Vanguard®

How investors select advisors

ADVISED INVESTOR INSIGHTS™

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We recognize that understanding the behavior of your clients is vital in helping them realize their goals. That's why we're pleased to introduce *Advised investor insights*, an ongoing proprietary research series that provides you actionable insights on investor behavior. The first installment in the series, *How investors select advisors*, identifies five investor profiles and how you can interact with clients of each type to optimize your relationships. It also explores the power of referrals to drive your practice.

The next report in this series will look at the factors that influence investors' trust in advisors. Then, we'll consider how you can promote positive investment behavior—a natural follow-up to Vanguard Advisor's Alpha® research, which demonstrates the value that behavioral coaching can deliver.

We're confident this report and the ones to follow will serve as essential tools to help you communicate more effectively and efficiently with clients.

This report explores:

Executive summary

The simultaneous rise in competitive, technological, and regulatory forces has made understanding investor behavior—always useful for advisors—absolutely critical to your success. You can more easily satisfy investors if you know what they care about. Going a step further—by combining knowledge of investor motivations and your own preferences as an advisor—can help you attract, retain, and delight clients who are well-suited to your practice. In turn, having well-suited and delighted clients raises the odds of earning referrals. Helping you to better understand your clients and prospects—and helping you win more referrals along the way—is the purpose of this inaugural *Advised investor insights* report.

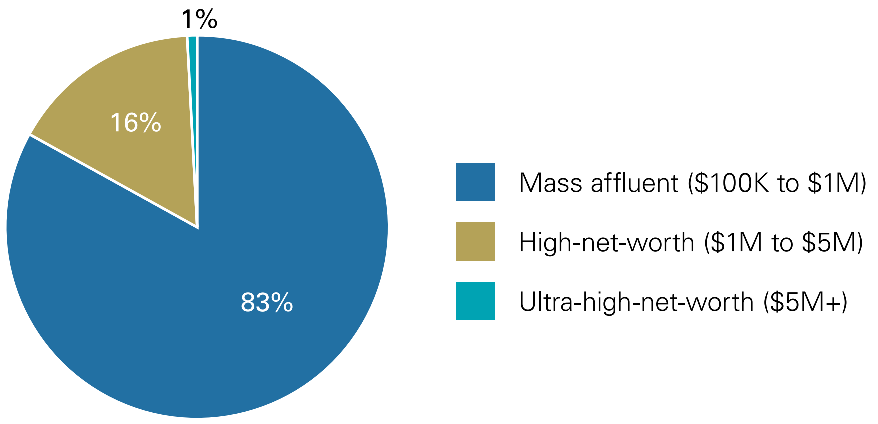
While there naturally is significant variability among investors, we identify five profiles of advised investors who tend to share important traits, and we suggest how you can deepen your relationships with all of them. We explain that behavioral factors—notably, investors' sense of their own investment knowledge and the degrees to which they care about your technical and soft skills—drive advisor selection. Our investor profiles do not replace how you segment your business—for example, by assets and/or services provided—but they can complement your approach and help you strengthen your practice.

We also share our findings about the critical role of referrals in advisor selection. As you may have found, a prospect who is referred to you is likely to become a client—and a loyal one at that. Interestingly, and perhaps counterintuitively, we find that the source of a referral is not particularly important. A recommendation of your services carries about the same weight whether it comes from a prospective client's neighbor, good friend, or accountant.

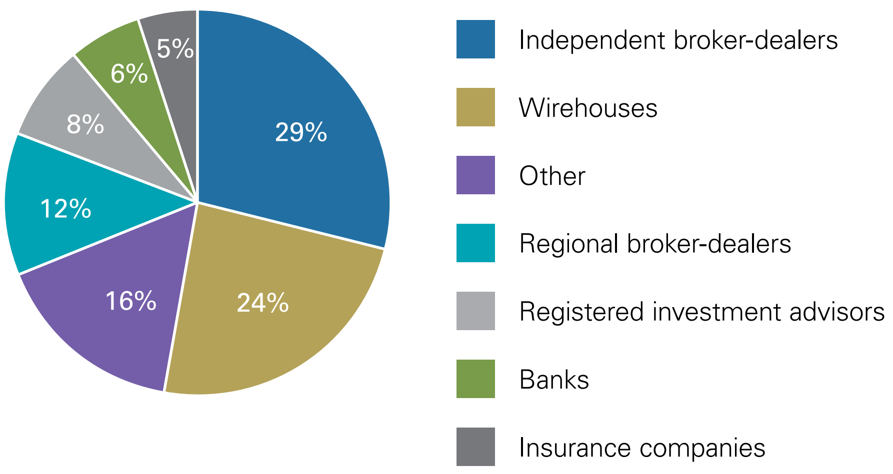
Methodology

This 2015 study, conducted by Chadwick Martin Bailey, was fielded November 19, 2015, through December 7, 2015. The research was conducted via an online survey completed by almost 4,000 advised investors with investable assets, including taxable accounts and IRAs but excluding employer-sponsored retirement plans, of at least $100,000. Intended to be a representative sample of all wealthy, advised investors in the United States, those surveyed were a diverse group. The gender mix was 72% male and 28% female. Regionally, respondents hailed from the South (27%), West (26%), Midwest (26%), and Northeast (20%).

Investable asset levels of surveyed investors



Types of firms advising surveyed investors



Note: Results may not total 100% due to rounding.

Five profiles of advised investors

Low
self-perceived
investment
knowledge

Talk to me	Do it for me	I want it all
"I want my advisor to share knowledge."	*"My advisor can do it all for me."*	*"For me, fit, credentials, and performance all matter."*
• Uninvolved with advisor investment decisions • Only met with one advisor • Advisor decision based on gut feel • Higher incidence of inherited money • Want an advisor to explain idea/ approach	• Novice investors • Uninvolved with advisor investment decisions • Only met with one advisor • Selected advisor based on one referral	• High confidence/ fairly high level of self-perceived investment knowledge • Feel in control of financial future • View their financial advisor as important to their success • Received referrals from a professional • Advisor must be sensitive to risk tolerance • Want to build relationship with advisor • Want to grow money, preserve capital

High self-perceived investment knowledge

Show me performance

"Bottom line, I want performance."

- High confidence/high level of self-perceived investment knowledge
- Manage a portion of their own investments
- Organized approach to financial matters
- View their financial advisor as important to their success
- Advisor must show years of experience and strong prior performance
- Advisor decision based on facts
- Want an advisor who has demonstrated ability to grow assets

Partner with me

"I'm looking for a financial collaborator."

- High confidence/high level of self-perceived investment knowledge
- Manage a portion of their own investments
- Organized approach to financial matters
- Self-made money

See page 18 for action steps you can take when profiling clients.

