Don’t Call it a Fad: Behavioral Finance is the Future of Fintech

The Evolution of Advisor Value

Music, fashion, baffling teenage slang, nutrition, and financial advisor value—**what's the common thread?** Nothing stays the same. Across every industry, across language, across the world, change is the only constant.

But while the mom jeans comeback might be just a flash in the pan, the evolution of advisor value happens slowly, in a subtle—and more sustainable—way. Staying ahead of the curve means not getting complacent; instead, pay close attention to what's shifting around you: in the industry, in the economy, and in the tech space.

From Investment Centric to Planning Centric

As financial services become more highly commoditized, we've seen an industry-wide shift from the traditional investment-centric value proposition to one that prioritizes planning-centric advice. After all, robo-advisors may be able to automate rebalancing, but algorithms will never be able to make specific recommendations for unique life situations.

And as the value a financial advisor provides shifts, so too does the technology supporting that value. Measuring success by benchmarks and indices required performance reporting, portfolio accounting, and optimization technology—but that's not enough to build truly comprehensive financial plans around detailed client information, such as goals, challenges, expectations, income, expenses, and accounts. Guiding your clients on a financial journey that leads to a successful future and connects your investment decisions to their progress requires seamlessly integrated planning and investment management technology.

And that doesn't just mean advisor technology. Welcome to the information age, where consumers can do literally anything—watch a movie, learn a new language, order a gluten-free deep dish with Daiya "cheese"—from the palm of their hands. These same individuals do not want to wait for a quarterly paper report to view their portfolio performance.

So when you think about the future of technology and client experience, you better think about delivering digitally: An estimated 45% of consumers with over $100,000 in assets changed their advisor in the two years prior to 2020 because they wanted a more digital experience.[1]

Technology that supports an exceptional client experience includes a client portal that enables investors to access and manage their full financial lives in a single place, with financial plans, progress toward goals, account opening capabilities, advisor collaboration tools, and more.

But it doesn't stop there, and the evolution of advisor value isn't close to over. Two paragraphs above, we mention prior to 2020. Which also happens to mean prior to the world-changing, life-altering COVID-19 pandemic.

1 https://www.thinkadvisor.com/2019/12/10/grow-your-firm-with-online-client-meetings/

Progress Propelled by a Pandemic

The year 2020 treated investors like a toddler treats a yo-yo—utterly recklessly, with no regard for their well-being. Between the health crisis, adjusting to remote work and social distancing restrictions, unemployment, wild market fluctuations, and a volatile election and its aftermath, it's no wonder advisors are finding themselves playing the role of therapist alongside their planning and investment management duties.[2]

Add the COVID-19 pandemic to already-increasing client expectations, and the value of a financial advisor has shifted once again. It's not enough to understand client goals and financial situations. Advisors need to go deeper.

The Power of Behavioral Finance

In a year that changed everything, one thing remains the same: Human behavior.

If you think that can't be the case, consider this. The three biggest drivers of human behavior are fear, uncertainty, and isolation.

Now think about the impact of the pandemic on humanity in general. More than ever, we're afraid. We're uncertain about the future. And many of us are certainly isolated, thanks to country-wide quarantines and social distancing regulations.

Knowing what drives human behavior is one thing; using psychology to improve client relationships and, ultimately, portfolio outcomes, is another. But it's worth it: Based on a Vanguard survey, the emotional value that an advisor creates through behavioral coaching accounts for about 45% of the total perceived value of an advisor-client relationship.[3]

Psychology, behavior, emotion. Not exactly a technology trifecta—and yet, there is incredible opportunity for leveraging technology to deliver the understanding, reassurance, and peace of mind that investors truly value, through every stage of the advisor-client journey.

It's worth repeating that human behavior is unchanging. That's great news for advisors, who can use both technology and the basic, enduring principles of human psychology to differentiate themselves, regardless of what the future holds for our industry. Since the 1980s, awareness and application of behavioral finance has grown year-over-year. In fact, 81% of advisors report using behavioral finance techniques—and of those advisors, 62% added new clients twice as fast as those who did not use behavioral finance techniques.[4]

When we look at the Behavior Gap, the power of behavioral finance becomes clearer. The Behavior Gap measures the loss that the average investor incurs as a result of emotional responses to market conditions. Studies have shown that this gap can range from 1.17% all the way to 5.35% per annum[5].

So how does technology help advisors use behavioral coaching to close that gap?

2 "The Changing Role of the Financial Planner Part 1: From ...." Accessed 17 Nov. 2020.

3 https://personal.vanguard.com/pdf/assessing-value-advice.pdf

4 "How Behavioral Finance Can Help Clients and Advisors ...." 10 Sep. 2020, Accessed 18 Nov. 2020.

5 "Behavioral Insights – Behavioral Innovation Lab." . Accessed 18 Nov. 2020.

Technology and the Advisor-Client Journey

Helping investors feel understood and supported goes a long way toward alleviating the three drivers of bad behavior—fear, uncertainty, and isolation—which in turn can help keep them invested for the long run.

And throughout every step of the advisor-client journey, technology has the potential to encourage positive behavior.

Even before investors become clients, prospecting technology can help advisors speak directly to their greatest needs and challenges with automated campaigns that create a sense of understanding and compassion.

When those campaigns are tied directly to intuitive financial planning capabilities, prospects experience a smooth transition from merely thinking about their goals to addressing them with an advisor who has already built a foundation of trust.

Technology that gives clients access to their holistic financial picture, including connecting progress toward goals with investment strategies, can help alleviate the uncertainty that might otherwise cause them to deviate from long-term progress with a short-term reaction.

Finally, technology can help advisors consistently connect with their clients outside of the traditional face-to-face meetings that aren't viable these days. Providing timely market commentary, video chatting, cobrowsing, even acknowledging a birthday or an anniversary soothes feelings of fear and isolation.

We all want to feel understood. Harnessing the power of human emotion with both compassion and robust technology to keep investors focused on what's best for them isn't just a trend; it's the future of what it means to be a fiduciary.

Learn more about the role behavioral finance will play in the future of our industry.

Watch our on-demand webinar with
Dr. Daniel Crosby, Orion's Chief Behavioral Officer.

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3143-OAS-11/20/2020