



WHITE PAPER

8 Actionable Ideas for Financial Advisors Today

Investing New Client Money

Today’s financial advice environment is complex, with large sums of cash on the sidelines and nervousness among clients rising. Some clients don’t want to miss the market bounce, but they are equally aware of a global recession, inflation, and profit declines. They want to hit their financial goals, but they are often short-sighted in approach. The current conditions are ripe for errors, providing a potential opportunity for advisors to add value.

As such, we take an action-oriented view of “advisor gamma”¹, encompassing the body of research around how advisors can best deliver value to clients at this time. We’ve pooled together ideas from across the team to help you deliver value in today’s environment.

Exhibit 1. Financial Advisors Can Add Value for Clients, Backed by Various Research Studies. All Estimates are as a Percentage of Client Portfolio Assets¹

Steps	Value Creating Activities	Morningstar	Vanguard	Investnet	Russell Investments	Marsden et al	Hackethal et al	Von Gaudecker	Barber et al	Dalbar	Geddes et al
Understanding Your Life	Client assessment			>0.5%	0.85%	0.6%					
	Asset allocation	0.45%		0.28%			0.19%	0.5%			
	Behavioral coaching	1.0%	1.5%		2-2.2%				4.0%	3.52%	
	Tax management	1.0%	0-0.75%	1.0%	0.5%						1.9%
Your Financial Strategy	Goal-relative optimization	1.77%									
	Product allocation	0.33%		0.82-0.85%	0.25-0.35%						
	Savings and withdrawal guidance	0.7%	1.1%								
Staying on Track	Rebalancing	0.8%	0.35%	0.44%	0.3%						
Total Estimated Value Added		6.05%	3.7%	>3.04%	3.9-4.2%	NA	NA	NA	NA	NA	NA

1. Conceptually, advisor gamma has been around for a long time. Morningstar have contributed deeply to this body of research, which attempts to quantify the value of financial advice, most notably in a 2013 paper by Paul Kaplan and David Blanchett titled “Alpha, Beta, and Now... Gamma”. External research sourced from Merrill Lynch, The Value of Personal Value Advice, 2016. For Financial Advisor Use Only

No Two Clients are the Same, But Their Fears and Dreams Often Rhyme

To ensure this has real-world application, we sought to identify four common client profiles that we believe are representative of today's client mindset. We've then matched these profiles to each actionable idea, ensuring we uphold a realistic client-led view². For investment ideas, client conversation starters, and presentation slides, check out our advisor toolkit, [Actionable Ideas for Today's Market Environment](#).



"I'm worried about the economy & interested to hear your thoughts as I trust your judgement"



"We want to invest more but we're waiting for the recession to pass"



"I'm a retiree that has lost 20% and want to know what action can be taken"



"I'm a new client & just inherited some cash, so need help to invest the proceeds sensibly"

Eight Buckets of Value Creation

01

Client Assessment: Mine for New or Changing Goals

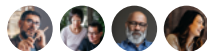


All clients can benefit

When pursuing goals in a tricky market environment like today, it can help for you to reinforce the "why" of investing as client goals are prone to change. For example, we've seen record numbers of 55+ year old's depart the workforce since the pandemic, showcasing the plasticity of our goals. Separate research shows that "[mining for goals](#)" can be an effective way of establishing what people really want, including any new or shifting goals, with over 70% of people fine-tuning their goals after conducting the exercise.

02

Asset Allocation: Focus on Purchasing-Power Growth with Real Returns After Inflation



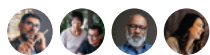
All clients, but especially those with clear inflation-plus targets

Clients are very likely feeling the pinch with their cost-of-living. Inflation is now a very real worry, perhaps even fearing stagflation. One of the best approaches to dealing with this is a [Real Return](#) mandate or mindset. By doing so, you can give your clients peace of mind that their approach is focused on retaining purchasing power.

2. Suggested Portfolio shown is for illustrative purposes only. Morningstar Investment Services LLC is not responsible for determining suitability for your clients. Please ensure that any such portfolio is appropriate for your client's financial situation.

