFA charterholders believe that being a professional expert in behavioral finance is required to be effective, compared to fewer than a quarter of advisers who are not CFA charterholders. Furthermore, 60% of CFA charterholders anticipate that behavioral finance will become more important for advisers in the next five years, compared to just 35% of other advisers in the field.

Advisers who pursue a balance of EQ and IQ in their own professional development are ultimately going to be more successful in developing and delivering the solutions that foster long-term client relationships. These advisers provide wealthy investors with a holistic package, enabling clients to buy the expertise, the ethics, the personality, the qualities, and the professional guarantee.





**"EMPATHY PLAYS A
HUGE ROLE IN YOUR
CLIENTS' DECISION-
MAKING PROCESSES.
IF YOU DON'T KNOW
HOW TO UNDERSTAND
THEM ON THAT LEVEL,
IT WILL BE VERY DIFFICULT
TO KNOW HOW TO SELECT
THE PROPER TYPES OF
INVESTMENTS FOR THEM."**

-CFA CHARTERHOLDER

THE

HALL

MARK

OF THE

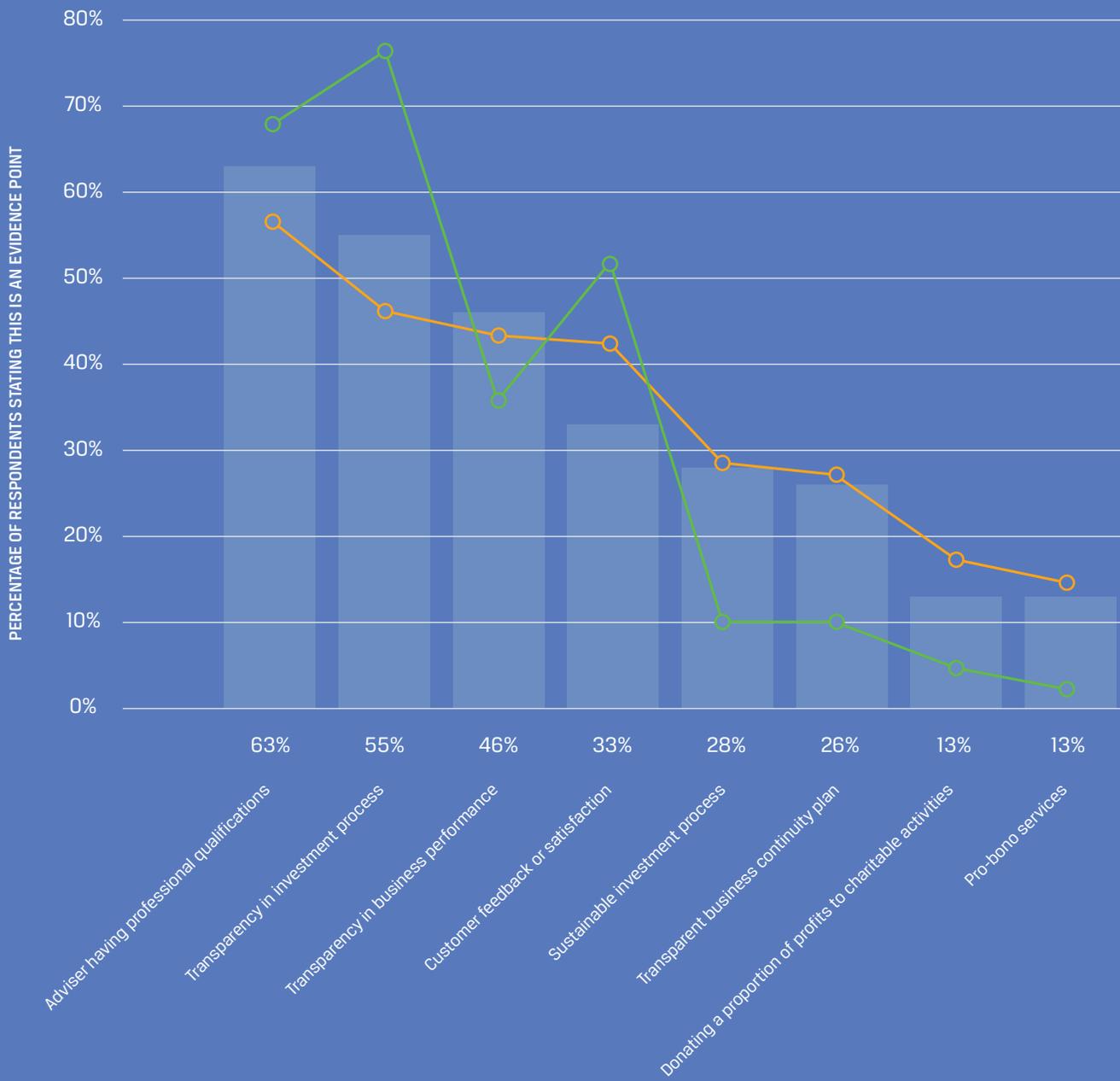
BEST-IN-CLASS ADVISER

FIGURE 6: DETERMINANTS OF RESPONSIBILITY

[Asked to wealth practitioners] Which of the following evidence points do private clients use to determine whether a wealth management firm is responsible?

[Asked to wealthy individuals] Which of the following evidence points do you use to determine whether a wealth management firm is responsible?

- CFA CHARTERHOLDERS
- OTHER WEALTH PRACTITIONERS
- WEALTHY INDIVIDUALS



THE HALLMARK OF THE BEST-IN-CLASS ADVISER

Given the specific requirements of the advisory function, professionalization is increasingly required to ensure enhanced standards of delivery for clients. Qualifications should not just be a hallmark of investment expertise but of the broader client promise, too.

The future adviser recognizes this and is a champion of client value. They are almost academic in their constant pursuit of knowledge that can enhance their customer relationships, whether it be cultivating product-specific and strategic investment expertise or learning about the dynamics of personal decision making.