Investor traits

	Talk to me	Do it for me	I want it all	Show me performance	Partner with me
Level of self-perceived investment knowledge	Low	Low	Fairly high	High	High
Looking for . . .	. . . advisor to share knowledge	. . . advisor to handle all investments	. . . the complete advisory package	. . . performance	. . . a financial partner
Primary advisor selection criteria	Credentials, personality	Credentials, referral	Credentials, personality	Credentials	Credentials, personality
Household financial decision-maker(s)	Joint	Mix of primary and joint		Primary	
Approach to investing	Disorganized		Organized		
Preferred local, face-to-face advisor	Medium	Low	High	Medium-high	Medium
Loyalty to current advisor	Medium	Low	High		Medium

Investors by the numbers

<table>
<tr><th></th><th>Talk to me</th><th>Do it for me</th><th>I want it all</th><th>Show me performance</th><th>Partner with me</th></tr>
<tr><td>Percentage of investors</td><td>18%</td><td>25%</td><td>15%</td><td>21%</td><td>21%</td></tr>
<tr><td></td><td colspan="5">Investable assets</td></tr>
<tr><td>Mass affluent ($100K to $1M)</td><td>90%</td><td>92%</td><td>77%</td><td>75%</td><td>78%</td></tr>
<tr><td>High-net-worth ($1M to $5M)</td><td>9%</td><td>8%</td><td>22%</td><td>23%</td><td>21%</td></tr>
<tr><td>Ultra-high-net-worth ($5M+)</td><td>0%</td><td>0%</td><td>1%</td><td>2%</td><td>1%</td></tr>
<tr><td></td><td colspan="5">Relationship type</td></tr>
<tr><td>Advisor-assisted</td><td colspan="2">58%</td><td>80%</td><td>76%</td><td>84%</td></tr>
<tr><td>Advisor-dependent</td><td colspan="2">42%</td><td>20%</td><td>24%</td><td>16%</td></tr>
<tr><td></td><td colspan="5">Gender</td></tr>
<tr><td>Male</td><td>62%</td><td>70%</td><td colspan="2">75%</td><td>79%</td></tr>
<tr><td>Female</td><td>38%</td><td>30%</td><td colspan="2">25%</td><td>21%</td></tr>
<tr><td></td><td colspan="5">Age</td></tr>
<tr><td>Mean age</td><td>61 years</td><td>58 years</td><td>63 years</td><td>62 years</td><td>60 years</td></tr>
<tr><td>Working age (<65 years)</td><td>55%</td><td>64%</td><td>44%</td><td>50%</td><td>58%</td></tr>
<tr><td>Retirement age (65+ years)</td><td>45%</td><td>36%</td><td>56%</td><td>50%</td><td>42%</td></tr>
</table>

Source: Vanguard.

Figures may not sum to 100% due to rounding.

Talk to me

ADVISOR-DEPENDENT

***Talk to me* investors believe they need hand-holding—a financial guardian.** Lacking in financial confidence, they want you to take the time to explain tools, ideas, and approaches. They are not knowledgeable or organized when it comes to finances. They depend on you, looking for you to take charge from the outset of the relationship to protect and grow their money, including any inheritance. (*Talk to me* investors are more likely to have inherited money than other investors.) While your credentials are critical for these clients, your softer skills—notably being easy to talk to and your willingness to educate—are also important.

1% strongly agree with the statement: I am a knowledgeable investor

80% report they are highly satisfied with their advisor

78% say they are very likely to recommend their advisor

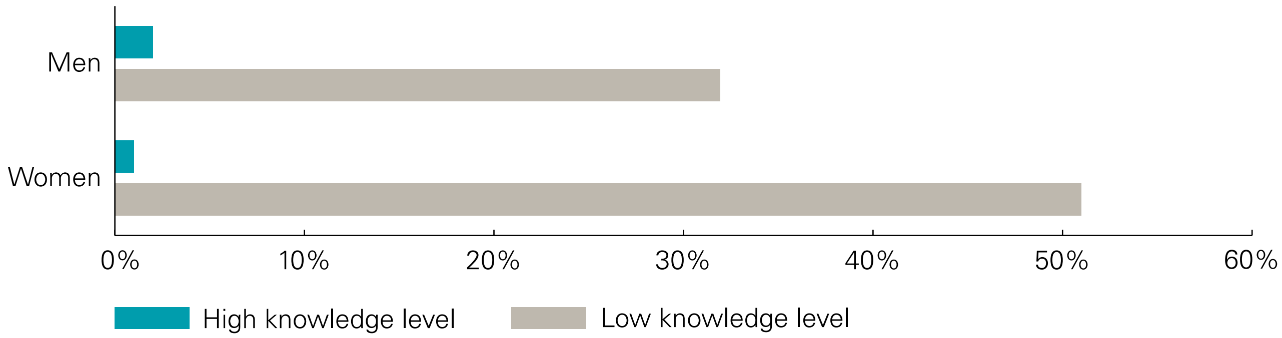
52% say their advisor's ability to make recommendations in their first meeting was important.

Most common goals

- Grow their portfolios **71%**
- Build satisfying relationship with advisor **49%**
- Be able to pay for certain life goals **45%**
- Navigate the complex world of investing **42%**
- Achieve a sense of financial security **38%**

Self-perceived investment knowledge

The gender gap among *Talk to me* investors



Source: Vanguard.

Note: The chart reflects the responses of surveyed investors to the following question: Thinking about yourself today, how financially knowledgeable are you about managing investments and understanding financial markets? Respondents who chose 8, 9, or 10 on an 11-point scale (0–10) were classified as having a high level of self-perceived investment knowledge. Respondents who chose 0, 1, 2, 3, or 4 were classified as having a low level of self-perceived investment knowledge. Those who chose 5, 6, or 7 were deemed ambivalent and are not charted here.

How you can tailor your approach

- Set expectations and teach those who show interest in expanding their financial knowledge. Distill the financial news into digestible nuggets.
- Understand that they may need more attention than other clients. When the markets falter, be proactive and call them before they call you.
- Focus on rapport and relationship-building, recognizing that your personality and professionalism are important to these investors.
- When working with couples—more than half of *Talk to me* investors are joint decision-makers—make sure both are part of the discussion.
- For those who have come into an inheritance, demonstrate your past record of working with similar portfolios and provide examples of what you'd recommend for their situation.
- Because of their perceived lack of knowledge, talk more about their goals and translate their finances into examples from everyday life that they can relate to.

He made me feel like I could pick up the phone and call him and he'd answer my questions, even though sometimes maybe they may have been foolish. He answered my questions and made me feel comfortable. That was important to me having chosen him.

–High-net-worth female, Northeast

Do it for me

DISENGAGED

Do it for me **investors don't spend much time on investments and don't want to.** Lacking in financial confidence, they depend on you, and you probably are their first and only advisor and the only one they met with during the selection process. They may be less satisfied with you—and less loyal—than your other clients, but they aren't likely to switch—especially since they aren't confident in their ability to select another advisor. These investors are the youngest and likely to still be working full-time. They also are the least affluent, with only 8% having more than $1 million in assets. Similar to *Talk to me* investors, they don't feel knowledgeable or organized when it comes to investing and finances. *Do it for me* investors don't need a lot of attention, but they do need targeted help around key events such as buying a home and saving for college.

32% describe their level of investment knowledge as low

59% express uncertainty about how much they know

45% work at full-time jobs—significantly more than any other segment

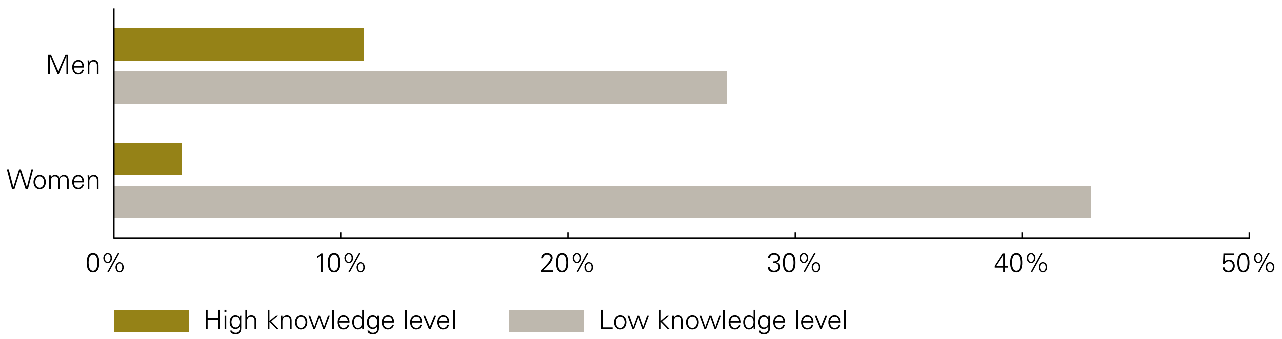
1 out of 3 are ambivalent about or dissatisfied with their financial advisor, but they aren't likely to switch—especially since they aren't confident in their ability to select another.

