

**MORALLY AND EMOTIONALLY COMPETENT FINANCIAL ADVISORS
DELIVER SUPERIOR CLIENT SERVICE AND PORTFOLIO PERFORMANCE**

Lennick Aberman Group

Rick Aberman, Ph.D., Judy Skoglund, Chuck Wachendorfer, Partners
Minneapolis, MN
Email: cwachendorfer@lennickaberman.com

Ameriprise Financial, Inc.

Kris Petersen
Vice President & General Manager, Financial Planning & Advice
Minneapolis, MN
Email: kris.petersen@ampf.com

Robert J. Emmerling, Psy.D.

Researcher, Consortium for Research on Emotional Intelligence,
Competency International, Newport Beach, CA
Email: emmerling@sbcglobal.net

Lyle Spencer, Ph.D.

President, Spencer Research & Technology,
Competency International, St. Augustine, FL
Email: lyle_spencer@hotmail.com

ABSTRACT

Studying 22 financial advisors, who provided investment advice on baby-boomer portfolios over a four-year period at Ameriprise Financial, researchers measured the effect of advisors' moral, emotional, and other behavioral competencies on their clients' portfolio performances. Each of the 22 advisors made suitable investment recommendations to at least 30 client-asset portfolios worth between \$100,000 and \$500,000 for four full years from 2001 to 2004. After interviews were conducted with the advisors, researchers analyzed the transcripts and coded an average of 70 behaviors per advisor, and 1400 behaviors total, for further analysis. Results showed that Integrity was the key behavioral competency which predicted the most positive returns for clients, followed by Client Service Orientation, Concern for Order/Quality, Teamwork, Self-Confidence, Achievement Orientation and Conceptual (Strategic) Thinking. Other significant competencies included Develops/Teaches Others, Initiative and Interpersonal Understanding. The results were highly statistically significant, as the chance of the competency model not producing valid results was less than 1 in 1000 ($p < .001$) (Spencer Research & Technology). The model was designed to use competencies to differentiate between advisors who provided advice to their client that resulted in achieving the highest returns among the test group for their clients and those who did not.

Moral intelligence is our mental capacity to determine how universal principles – like integrity, responsibility, compassion and forgiveness – should be applied to our personal values, goals and actions.

Moral competence is our ability to act on our principles and is the application of our emotional intelligence.

Emotional intelligence is the ability to stay focused on the goal in the face of competing emotions; the capacity to create alignment between your goals, actions, values and moral intelligence.

BACKGROUND AND METHOD

Researchers chose 22 financial advisors, who provided investment advice on baby-boomer portfolios worth between \$100,000 and \$500,000 over a four-year period at Ameriprise Financial, to be subjects in a project designed to measure the effect of advisors' moral and emotional competencies on their clients' portfolio performances.

The project was conducted by the Consortium for Research on Emotional Intelligence, guided by the Lennick Aberman Group, commissioned by Ameriprise Financial and carried out by two researchers from Competency International and three certified interviewers.

The advisor-selection process began with an analysis of client-portfolio returns for invested assets continuously from 2001 through 2004 (four full years). Researchers specified that advisors have a minimum of 30 clients who were at least 45-years-old and had between \$100,000 and \$500,000 of investible assets (high-net worth baby boomers). The key variable in the study was the percentage of client portfolios classified in the top 25th percentile of investment returns.

Along with Doug Lennick, Ann Kirchner (Director) and Sheana Suek (Manager) from Ameriprise Financial, researchers began conducting data collection interviews. Prior to engaging in data collection with the advisors, the researchers and interviewers were trained and certified in Behavioral Event Interviewing.

The interview protocol used in this research was based on Behavioral Event Interviewing (BEI) (see Boyatzis, 1982; Spencer & Spencer, 1993; for review); a flexible protocol with a well-established research base which supports its reliability and validity. BEI methodology is especially well suited to identifying the individual characteristics which differentiate superior performers from typical performers in a given role. In this case, researchers were interested in learning about the specific moral and emotional competencies, which distinguished financial advisors whose clients realized superior portfolio returns.

