
Where's the value in Advice?

WHERE'S THE VALUE IN ADVICE?

Let me be more precise; where's the value in advice in the context of financial services? This isn't meant dismissively, I firmly believe that there is a lot of value in advice, but too often value is measured by commission, and product solutions are mistaken for advice. Let me explain.

It is rare for people to look for financial advice until triggered by a change of circumstance. Whether it's a windfall, the onset of retirement or the need to get better returns, there is an expectation of a product to meet the need. We've been conditioned to expect a product and equally we've been conditioned to expect the advice to be bundled into the cost of the product. Buy one get the other free?

FACTS OR GAPS?

Financial discussions tend to begin with a "fact find": a series of questions about the existing financial situation, attitudes to investment risk, and areas of need - an important stage in the advice process. Yet the "fact find" simply becomes a "gap find" as consumer and adviser alike look for gaps in the existing array of financial products, so that another can be shoehorned in: open an ISA, maximise your pension, invest in this fund – sound familiar?

Fact finding becomes gap finding because that's where the value is perceived to be. Unless there are gaps to be filled with products then no commission is earned, from an adviser's perspective that's where the value is. And consumers have been conditioned to expect products because this pays for the advice right?

Does value reside in finding gaps and filling them? Yes, partially, but that's not the whole story, not by a long way.

WHICH QUESTIONS ARE THE RIGHT QUESTIONS?

Fact finding can be a reassuring process, and gap finding even more so; it validates the decision to seek advice in the first place. But are questions around finding product gaps actually the right questions? What are people actually asking for when they search for financial advice?

We find that questions about pensions are fairly frequent, after all pensions are complex and retirement is a significant event in our lives. Reviews often lead to pensions being consolidated and simplified, with additional contributions to keep plans on track. The question feels as though it has been answered, but it doesn't take too many stock market falls and negative press comment before uncertainty sets in again. Some gaps have been filled but the real question has not been answered.

You might ask "is this the right pension for me" but perhaps the real question is "will I achieve financial independence?" An understanding of what the real questions will ensure that the fact finding doesn't focus on selling products but helps the adviser find appropriate solutions, even if these require no products. It's a subtle shift in attitude but the results are very liberating.

SALES OR EDUCATION

Investment bubbles are never exactly the same, but they do have one thing in common; however plausible the story on the way up, the madness is apparent after they burst. It is not only the client who is seduced, many advisers are seduced too. If you focus on product solutions then the easiest ones to sell are the ones being hyped.

Should advice come across as a sales pitch? Is there greater value in receiving advice that informs your thinking? Being informed doesn't necessarily prevent anyone investing into emerging bubbles, but exposure is likely to be limited, along with any subsequent damage.

It is hard to remain isolated from sales messages, particularly in the world of investment. We would all like our money to sweat a bit, and early gains and successes subtly change our beliefs about our investment skills or our adviser's skills. More often than not it's luck. If it were skill we would know exactly how far to ride the bandwagon before jumping off.

I've lost count of the number of people that have told me that they wish they had followed their gut feeling, or had understood the downside risk more. Instead of having an informed debate with their advisers they recall having negotiations about how much to invest, they were being sold to, not advised.

There is value in education; it helps you differentiate between sales patter and fact. Knowing your overarching strategy allows you to evaluate any proposals you receive with a different hat on. Instead of focusing on expected returns or tax breaks, you can focus on how the proposal helps you attain your goals.

TIGER WOODS OR LOST IN THE WOODS?

Advice in our world looks like education, your adviser is your coach, helping you attain financial independence. Successful people achieve peak potential with the help of coaches and mentors, not through sales people.

Tiger Woods didn't become the world's greatest golfer by being sold a product. His advisers don't sell him a new set of clubs to keep him on top of his game. But he does buy advice. His coach helps him with consistency, providing feedback on his swing. His caddy offers advice about the course he is playing, what the conditions are like, what the dangers are; it's not a negotiation it's about helping Tiger make an informed decision.

Isn't that how financial advice should look? We think so.