Most common goals

- Grow their portfolios **57%**
- Achieve sense of financial security **34%**
- Navigate the complex world of investing **29%**
- To afford certain (long-term) life goals **28%**
- Build a satisfying relationship with an advisor **23%**

Self-perceived investment knowledge

The gender gap among *Do it for me* investors



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How you can tailor your approach

- Set clear expectations at the beginning of the relationship. While clients in this profile are primarily hands off, they may surprise you and want to learn more or be more engaged in the process.
- Make the entire process and any decisions easy for them.
- Share your credentials, knowledge, and performance history, understanding that these factors are more important to these investors than your personality.
- Be succinct in your interactions with them, respecting their limited appetite for financial matters.

Before [I found an advisor], I felt like I was gasping for air. . . . I just felt that choking feeling, like this is too much for me. I don't know what I'm doing. . . . This is just one more thing I don't want to deal with.

–Mass affluent male, Midwest

I want it all

SEEKING THE COMPLETE PACKAGE

While they seem the most demanding—looking for fit, credentials, and performance—***I want it all* investors have the strongest opinions about the personality must-haves for an advisor.** Someone who engages with clients, is easy to talk to, and listens well top the list. *I want it all* investors view you as an important part of their success, and because your personality is a large part of the relationship, they prefer that you be local and meet with them in person. If they feel neglected, they will find another advisor. They are somewhat knowledgeable, with 45% managing a portion of their own portfolios. They are confident, organized, and feel in control but still value you. *I want it all* investors prefer a more personal—and long-term—relationship with their advisor. Loyal and likely to hold you to a higher standard, these clients place their trust in you and provide referrals.

93%
report they are highly satisfied with their advisor

90%
say they are very likely to recommend their advisor

81%
prefer to meet face-to-face

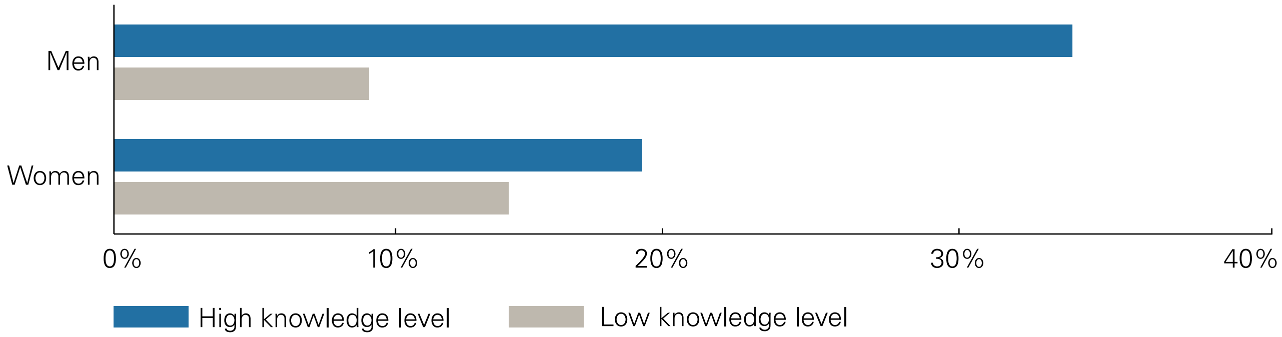
Despite their higher expectations, *I want it all* investors are the most satisfied, loyal, and likely to recommend their advisor.

Most common goals

- Grow their portfolios **85%**
- Build satisfying relationship with advisor **73%**
- Be able to pay for certain life goals **68%**
- Navigate the complex world of investing **63%**
- Achieve financial security/preserve capital/allocate assets efficiently **58%**

Self-perceived investment knowledge

The gender gap among *I want it all* investors



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How you can tailor your approach

- Focus on rapport and relationship-building, recognizing that your personality and professionalism are important to these investors.
- Listen well and ask them questions—about 90%, far more than for other investor profiles, say it is important for their advisor to be a good communicator.
- Set clear communication goals and be available through multiple channels.
- Leverage centers of influence to target this group for referrals.
- Be sensitive to their risk tolerance.
- Ask for feedback—stay attuned to their satisfaction level, as well as their potential to consolidate assets and refer other investors to you.
- Share market insights regularly and relate them to the client's portfolio (75% of *I want it all* investors said this was important—far more than any other investor type).
- Invite them to social and educational events. Many are retirees and open to such invitations.

I interviewed [prospective advisors]. A lot of them didn't realize they were having a job interview. So they were eliminated fairly quickly. I asked a lot of questions, trying to understand their main interest—whether it was me or them. And how they thought they would help me. Then I would hold them to that.

–Ultra-high-net-worth male, West

Show me performance

ALL BUSINESS

Confident and financially savvy, *Show me performance* investors are all business. They do their homework and focus on facts, typically the returns you deliver. Nearly half (48%) manage a portion of their portfolios but are still involved in the research and decisions made by their financial advisors. They are confident in their ability to select an advisor, and they do it based on information, rather than intuition. *Show me performance* investors prefer a much more professional—even transactional—relationship with their advisor. Most affluent of all the profiles and highly educated, they are willing to pay higher fees for better performance. They believe you are important to their success but are not particularly interested in your personality.

25% have $1M+ in assets—the most affluent clients

88% reported they were highly satisfied with their advisor

86% said they were very likely to recommend their advisor

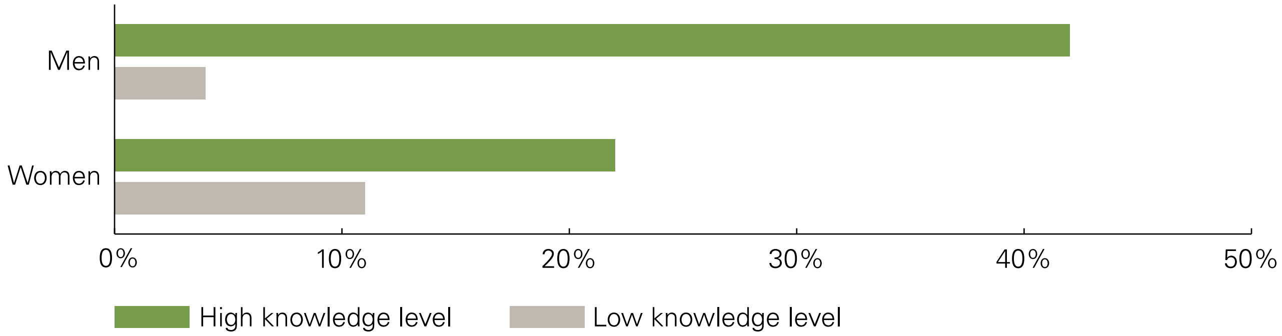
Roughly **3x** as likely as *Talk to me* and *Do it for me* investors to say they were financially organized and felt in control of their financial futures.

Most common goals

- Grow their portfolios **73%**
- Be able to pay for certain life goals **50%**
- Build satisfying relationship with advisor **48%**
- Preserve capital **47%**
- Navigate the complex world of investing **46%**

Self-perceived investment knowledge

The gender gap among *Show me performance* investors



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How you can tailor your approach

- Stress facts—emphasize your experience and performance.
- Understand that they are much less likely to be impressed by your "soft skills" and focus on your credentials, knowledge, and performance history.
- Continue to share new information, market data, and insights to maintain your credibility.
- Seek to understand their finances in total, understanding that they are more likely to manage some of their own assets than other investors.
- Leverage these clients for referrals.
- Show them results and the performance of their portfolios. Hard facts are their focus. Be prepared to discuss any downturns.