03

Behavioral Coaching: Doing the Right Things at the Right Times

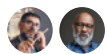


All clients, especially cautious or unnerving investors

“The intelligent investor is a realist who buys from pessimists and sells to optimists”. - Benjamin Graham, The Intelligent Investor Book. The hard truth is that people are prone to switching strategies whenever volatility hits, with another \$61 billion in outflows in June 2022, the third straight month—a stretch we’ve only witnessed on two other occasions since Morningstar began tracking data in 1993³.

04

Tax Management: Seek Opportunities for Tax-Loss Harvesting



Those with taxable accounts, especially higher income earners or those with large assets

To help deliver value in a down market, one way to start may be with tax-loss harvesting. This may be an effective tool for all existing clients, especially those who are higher tax payers and/or with sizable assets. Our recent research⁴ shows that this action may deliver value over a full cycle, which is a tangible benefit for clients. This may also create “new money” which can be reinvested in ways that help clients.

05

Goal-Relative Optimization: Embrace Combining Portfolio Strategies

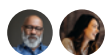


All clients that have clearly articulated goals

Client preferences exist on a dial, not a switch. So, dialling up or down the portfolio choices could be an effective approach. For example, those that aim to have a less volatile portfolio might have a higher portion in [Absolute Return](#) than those who want to invest in funds we believe are trading at a discount to their fair value in [All-Cap Equities](#). By doing so, you are personalizing the total portfolio outcome in line with client goals. We produced [a piece](#) that will help you understand the traps and help to deliver a differentiated result.

06

Product Selection: We Share Below Three Ideas that Help Different Clients



Personalize with [direct indexing](#) or values-led orientation. The future of investing is upon us, so one way to direct new client money is in direct indexing.. Direct indexing allows you to entrench personalization at its core, with tax-loss harvesting and sustainability preferences that can be selected to help create bespoke client outcomes at scale. If you’d like to know more about what direct indexing is, you can learn more at [this link](#).

3. Source: Morningstar Asset Flow Report, July 2022. Past performance is not guarantee of future results. This is for illustrative purposes only and not indicative of any investment. This should not be viewed as a recommendation.

4. Source: Tax Alpha Paper, Morningstar Investment Management, 2022



Consider an absolute return focus for clients that are risk sensitive. For clients that care deeply about preserving their nest egg, adding an absolute return sleeve could help. It may help deliver lower drawdowns and a low beta to conventional assets like stocks, making an absolute return mandate a viable potential fit for concerned clients.



An all-cap focus for clients seeking high-quality companies with durable moats. Our research has shown that clients often emphasize return generation and seek an advisor that can help them capture the opportunity. An all-cap equity focus can offer access to high-quality stocks that trade at a discount to their estimated worth.

07

Savings and Withdrawal Guidance: A Stepped Pathway with Dollar-Cost Averaging



Clients in accumulation mode

Drip-feeding a portfolio offers client comfort. So, while [Morningstar research](#) suggests it is statistically often better to take a “fully invested” approach, there is a behavioral element that appeals to clients. Or said another way, holding cash (beyond a safety net) regularly fails to keep up with inflation. By keeping clients moving forward in a building-block approach, they have the opportunity to improve the probability of reaching lofty goals.

08

Rebalancing: Avoid Drift and Regularly Review Client Allocations




All clients

[Recent research](#) suggests rebalancing would have delivered gamma of 0.8% to 1.2% as of August 1, 2022. While rebalancing is not guaranteed to improve outcomes may be effective as a risk management tool. It also helps bring perspective to new money and how it can be allocated.

Our Message to Financial Advisors Today

From an industry perspective, we feel positive about our ability to help clients’ reach their goals despite the market backdrop. As part of this, our north star hasn’t budged—with our clients’ goals top of mind. The silver lining is that periods such as the one we are experiencing brings new opportunities to add value. As ever, we are here to support you in any way that we can.

Ready to Turn Ideas into Actions? Let Morningstar Help You

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