There is a strong sense that private investors are also starting to look to qualifications as a signifier of a premium-grade adviser. When determining the credentials of a wealth management business, the training of client-facing employees is the principle signifier sought by clients. Over 60% of

investors claim that wealth firms can demonstrate responsibility through the professional qualifications of their advisers [Figure 6].

Clients recognize that qualifications may lead to expertise. They look to them as evidence points because they know they can represent a minimum standard on quality and ethics. What they have not yet fully distinguished are the differences among professional credentials and what each certification signifies. With an “alphabet soup” of qualifications on offer, determining which represent a premium adviser must be a priority.



"IF I LOOK INTO THE FUTURE, I HOPE TO SEE ADVISERS WHO
LOOK MUCH CLOSER AT THE RELATIONSHIP, AND I HOPE TO
SEE CLIENTS HAVE A MUCH MORE ACCESSIBLE UNDERSTANDING
OF WHAT THEIR ADVISERS' DESIGNATIONS MEAN."

-GFA CHARTERHOLDER

90%

of private investors under the age of 35 will ascribe greater significance to an adviser's designation in years to come.

With an exponential number of regulations governing the wealth management profession, private investors should feel confident that the advisers they work with respect and value ethical standards. However, investors increasingly acknowledge that understanding more about an adviser's professional qualifications and what he or she offers can help them to determine where minimum standards have been exceeded.

In fact, our findings reveal that more than half of private investors will ascribe greater significance to an adviser's designation in years to come. This rises to 90% among investors under the age of 35 [Figure 7].

Our research indicates that rigorous, comprehensive, and elite qualifications like the CFA

charter act as a proof point for investors that an adviser is in a position to provide superior advice to clients.