Let's take into account how much money I want to be able to enjoy life—to be able to spend on things that I enjoy. Go to restaurants on the weekend; buy things for my kids. And kind of strike the balance between "Where do we want to be down the road as a family?" and "How do we still enjoy life now?"

–High-net-worth female, Northeast

Partner with me

THE MOST KNOWLEDGEABLE

Confident, self-made, and organized, *Partner with me* investors see advisors as partners in—rather than answers to—their financial success. They want to be involved in the research and decision-making processes. Given their desire to partner with you, your personality—in addition to the performance you deliver—is important. They are highly educated (83% have a bachelor's degree or higher) and relatively affluent. *Partner with me* investors are often sought out by others for financial advice because they are knowledgeable and confident. They are the primary decision-makers in their household. Twenty percent work with more than one advisor.

99% describe themselves as knowledgeable about investments and the financial markets*

80% say they are very likely to recommend their advisor

54% manage a portion of their assets—more than any other client profile

22% have $1 million or more in assets, and their wealth is self-made in most cases (94%).

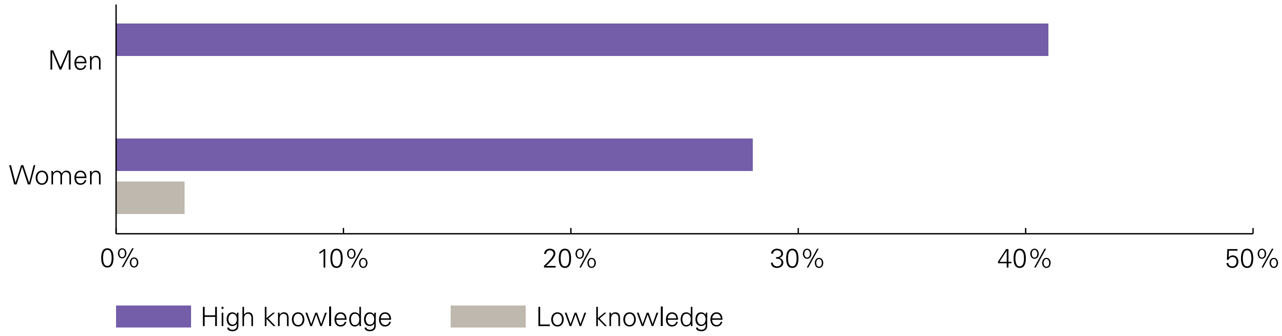
Most common goals

- Grow their portfolios **67%**
- Build satisfying relationship with advisor **46%**
- Be able to pay for certain life goals **40%**
- Preserve capital **33%**
- Achieve a sense of financial security **32%**

*Specifically, 99% chose a number from 5 to 10, on a scale of 0 to 10, to characterize their current level of knowledge about managing investments and understanding financial markets.

Self-perceived investment knowledge

The gender gap among *Partner with me* investors



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How you can tailor your approach

- Balance building rapport with demonstrating your credentials, recognizing that your personality and the performance you deliver are equally important to *Partner with me* investors.
- Seek to understand these investors' finances in total, understanding that they are more likely to manage some of their own assets than other investors.
- Explain your ideas and approach simply and clearly.
- Review different investment tools and why you recommend them.
- Share relevant insights, ideas, and publications.
- Invest time in building a relationship with them.

She seemed very bright too—a very nimble mind. So it felt as if she was really interested in people, individual people. And she was masterful about remembering every detail, names and details like that. And I think that gives the impression that she knows you.

–High-net-worth female, Northeast

ACTION STEPS

Profiling clients

Now that you've learned about the five investor profiles, you may decide to segment your clients and prospects in this fashion. It could be a great complement to your existing strategy. Whether you formally segment your clients this way or simply think about them in light of our findings, you should gain a stronger understanding of how your style resonates with each profile. If you're part of an advisory team, another possibility is to align advisors and investors based on shared preferences and interests. Such an approach could increase efficiency, client satisfaction, and referrals.

Consider these questions:

- Where do your top clients fall today?
- Do you prefer to work with certain types of investors?
- Should you alter how you serve any clients—or even part ways with some of them—in recognition of their service requirements?

Meet your clients on their terms

TEACH *Talk to me* investors a bit about the economy, the markets, and their portfolios and financial plans. Boost their knowledge by making sure they know how to read their account statements and by sharing interesting, easy-to-read articles about the economy and investing.

RESPECT THE TIME of all your clients and prospects but especially the time of *Do it for me* investors.

RISE TO THE CHALLENGE posed by *I want it all* investors. They are the most likely to reward you with referrals.

CLARIFY THE OBJECTIVES of *Show me performance* investors. Discuss a variety of potential portfolio benchmarks, such as specific target returns and the results of unmanaged market indexes or the portfolios they might maintain in the absence of your advice. Make sure you are comfortable with the benchmarks they want to adopt.

INVEST TIME with *Partner with me* investors. Demonstrating your willingness to partner could encourage them to let you manage assets they previously managed themselves.

For more help segmenting prospects and clients, see the Vanguard worksheet "Simplified approach to identifying types of investors."

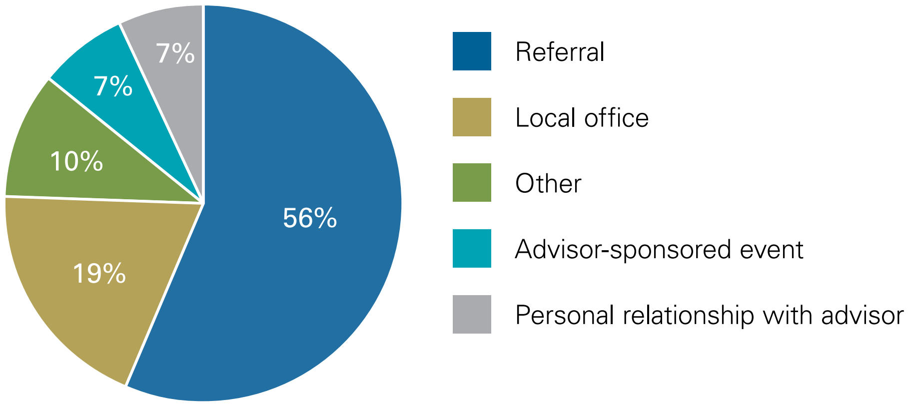
The critical role of referrals

Now that you know which clients are more likely to provide referrals, let's look at the data that show why referrals are key and what you can do to make them an integral part of your thriving practice.

Focus on referrals

Referrals are the driving force in advisor selection. More than half of all advised investors found their advisors through a referral.

How investors find advisors

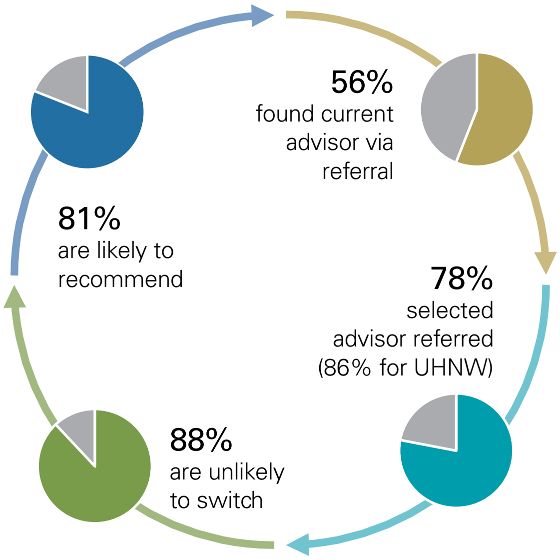


Source: Vanguard.