The beginning of the interview included an opening statement that outlined the purpose of the study: to identify how advisors help clients optimize investment decisions.

Subsequent questions dealt with asking advisors to describe details of specific incidents of success and failure in helping clients optimize investment decisions. Of particular interest were what advisors were thinking, feeling and doing during these specific incidents, and what the eventual outcome was for the client. Individual interviews were tape-recorded and verbatim transcripts of the interviews were coded by researchers for specific competencies.

MEASURES

Researchers systematically coded each of the 22 interviews for evidence of specific competencies. The competencies coded in the current study came from a synthesis of competency research (Boyatzis, 1982, Goleman, 1998b; Spencer & Spencer, 1993; Consortium for Research on Emotional Intelligence in Organizations, 1999), which has been conducted in a variety of organizations and countries around the world. While a vast amount of competencies have been identified (over 750 by some accounts), research has consistently shown that 24 competencies represent the characteristics most related to performance.

Each interview yielded an average of 70 codable incidents that were evidence of an advisor displaying a specific competency. Listed below are the competency definitions observed in the study. These competencies include 11 behavioral competencies and one cognitive competency Conceptual (Strategic) Thinking. The first six competencies accounted for 70% of the variance in client-portfolio performance.

- **Integrity:** Actions are consistent with what one says is important, that is, he or she “walks the talk”. Communicates intentions, ideas and feelings openly and directly, and welcomes openness and honesty, even in difficult discussions with clients.

EXAMPLE: After several attempts to convince a client not to abandon their financial plan (increasing the likelihood that they would not have the necessary financial resource to retire) an advisor recommends that the client seek advice from another advisor because the advisor cannot, in good conscience, help the client implement a plan they believe puts the client at significant financial risk. In this way the advisor was willing to give up a lucrative client in order not to compromise his/her principles. In doing so the advisor demonstrates a high level of integrity.

- **Client Service Orientation:** Implies a desire to help or serve clients, to meet their needs. It means focusing one’s efforts on discovering and meeting the client’s needs.

EXAMPLE: The advisor helps a couple by identifying several good attorneys to choose from to help with their estate planning needs. Through a series of probing questions the advisor demonstrates to the clients that what they want to have

happen to their estate is not reflected in their current plans. The advisor continues to work in collaboration with the clients, their new attorney and their accountant to better understand and serve the needs of the client regarding estate planning.

- **Concern for Quality and Order:** Reflects an underlying drive to reduce uncertainty in the surrounding environment. It is expressed in such forms as monitoring and checking work or information, insisting on clarity of roles and plans.

EXAMPLE: The advisor designs and implements a system to help monitor client portfolio performance on a weekly basis. Maintains detailed records of all client contacts (i.e. Email, phone conversations, and in-person meetings) in the form a computer database that the advisor can easily access.

- **Teamwork & Collaboration:** Implies the intention to work cooperatively with others, to be part of a team, to work together, as a member of a group (rather than as a leader) as opposed to working separately or competitively.

EXAMPLE: Solicits feedback from colleagues and other professionals to help inform how they view the client's current financial situation. Shows a willingness to partner with other professionals (e.g. client's accountant or lawyer) to better service the client.

- **Self-Confidence:** A belief in one's own capability to accomplish a task and select an effective approach to a task or problem. This includes confidence in one's ability as expressed in increasingly challenging circumstances and confidence in one's decisions or opinions.

EXAMPLE: Advisors demonstrate confidence in their advice and knowledge by constructively challenging clients regarding inconsistent and irrational beliefs and behavior, which potentially affects their portfolio performance. Advisor speaks up when in disagreement with the client instead of "rolling over" and taking the path of least resistance and clearly articulates rationale for advice.