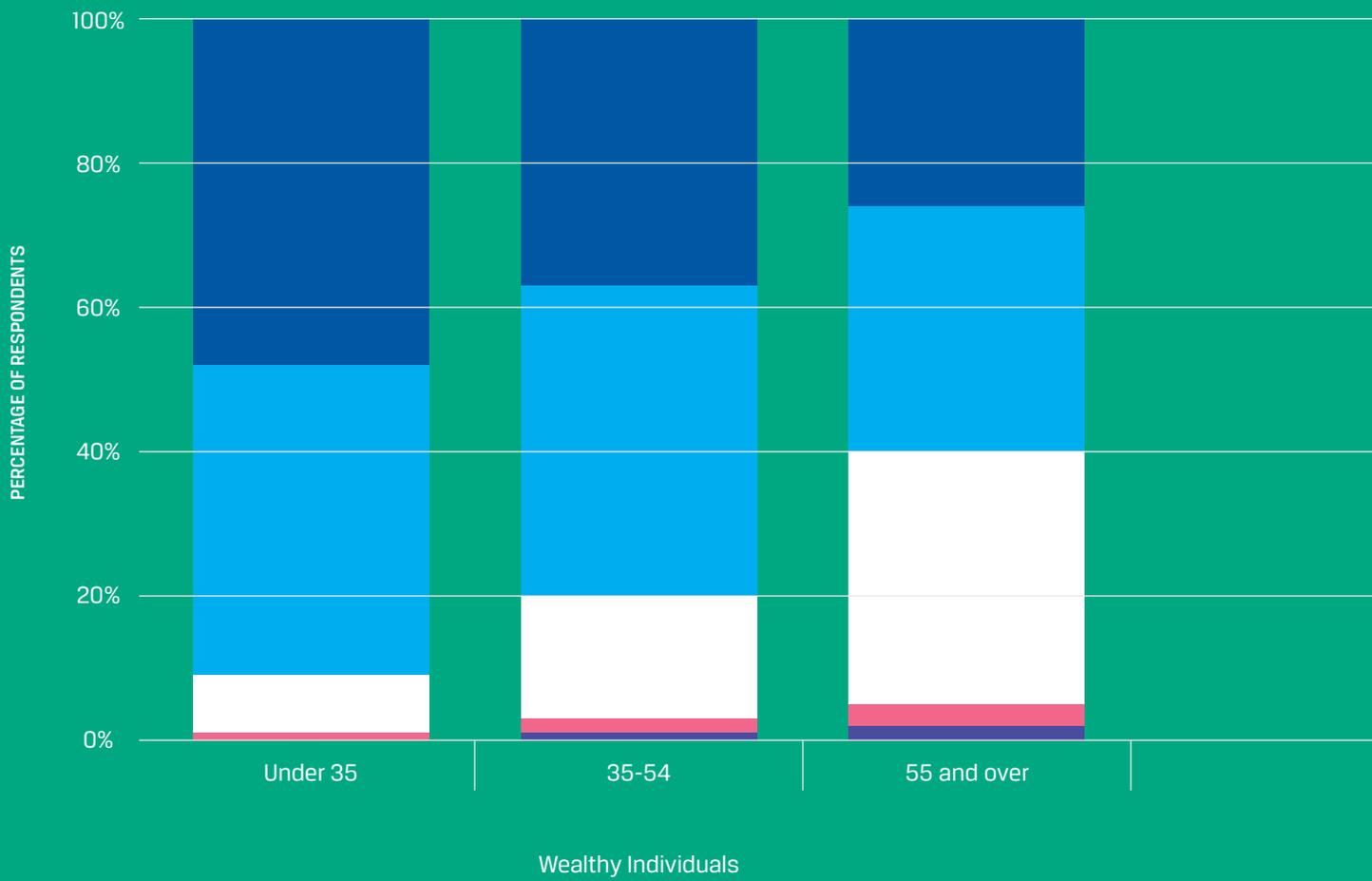
Furthermore, CFA charterholders overwhelmingly believe that the CFA designation improves their understanding of the issues that distinguish a best-in-class wealth adviser. A significant majority reference that the charter improves their comprehension of investing, wealth management, behavioral finance, delivering recommendations, and client-relationship management.