Figures may not sum to 100% due to rounding.

Think about your approach to finding and attracting new clients. Where are you spending your time and resources?

An investor who comes to an advisor via a referral is less likely to switch (12% versus 17% of investors who find their advisors other ways) and more likely to recommend the advisor to others (81% versus 74%).



Source: Vanguard.

Simply put, referrals can create a virtuous cycle for the referred advisor!

How investors find advisors

Across profiles, referrals are important in advisor searches.

On average, **75%** of investors find their advisors through a referral or a local office. Other approaches such as social and educational events don't appear to be as effective.

For those investors who obtain referrals, most stop after meeting with one or two advisors.

	Total	Talk to me	Do it for me	I want it all	Show me performance	Partner with me
Referral	56%	53%	58%	53%	58%	55%
The firm has an office close to me	19%	17%	17%	21%	20%	20%
	For investors who obtained referrals, the number obtained					
1	43%	55%	37%	38%	50%	34%
2	32%	26%	39%	35%	29%	33%

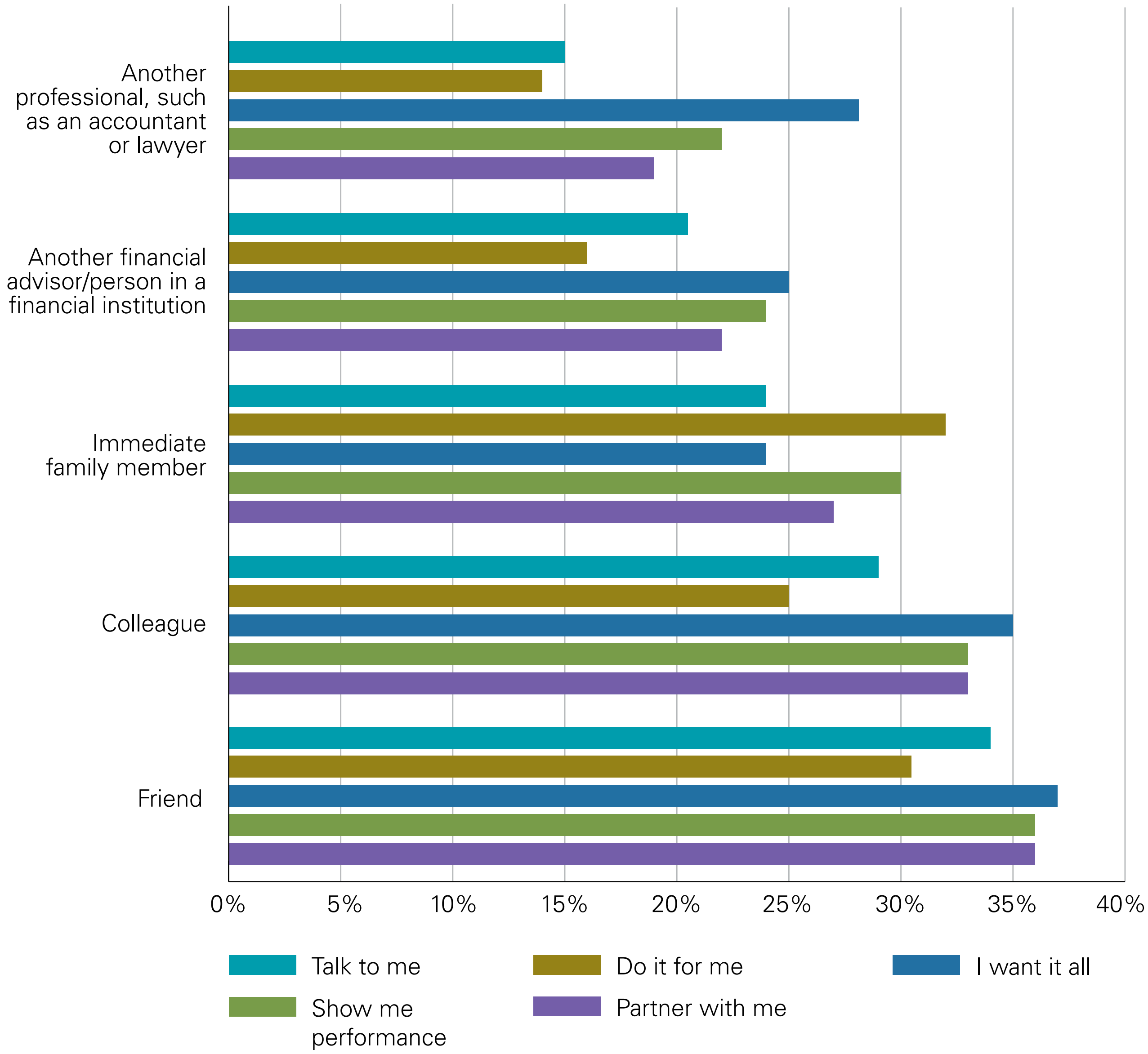
Source: Vanguard.

Notes: The top table reflects the responses of surveyed investors to the following question: How did you find the financial advisor you are working with now? Some numbers may not sum to 100 due to rounding.

Where investors turn for advisor referrals

Investors of all types tend to turn with roughly the same frequency to any given referral source. Friends, colleagues, and immediate family members are the most common sources. *I want it all*, *Show me performance*, and *Partner with me* investors are more likely to turn to accountants and lawyers for referrals.

Top-five referral sources



Source: Vanguard.

Sources of investor confidence in referrals

Investors seek referrals from three types of people—those they trust, those who are financially successful, and those who are in similar stages of life or share their financial goals.

What gives an investor the confidence to accept a referral? Here are some representative answers from investors we surveyed.

Financial knowledge/ success

Both of those friends had long-term relationships with this advisor and his team (like 30 years' worth of experience), and they were highly knowledgeable of the financial industry yet still chose to invest their considerable assets with this advisor.

High-net-worth female

Because I knew him well and his financial acumen and knowledge were very good, as well as he had firsthand experience with the advisor.

Ultra-high-net-worth male

Trust/ respected individual

They had worked with him and done well. My respect for them and their lifestyles and their dedication to generosity while growing their own incomes led me to my advisor.

High-net-worth female

I trusted their judgment and their enthusiasm and their stories of other people having success.

Mass affluent male

Similar life stage/ financial goals

They both were in a similar position financially and were satisfied with the performance of their financial planner.

Mass affluent male

Because they were in the same situation I was, nearing retirement and wanting someone to manage their retirement situation.

High-net-worth male

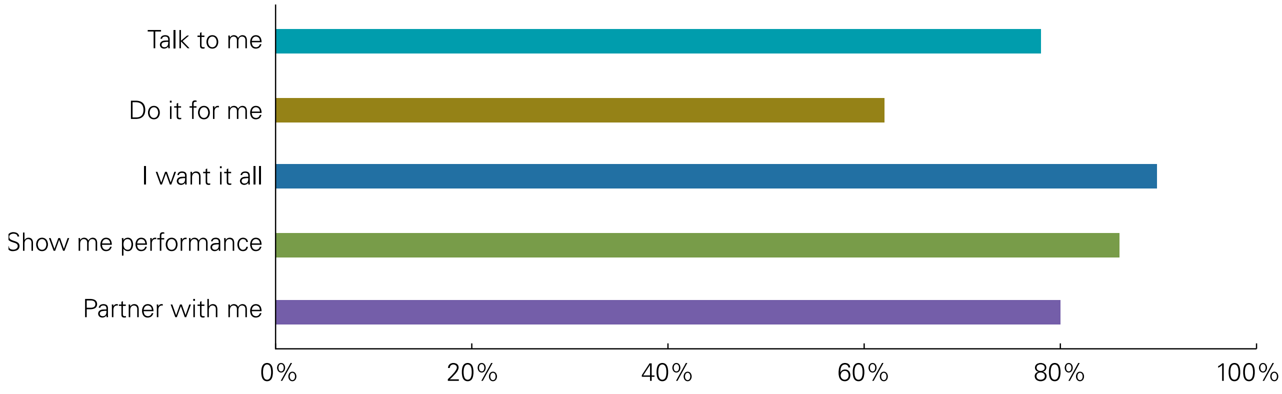
Source: Vanguard.

