

A Failure To Communicate

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In the 1967 classic movie *Cool Hand Luke*, Paul Newman plays a challenging prisoner, always questioning authority and ignoring direction. Finally having enough, the warden beats Luke and quips, “What we’ve got here is a failure to communicate.”

I just read the 2013 CFA Institute & Edelman Investor Trust Study. The study surveyed global retail investors to determine the level and value of trust investors place in the financial services industry and what we might do to regain the trust we’ve lost in recent years. Not surprisingly, only 52% of the respondents trusted the financial services industry to “do what’s right.” Also not surprisingly, especially to financial planners, the study concludes that investment managers can rebuild trust by stressing their performance less and instead demonstrating trusted behaviors. They cite a need for “commitment to professional standards of ethical conduct that are in the investor’s best interest,” as one of the ways to engender trust.

Investors in the study were also asked to indicate which attribute is most important when making a decision to hire an investment manager. Thirty-five percent said it is when they trust the advisor to act in their best interest. Seventeen percent said it was when the advisor could achieve high returns. Another 17% said it was that the advisor was committed to ethical conduct, while 15% said they picked an advisor who came recommended by somebody they trusted. Eight percent said the advisor complies with the industry’s best practices, while 7% said the advisor’s fee structure was the most important thing.

The study also says investment managers should be able to take “responsible actions to address an issue or a crisis.” Sounds a lot like the financial planning process to me.

Let’s first tackle the important attribute—that an advisor is “trusted to act in my best interest.” Unless you have been hiding underground for the past several years, you are aware that there’s a debate over whether advisors ought to act in a fiduciary manner or whether they should simply make suitable product recommendations. It’s important to note that suitability rules do not require that someone is trusted to act in a client’s best interest. Yet I really can understand the issue some people have with the term “fiduciary,” a legal term that has broker-dealer attorneys apoplectic. We provide the following Committee for the Fiduciary Standard statement to clients, and it does not use the term “fiduciary” at all.

• I believe in placing clients’ interests first. Therefore, I commit to the following five principles and say to clients:

- I will always put your best interests first.
- I will act with prudence. That is, with the skill, care, diligence and good judgment of a professional.

- I will not mislead you, and I will provide conspicuous, full and fair disclosure of all important facts.
- I will avoid conflicts of interest.
- I will fully disclose and fairly manage, in your favor, any unavoidable conflicts.

No matter what opinions you have or constraints you may face in acting in the clients' best interest, it appears that the public demand for a certain type of advisor may eventually end this debate for us.

Next, let's look at the response from investors in the study that says advisors should take "responsible actions" to address an issue or a crisis. This suggests to me that they really want financial planning, not just investment management. They want their advice delivered in the context of their lives; they want goals-based planning.

It was at least 15 years ago that MoneyGuidePro brought software to the planning community that produced goals-based planning. I remember my partner telling me there was no way we could use this software; it simply did not include the comprehensive components that we needed. But we ran one plan against our cash-flow software, presented it to clients and realized that this was exactly what we needed. I am fascinated to hear that portfolio managers now understand the value of goals-based planning and how effective this can be in gaining trust with clients.

I recently had a discussion with CFAs about how to gain more client insight with better counseling and communication skills. One portfolio manager told me that she has been studying active listening and practicing it with her institutional and endowment clients. "It's amazing how much more engaged these clients are when we actually ask them what they are thinking," she confided.

Our students at Texas Tech are required to take at least one counseling and communications class to focus on learning these skills, practicing in mock sessions simulating various conversations in the financial planning process. While I am certain you've come across these principles before, I thought it might be useful to review the basics of active listening.

Essentially, there are two key components to it. One is non-verbal communications, which silently indicate you are listening to clients and staying in the moment. These cues include sitting forward, making eye contact, nodding or exhibiting facial expressions that convey your engagement. Verbal cues, meanwhile, encourage the person to keep talking.

Here are a list of some active listening techniques, (taken from The Counseling Dictionary by Samuel T. Gladding and Effective Helping: Interviewing and Counseling Techniques by Barbara Okun and Ricki Kantrowitz).

"Minimal encouragers." These are small signals that show you are listening and following what the client is saying.

Pacing. "Pacing" means matching or mirroring the client's behavior. You can pace their tone, rate, volume or content.

Probing. This means continuing to talk to the client in an open-ended attempt to obtain more information from them about something.

Paraphrasing or restating. Advisors must sometimes restate what the client has said, but in a different way—with different words, nonjudgmentally. They use their own words to tell the clients what they heard.

Reflecting. This means communicating back to the clients what you believe they said. You can either reflect back their feelings (expressing in your words the ways they feel, whether it is stated or strongly implied) or you can reflect back to them their content (repeating in fewer and fewer words their essential ideas).

Clarifying. This means you attempt to focus on or understand the content or intent of a client's statement and at the same time help him or her better comprehend what was said.

Reframing. A process in which you can help change the clients' perceptions by explaining a situation in a different, usually positive context. For example, suppose you go into a grocery store and see two rows of bologna. One is marked, "90% fat free" and the other is marked, "10% fat." While they are the same fat content, most people choose the 90% fat free, because it sound healthier. The way a question is framed, changes the outcome.

Parroting. This means repeating word for word what the client has said. While this can be effective, be careful, because it can clearly be annoying as well.

Validation. Validation is an attempt to let the clients know that you can accept and are empathetic with what they have expressed, by agreeing with them or finding something they have said that you agree with.

Summarizing. This means synthesizing what the client has communicated and focusing a series of scattered ideas into a clear idea or perspective.

An advanced pacing skill allows you to see how your clients learn, either by listening, seeing or doing. They often give cues by the way they phrase sentences. For example, an auditory learner may say, "I hear you," while a visual learner may say, "I see what you are saying." A kinesthetic, or tactile, learner may say, "I feel" or "I sense." Once you understand your clients' learning style preference, you can use phrasing that they can relate to and present new information in a way they are most comfortable with. This works very well when presenting a plan. Because our planning software (MoneyGuidePro) is collaborative and interactive, we can deliver our plans by going through charts and pictures or allowing clients to make changes themselves using the "Playzone," depending on their learning style.

I'm sure you agree that if you engage clients in meaningful conversations, it will go a long way to growing and improving your trusting relationships with them. But it's also clear to me that unless we are also demonstrating trusting behaviors and conducting our businesses in an ethical manner, it still adds up to a failure to communicate.

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