In light of this, our role at CFA Institute is now more important than ever. Our commitment is to continue to support advisers to develop the knowledge and skills to be most effective for their clients in the future.

FIGURE 7: QUALIFICATIONS SET TO INCREASE IN IMPORTANCE

[Asked to wealthy individuals] In five years' time, do you believe that the importance you ascribe to professional qualifications in wealth management will change?

- SIGNIFICANTLY LESS IMPORTANT
- LESS IMPORTANT
- SAME IMPORTANCE
- MORE IMPORTANT
- SIGNIFICANTLY MORE IMPORTANT



Figures do not sum to 100% due to rounding



CONCLUSION

Selecting a wealth adviser is not a decision to be taken lightly. Wealth is complex, all encompassing, and touches all facets of life: from family to career, hopes to fears, and goals to needs.

The diversity of each investor's requirements means they need a professional adviser who has the capability and flexibility to understand their unique situation.

The IQ-EQ interplay is fundamental here. The premium-grade adviser understands the specific characteristics of different investment products, as well as the dynamics of specific solutions that pertain to wider wealth needs. This future adviser has the intellectual capability to combine these different products and services into a strategy that helps investors to efficiently achieve their goals. They are aware that they must provide an all-encompassing solution. Most crucially, a quality adviser does not just have the capability to listen and engage with an investor's needs but must also have a grounding in behavioral finance that informs their understanding of the cognitive and emotional biases that affect decision making.

The breadth and depth of requirements for this role are extensive. They cannot be cultivated without comprehensive training and professional development. Investors increasingly recognize this. In fact, just as many of the private investors we surveyed said they expected their wealth advisers to have professional qualifications as they did of their healthcare providers.

Qualifications have the opportunity to lead the way in offering education on structured methods when dealing with both technical and emotional requirements of clients. In our eyes, qualifications are more than certificates and diplomas—they can act as the bedrock of professional standards and essential knowledge of the future adviser, but more importantly, they can underpin a highly effective and productive relationship to deliver better outcomes for investors.