Seek referrals from centers of influence and clients

Mass affluent and high-net-worth investors are most likely to receive referrals from friends, colleagues, and immediate family members.

Ultra-high-net-worth investors are more likely to seek referrals from colleagues and such professionals as attorneys and accountants.

Self-reported likelihood of recommending current advisor



Source: Vanguard.

At least three out of five investors in each segment say they are very likely to recommend their current advisor. Higher levels of investment confidence are accompanied by greater investor willingness to refer their advisors.

Regardless of the referral source, the end result is the same: *An investor who is referred to you is likely to select you and to be a loyal client.*

ACTION STEPS

Generating referrals

You can do your best for your clients and hope they thank you by referring family, friends, or coworkers. Or you can take an active approach to expanding your practice by asking for referrals. Here are some tips for ensuring your clients think to refer you when opportunities arise and for winning referred prospects as clients.

No matter the audience, you must be able to **clearly articulate your value proposition** and **describe your ideal client**. Know what you are going to say before the conversation begins. Make your request clear and concise.

For more help, see the Vanguard worksheet "Drive referrals to enhance your practice."

Other important steps to generating referrals vary by audience

For clients with whom you have strong relationships

- Separate the discussion. Instead of asking for a referral in an account-related meeting, which can be awkward, request a separate meeting to solicit feedback on your practice. Ask for a referral after discussing the client's feedback.

With trusted promoters

- Explain why you are asking—for example, perhaps you seek thoughtful, organic growth.
- Connect with them on social media.
- Provide extra business cards.
- Suggest how the client could make an in-person introduction—for example, at a community event.
- Be sure to follow up on each referral with the client who provided it.

With centers of influence

- Capture the names of your clients' accountants and attorneys.
- Set a goal of meeting with a number of local professionals each month to network an share referrals. Track your progress.

When the time comes to thank those who help you earn new business, consider handwritten notes of appreciation. *Their rarity can make them all the more impactful.*

Forthcoming *Advised investor insights* research

How advisors build trust with their clients.
Learn about the three components of trust—functional, emotional, and ethical—required to one degree or another by all investors.

Behavioral coaching.
How advisors can encourage their clients to act in support of their goals—and to avoid counterproductive activity.

Appendix

Advisor-selection factors

Personality, fit, style

I want it all investors have the strongest opinions about the personality must-haves for an advisor. Someone who engages and is easy to talk to and who listens well top the list.

	Total	Talk to me	Do it for me	I want it all	Show me performance*	Partner with me
Willingness to explain investment tools and why the advisor recommends them	68%	74%	19%	89%	NA	61%
Explaining ideas and approach simply and clearly	66%	73%	24%	88%	NA	55%
Presenting as easy to talk to, down to earth	65%	71%	19%	91%	NA	53%
Making me feel that my business is important	62%	65%	21%	84%	NA	55%
Being likable, upbeat, friendly, personable	62%	69%	15%	87%	NA	49%
Well-spoken, well-mannered	59%	63%	13%	88%	NA	46%
Asking me good questions	54%	49%	7%	89%	NA	46%
Demonstrating strong listening skills	53%	49%	7%	91%	NA	42%
The personal "fit" between myself and the advisor	53%	49%	19%	82%	NA	43%
Treating both me and my partner/spouse as equals	52%	56%	8%	75%	NA	42%
Being someone I can relate to	50%	46%	22%	77%	NA	42%
Demonstrating a commitment to working consultatively	41%	35%	7%	70%	NA	33%

Shading indicates data that are meaningful in defining segments.

*Not applicable. Too few *Show me performance* investors ranked this factor to be reported.

Source: Vanguard.

Note: The table reflects the responses of surveyed investors to the following question: Earlier you mentioned that your financial advisor's personality/fit/style were important in your decision to hire your current financial advisor. Which of the following factors, specifically, were important to you? Select all that apply.

Advisor-selection factors

Personality, fit, style *continued*

Show me performance investors are pragmatic in selecting an advisor and care significantly more about credentials, knowledge, and performance than about fit. *I want it all* investors and, to a lesser extent, *Talk to me* and *Partner with me* investors want both dimensions when choosing an advisor.

	Total	Talk to me	Do it for me	I want it all	Show me performance*	Partner with me
Being patient	39%	42%	15%	71%	NA	19%
Having a sense of humor (but deploying it judiciously)	35%	39%	9%	60%	NA	22%
Being flexible	32%	26%	8%	63%	NA	19%
Remembering names and specifics	25%	25%	2%	53%	NA	10%
Well-groomed/style of dress	23%	23%	2%	45%	NA	12%
Showing empathy	20%	21%	4%	45%	NA	6%
Wearing their superior knowledge and experience lightly	17%	14%	2%	40%	NA	7%
Advisor age	15%	11%	6%	25%	NA	12%
Demonstrating vulnerability/humility	10%	6%	2%	25%	NA	4%
Advisor life stage	9%	7%	2%	19%	NA	5%
Advisor gender	3%	4%	0%	4%	NA	2%
Another factor	2%	2%	3%	2%	NA	1%

Shading indicates data that are meaningful in defining segments.

*Not applicable. Too few *Show me performance* investors ranked this factor to be reported.

Source: Vanguard.

Note: The table reflects the responses of surveyed investors to the following question: Earlier you mentioned that your financial advisor's personality/fit/style were important in your decision to hire your current financial advisor. Which of the following factors, specifically, were important to you? Select all that apply.

Advisor-selection factors

Credentials, knowledge, performance

Talk to me, *I want it all*, and *Show me performance* investors are most concerned with their advisors' sensitivity to their risk tolerance. For *I want it all* investors, nearly all factors are important; however, this profile is especially interested in market insights.

	Total	Talk to me	Do it for me	I want it all	Show me performance	Partner with me
Sensitivity to my risk tolerance	68%	70%	47%	90%	71%	63%
Years of industry experience	54%	48%	41%	71%	63%	47%
Familiarity with investment tools	52%	52%	31%	77%	60%	40%
Previous experience with clients like me	50%	48%	34%	67%	54%	45%
Ability to demonstrate insights into domestic/global markets and apply them to my portfolio	49%	43%	27%	75%	56%	44%
Ability to make recommendations for me during our first encounter	46%	52%	28%	65%	53%	34%
Advisor education/certifications	40%	33%	18%	65%	47%	35%
Advisor's performance record	37%	26%	23%	53%	50%	29%
The promise of a written financial plan	33%	33%	14%	57%	38%	23%
Advisor uses a fee-based structure rather than commission-based	32%	25%	17%	46%	38%	30%
Claimed/demonstrated ability to make money for other investors	27%	25%	14%	41%	36%	20%
Willingness to be paid based upon performance	11%	8%	5%	21%	13%	9%
Online presence	6%	3%	3%	11%	9%	6%
Another factor	3%	3%	3%	4%	3%	3%

Shading indicates data that are meaningful in defining segments.

