NavigatorInsights

What Clients Want: The Case for Collaborative Portfolio Construction

> "Tell me and I forget. Teach me and I remember. Involve me and I learn."
> – Benjamin Franklin

These days, the DIY attitude has spread across industries and, more than ever, people are taking on projects themselves that historically have been handled by professionals.

Need to do a home update? No problem. There's a YouTube video for that.

Want to plan a vacation somewhere exotic? Time to visit TripAdvisor.

Time for a new car? Bypass the car salesman. Everything you need to know is online.

Now, we know this can be a dangerous move when it comes to investments. But we can't deny the massive consumer shift taking place as a result of the sheer amount of information available and the desire to try to cut costs by doing it yourself.

Today, people want and expect to be informed and active participants in the products and services they buy. This is a huge benefit to your practice if you embrace the process of collaborative portfolio construction.

A Personalized Process for Investing: Show the Client You Care

In order to build a portfolio together with a client, you must tap into the investor's psyche, understand their emotions, and keep the focus on their goals and dreams. In doing so, you must be an active listener, showing the client that you care about their needs. From an investment standpoint, the end result is a personalized portfolio centered around the client's needs, built to last for the long term. And chances are, the client might be more committed to sticking with that portfolio through the inevitable ups and downs of the markets.

This is the result of a well-known behavioral phenomenon known as the IKEA Effect.

Build It Together: Embrace the IKEA Effect

The IKEA effect is a cognitive bias in which consumers place a higher value on products they have had a part in creating.

According to Behavioral Economics, "The IKEA effect has a range of possible explanations, such as positive feelings (including feelings of competence) that come with the successful completion of a task, a focus on the product's positive attributes, and the relationship between effort and liking."[1]

Let's take a look at a real-life example. My husband and I recently moved to a new house, and we needed to decide what to keep and what to ditch. One day, hours into the packing process, I came across an IKEA shoe rack I had built years ago. He wanted to ditch it (admittedly, it was looking a little ragged) but I just couldn't do it. I had spent too much time and effort building it myself, and it had served me well over the years. I built it, I loved it, we kept it. Simple as that.

Here's how you can use this cognitive bias to your clients' advantage. Don't just have a client fill out a traditional risk tolerance questionnaire that will "assign" them a standard, off-the-shelf balanced portfolio. Instead, collaborate with them to build a personalized asset allocation. Build it with them.

Keep It Personal — Focus on Clients' Life Goals, Not Market Statistics

Listen to their needs, their goals, their fears and their dreams. Work this into the process. Explain why each part of the portfolio is designed to help them reach their goals. This will give you an opportunity to explain the benefits of diversification and discuss how different asset classes perform in different market environments.

It can also give you the opportunity to highlight the outside expertise you provide – whether it's asset managers, estate planners, or tax attorneys. The process ensures that everyone is on the same page in terms of what the client is hoping to achieve, and it shows the client the amount of intellectual capital, hard work, and thoughtfulness that goes into their investment plan.

When it's time to bring the client back to plan (say they've had a life event or they are worried during a market downturn), it should be easier for them to recall why they invested the way they did. As a result, this process may help clients remain far more committed to staying invested and on track to achieving their long-term goals. Because they built the plan with you, they understand why the investments are important to their long-term needs.

Another important benefit is that the client may feel more informed, more in control, and smarter about investing. This is important, because **recent research shows that the number one thing clients want from a financial advisor is help making smarter financial decisions.**[2]

Through this process, you might just be giving clients exactly what they want: involvement in the process, education on financial services, and a sense of control and commitment to their long-term goals.

For more on the benefits of a collaborative portfolio construction process, [click here].

Citations:

1. https://www.behavioraleconomics.com/mini-encyclopedia-of-be/ikea-effect
2. "Winning the Allegiance of Top Financial Advisors." CEG Worldwide,2014.

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