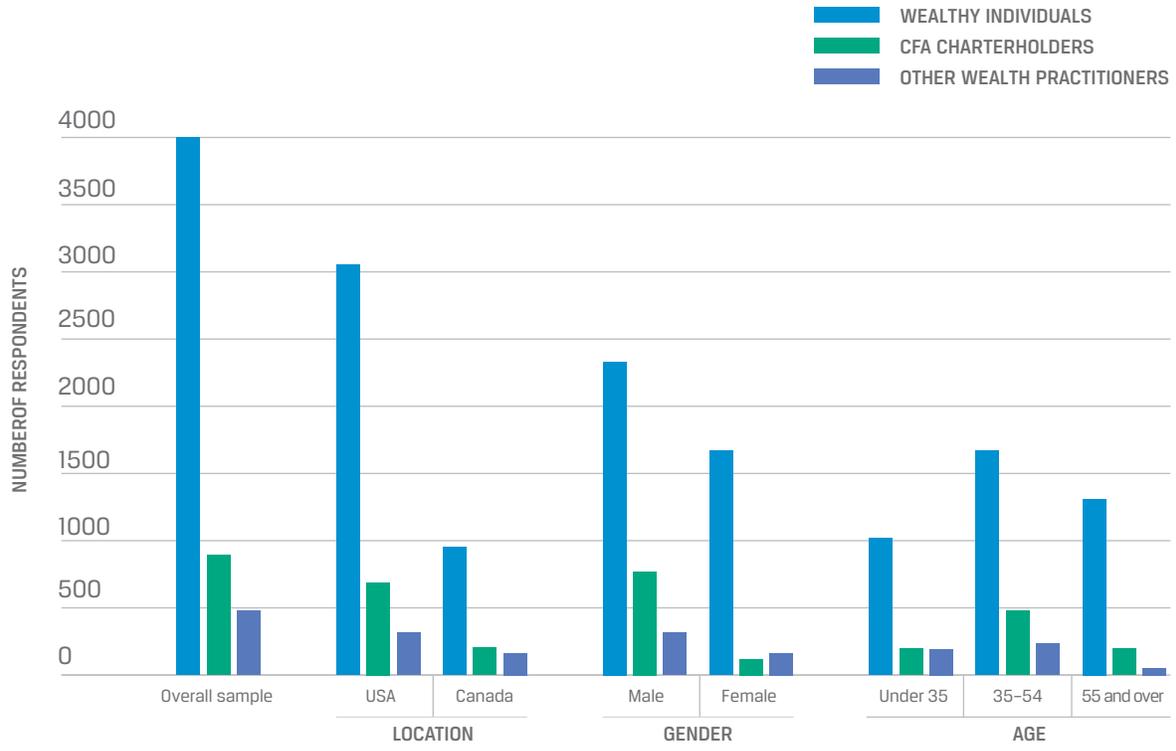
ABOUT THE RESEARCH

Methodology

This research, designed by CFA Institute and Scorpio Partnership, was undertaken from July to December 2016. Participants were CFA charterholders, independently sourced wealth advisers without the CFA designation, and mass affluent and high-net-worth individuals living in Canada and the United States.

The methodology comprised both quantitative and qualitative sections. 1,370 wealth advisers (892 of which were CFA charterholders) and 4,000 private client respondents answered a 15-minute online survey during the quantitative phase (sample distribution on the following page).

The median net worth of this sample is US\$2 million across the client respondent sample, and the mean net worth was US\$7 million. This was supplemented by 15 in-depth interviews.



SAMPLE NUMBERS		CFA CHARTERHOLDERS	OTHER WEALTH PRACTITIONERS	WEALTHY INDIVIDUALS
Overall		892	478	4000
Location	USA	689	315	3050
	Canada	203	163	950
Gender	Male	770	315	2331
	Female	120	163	1669
Age	Under 35	199	193	1018
	35-54	480	233	1672
	55 and over	196	52	1310

PERCENTAGE BREAKOUT		CFA CHARTERHOLDERS	OTHER WEALTH PRACTITIONERS	WEALTHY INDIVIDUALS
Overall		892	478	4000
Location	USA	77%	66%	76%
	Canada	23%	34%	24%
Gender	Male	86%	66%	58%
	Female	13%	34%	42%
Age	Under 35	22%	40%	25%
	35-54	54%	49%	42%
	55 and over	22%	11%	33%

Where figures do not sum to total, participant declined to provide information

Scorpio Partnership

Scorpio Partnership is a leading insight and strategy consultancy to the global wealth industry.

The firm specializes in understanding the wealthy and the financial institutions with which they interact. We have developed four transformational disciplines—SEEK, THINK, SHAPE and CREATE—each designed to enable business leaders to strategically assess, plan, and drive growth. These include market research initiatives, client engagement programs, value proposition and brand assessments and strategic business intelligence initiatives.

Scorpio Partnership has conducted more than 450 global assignments across wealth for institutions in the banking, fund management, family offices, law, trusts, regulation, IT and technology, insurance and charity sectors. In the course of these assignments, the firm has interviewed over 100,000 private investors and advisers.

For more information go to www.scorpiopartnership.com

CFA Institute

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials.

The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow.

CFA Institute has more than 148,000 members in 158 countries and territories, including 141,000 CFA charterholders and 147 member societies. The CFA Institute Future of Finance initiative is a long-term, global effort to shape a trustworthy, forward-thinking investment profession that better serves society.

For more information, visit www.cfainstitute.org/wealth