Source: Vanguard.

Note: The table reflects the responses of surveyed investors to the following question: Earlier you mentioned that your financial advisor's credentials/knowledge/performance were important in your decision to hire your current advisor. Which of the following factors, specifically, were important to you? Select all that apply.

Self-perceived investment knowledge

Sources

An investor's perception of his or her own knowledge is linked to the investor's levels of financial organization, interest in financial news, and feelings of being in control and confident—all of which show in *I want it all*, *Show me performance*, and *Partner with me* investors.

	Total	Talk to me	Do it for me	I want it all	Show me performance	Partner with me
I am a knowledgeable investor	21%	1%	3%	30%	35%	37%
I am very organized in my approach to financial matters	42%	18%	21%	62%	60%	57%
I regularly read financial news and publications	19%	2%	6%	26%	30%	32%
I feel in control of my financial future	45%	28%	21%	62%	63%	59%
I'm confident that if I take action, I can influence my success in reaching financial goals	38%	19%	15%	55%	56%	50%
People often ask my advice when it comes to financial matters	11%	1%	3%	16%	16%	19%
I feel confident in my ability to select a financial advisor for my personal investments	59%	46%	34%	79%	75%	68%

Shading indicates data that are meaningful in defining segments.

Source Vanguard.

Note: The table reflects the responses of surveyed investors to the following question: How much do you agree or disagree with the following statements? Respondents who chose 8, 9, or 10 on an 11-point scale (0–10) were deemed to strongly agree.

Different firms attract different investors

While there are modest differences in the types of investors that different advisory firms tend to attract, investors' goals are more uniform. Across profiles, most advised investors seek to grow their portfolios, fund certain life goals, and build satisfying relationships with their advisors.

	Talk to me	Do it for me	I want it all	Show me performance	Partner with me
Banks	17%	32%	12%	18%	20%
Independent broker-dealers	18%	22%	16%	22%	22%
Regional broker-dealers	16%	25%	13%	19%	26%
Wirehouses	15%	28%	13%	20%	23%
Registered investment advisors	19%	17%	16%	25%	22%
Insurance companies	35%	27%	15%	16%	7%
Other	21%	18%	20%	23%	20%

Source: Vanguard.

Note: The table reflects the responses of surveyed investors to the following question: Which firm is your [primary] financial advisor currently affiliated with?

Satisfaction, advocacy, and "stickiness"

Satisfaction, advocacy, and client retention rates are strongest for *I want it all* and *Show me performance* investors. *Do it for me* investors are the most likely to be ambivalent about their current advisor and to consider switching.

	Total	Talk to me	Do it for me	I want it all	Show me performance	Partner with me
Satisfaction with advisor						
Very satisfied	81%	80%	66%	93%	88%	82%
Ambivalent	17%	18%	29%	7%	11%	17%
Dissatisfied	2%	2%	5%	0%	1%	1%
Likelihood of recommending advisor						
Very likely	78%	78%	62%	90%	86%	80%
Ambivalent	18%	18%	30%	8%	12%	18%
Unlikely	4%	4%	8%	1%	2%	1%
Likelihood of switching advisors in next 12 months						
Very/somewhat likely	4%	3%	7%	1%	3%	4%
Neither likely nor unlikely	10%	10%	15%	3%	8%	9%
Extremely/somewhat unlikely	87%	87%	78%	96%	89%	87%

Shading indicates data that are meaningful in defining segments.

Source: Vanguard.

Notes: The top two panels of the table reflect the responses of surveyed investors to the following questions: How satisfied are you with your current financial advisor? And, How likely are you to recommend your current financial advisor? Respondents who chose 8, 9, or 10 on an 11-point scale (0–10) were classified as being very satisfied or very likely to recommend their advisor. Respondents who chose 0, 1, 2, 3, or 4 were classified as being dissatisfied or unlikely to recommend their advisor. Respondents who chose 5, 6, or 7 were deemed ambivalent.

Some numbers may not sum to 100 due to rounding.

Investor demographics

Sources of wealth

	Total	Talk to me	Do it for me	I want it all	Show me performance	Partner with me
Through my own efforts	88%	81%	83%	90%	90%	94%
Through inheritance or family money	10%	17%	13%	8%	8%	6%
By coming into a large amount of money	1%	1%	2%	1%	1%	0%
Not sure	1%	1%	2%	1%	1%	0%

Source: Vanguard.

Note: Some numbers may not sum to 100 due to rounding.

Inserts

Simplified approach to identifying types of investors

As you meet with clients, you can use this simple guide to segment investors based on a few key attributes. The idea is to gradually work these questions into your conversation as part of the natural process of getting to know your clients better.

1. How would you describe the investor's level of investment knowledge?

A. None/Very limited (little to no investment knowledge).

B. Beginner (understands difference between stocks and bonds).

C. Intermediate (aware of different investment options and levels of risk).

D. Expert or advanced (thoroughly understands investment products and strategies).

IF THE ANSWER TO QUESTION 1 IS A or B, THEN ASK:

2. When thinking about a relationship with an advisor, would the investor prefer:

To rely more heavily on an advisor for advice and recommendations related to investments?	DO IT FOR ME
To sometimes come up with his/her own investing ideas and then discuss and debate decisions with the advisor before making them?	TALK TO ME

IF THE ANSWER TO QUESTION 1 IS C or D, THEN ASK:

3. When thinking about the type of relationship the investor prefers to have with an advisor, is it more likely to be:

Strictly professional, based just on returns and performance of the account?	SHOW ME PERFORMANCE
Beyond just account performance, where the investor and the advisor get to know each other, more of a relationship or friendship?	See question #4

4. How would the investor describe his or her views on managing risk?

Does not like risk and does not want to expose investments to any fluctuations in order to earn higher long-term returns.	TALK TO ME
Is prepared to experience modest or average fluctuations in order to generate a higher long-term return.	I WANT IT ALL
Wants to maximize long-term returns and is comfortable with significant market fluctuations.	PARTNER WITH ME

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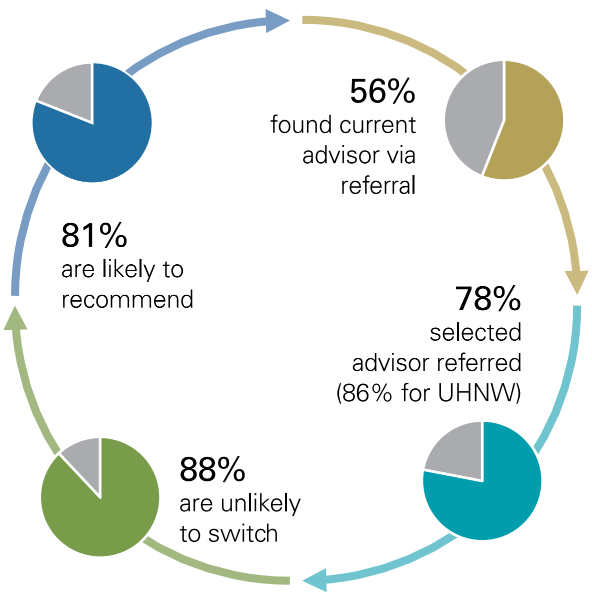
Drive referrals to enhance your practice

Referrals are the lifeblood of every advisor's practice, and word-of-mouth recommendations will get more clients in the door than most any other marketing method. More important, investors who come to you via a referral are less likely to switch and more likely to recommend you to others.

Why client referrals matter



Source: Vanguard, 2016. Advised investor insights: *How investors select advisors*. Valley Forge, Pa.: The Vanguard Group.

But an effective referrals program doesn't happen without some effort. You have to lay the groundwork by getting to know your centers of influence (COIs), building a memorable niche for your practice, and delighting your clients.

Get to know your COIs

If you demonstrate your valuable expertise to the attorneys and CPAs that you consider your COIs, they will be more likely to refer you business. There's no getting around that it takes a significant amount of time to initiate and maintain those relationships. Start by introducing yourself to the attorneys and accountants that your new clients are already working with. Or you might designate a member of your team to do this so you can focus on other priorities.

When meeting with these professionals, the focus should be on understanding the challenges they face—not on talking up your firm. Through probing questions and deep conversations, learn the ins and outs of their businesses. After strategizing with your team, invite your COIs to a subsequent meeting where you present case studies of how you've helped clients with similar concerns. Say one of these professionals has a client who is looking to sell his business in a few years. That gives you a perfect opportunity to get involved now to help make the financial planning decisions that will pay dividends later. After all, the choices made leading up to the liquidation event can have a major effect on the outcome. You might work with your professional colleagues to help the client save on taxes. Your expertise, then, could help entrepreneurs transition from a cash-flow-based business to a lump-sum payout to an asset allocation and income stream that will take them through retirement.

Delivering value to your COIs and your mutual clients is key to keeping your financial planning practice top of mind. For example, if your clients' estate planning documents aren't up to date, that presents a great opportunity to reach out to their attorneys and CPAs to get those issues addressed.

Consider the following as you implement your strategy to build tighter bonds with these professionals:

Advisors who got 5+ COI referrals last year:

- **85%** got social with COIs (**46%** five or more times)
- **83%** sent a small gift to a COI (**39%** five or more times)
- **95%** had a COI visit their office (**42%** five or more times)
- **42%** know their COIs "very well" personally
- **54%** sent ten or more referrals to COIs

Advisors who got 0 COI referrals last year:

- **45%** got social with COIs
- **20%** sent a small gift to a COI
- **32%** had a COI visit their office
- **9%** know their COIs "very well" personally
- **9%** sent ten or more referrals to COIs

Source: Matt Oechsli, 2016. *Research cracks the CPA referral code.*
Accessed August 30, 2016, at http://wealthmanagement.com/business-planning/research-cracks-cpa-referral-code.

So it's clear that getting to know your COIs better—and especially sharing your expertise—helps increase referrals. When you get a professional referral, make sure to thank the person who sent the client your way. And do everything in your power not to disappoint the client once you've taken him or her on. A bad experience with a new referral can quickly undermine your referral program.

Build a memorable niche for your business

Everyone is busy, so it's hard to remember the contact information for the professionals and contractors we occasionally work with. But we tend to remember those with deep expertise who applied their skills in a memorable way. So by focusing your practice on clients of a certain type, you gain deep expertise in the challenges they face, and you become known in the community as someone who understands all facets of their situation. For example, if your practice focuses on serving the financial needs of entrepreneurs, word will get out that business owners can count on your firm to address the challenges they face.

Or your practice might serve those seeking to get on with their lives after the death of a spouse—addressing issues such as inherited IRAs, required minimum distribution rules, and, of course, strategies to generate income throughout retirement. If you become expert at dealing with these kinds of concerns, your clients naturally will have your name top of mind when one of their friends finds him- or herself in a similar situation.

Delight your clients

Referrals come not from clients who you've done a good job for but from those you've offered stellar service. Reaching that ideal state starts with deep, emotionally resonant conversations. Strive to reveal not just your clients' surface concerns but also the complex underlying issues that will inform your approach. Determining what's important to each individual will go a long way in supporting client satisfaction. Topics like retirement readiness and estate planning are great opportunities to develop in-depth programs that demonstrate your willingness to go above and beyond.

To underpin this effort, consider instituting a client-loyalty program that lets you see the current state of your business and track progress over time. Loyal clients are your best referrers—especially those who seem particularly adept at recommending professionals to others in their network—even if these referrers don't have the highest-balance portfolios. They can sing your praises in a more believable way than any other form of marketing.

But don't just wait for your clients to make referrals on their own. After you've done a particularly good job for your clients, take that opportunity to ask your clients if they know others who could also benefit from your advice. That simple gesture keeps the pump primed for additional referrals.

Driving referrals to your practice requires a multifaceted approach and considerable time, but the benefits are well worth the effort.

In a busy practice, how can you find the time to boost your client offering?

One way to serve your clients more effectively is by segmenting them into different profiles that allow you to orient your practice based on key attributes.

- *Talk to me* investors want to learn from you about personal finances and investing, but they believe they lack the knowledge—and they definitely lack the confidence—to make decisions. They need you to own the relationship and help build their confidence.
- *Do it for me* investors understand that their finances should be managed, but they have lots of higher priorities for their time. Their disengaged, low-touch approach leaves you to make the decisions. In addition, these investors allow you to spend more time serving those clients more likely to provide referrals: the *I want it all* investors and the *Show me performance* investors.
- *I want it all* investors demand the most from their advisors. They also are the most satisfied and loyal clients and those most likely to provide referrals.
- *Show me performance* investors place the greatest value on strong portfolio returns and are willing to pay more for them.
- *Partner with me* investors are looking for collaborative advisors. They want to be involved in the decision-making and value both performance and personality.

By being more strategic in how you allocate your firm's resources based on these profiles, you increase the likelihood that your clients will be highly satisfied and ready to recommend you to their colleagues, friends, and family members.

To learn more about effective segmentation strategies,
read *Advised investor insights: How investors select advisors.*

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More help from Vanguard

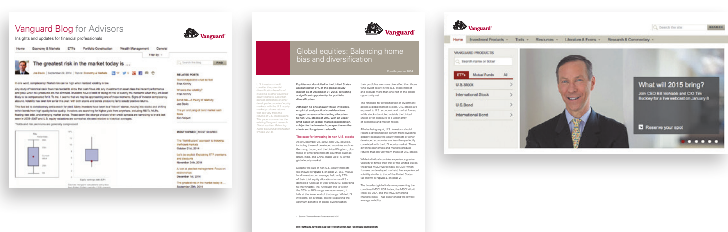
Vanguard has a range of tools and resources to help advisors deepen client relationships. For more information, contact your sales representative at **800-997-2798** or visit **advisors.vanguard.com**.

Demonstrate your value

- Quantifying your value
- Client guide: *How your advisor adds value*
- *Value Statement Builder*, a turnkey solution from our Client Relationship Center™ (advisors.vanguard.com/crc)

Leverage expert commentary

- The Vanguard Blog for Advisors™
- Quarterly market and economic outlook
- Vanguard advisor briefs



Educate clients

Client-approved guides such as:

- *Caring for an elderly parent*
- *Investment basics*
- *Your Social Security benefits*

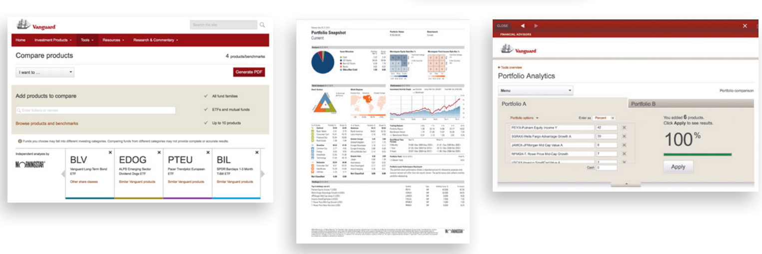
Improve your practice

- *Retaining heirs: Connecting with the next generation of clients*
- *What women want: Connecting with female investors*
- *Social media for financial advisors*

Streamline investing

Vanguard advisor tools

- ETF model portfolios
- Portfolio analytics
- Compare products



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