- **Achievement Orientation:** Wants, plans, acts to meet or surpass a standard of excellence; measures outcomes against goals; innovates to improve; takes calculated risks to do something new or better.

EXAMPLE: Advisor is instrumental in setting up a streamlined screening process to increase the likelihood that initial client contact meetings will be informative and productive. Successful decreases the number of initial "no shows" and increases the ratio of initial contacts that eventually become clients.

- **Conceptual (Strategic) Thinking:** The ability to identify patterns or connections between situations that are not obviously related, and to identify key or

underlying issues in complex situations. It includes using creative, conceptual or inductive reasoning.

EXAMPLE: Uses complex learned theories and techniques to see patterns in clients' portfolios and identify discrepancies and opportunities. Applies specific tools and techniques to formulate and modify clients' financial plans based on several factors.

- **Develops/Teaches Others:** Involves a genuine intent to foster the long-term learning or development of others with an appropriate level of need analysis and other thought or effort. Its focus is on the developmental intent and effect rather than on a formal role of training.

EXAMPLE: In response to a client considering selling in a "panic" after a market downturn, the advisor shows the client a 50-year history of stock indices, teaching the client how sudden downturns can reverse quickly, even are buying opportunities, hence teaching the client the importance of long-term perspective v. "panic" selling.

- **Initiative:** Refers to 1) the identification of a problem, obstacle or opportunity and 2) taking action in light of that to address current or future problems or opportunities. As such, Initiative can be seen in the context of proactively doing things and not simply thinking about future actions.

EXAMPLE: Advisor is proactive in communicating with a specific client whose portfolio is currently underperforming. Takes the initiative to call the client right after he would have received his most recent statement showing a significant drop in portfolio value... does so to reassure the client and address any questions and concerns he/she might have.

- **Interpersonal Understanding:** Implies wanting to understand other people. It is the ability to accurately hear and understand the unspoken or partly expressed thoughts, feelings and concerns of others. It measures increasing complexity and depth of understanding of others and may include cross-cultural sensitivity.

EXAMPLE: Advisor suspects that a client's dissatisfaction with his high-performing portfolio is not related to the objective performance of the portfolio, but related to the fact that, even with stellar returns, he will not be as financially well-off as some of his friends and peers... a fact that the client acknowledges when suggested by the advisor.

- **Impact and Influence:** Actions to persuade, convince, influence or impress others, in order to get them to support the speaker's agenda; or the desire to have a specific impact or effect on others.

EXAMPLE: Advisor sees that the couple that has come to him for advice has a history of disagreement on how they have approached financial decisions in the past. After observing this the advisor encourages the couple to rethink how they go about future decisions so that they can avoid such disagreements in the future.

- **Relationship Building:** Builds or maintains friendly, reciprocal, and warm relationships or networks of contacts with people.

EXAMPLE: Advisor establishes strong personal relationship with a specific client. The nature of their relationship also includes frequent conversations about topics other than investing and financial advice as well as enjoying recreational and social activities together.

RESULTS

The results were highly statistically significant, as the chance of the competency model not producing valid results was less than 1 in 1000 ($p < .001$) (Spencer Research & Technology). The model was designed to use competencies to differentiate between advisors who provided the highest returns for their clients and those who did not.

Research revealed the following results after analyzing the interview transcripts of the 22 financial advisors in the study.

Of the 22 advisors who participated, 12 provided advice in connection with superior portfolio performance. These portfolios delivered a mean return of 24.7% over the specified four-year period, compared to mean return of 14.3% by the S&P Index over the same time period (the advisors outperformed the S&P Index by 73%).

The portfolios on which these 12 advisors provided advice also delivered a mean percentage return per year of 5.6% compounded over the specified four-year period, compared to a mean percentage return per year of 3.4% by the S&P Index over the same time period (the advisors outperformed the S&P Index by 65%).

An average of 70 incidents were coded from each interview as evidence of a specific competency. When a competency was demonstrated, researchers not only recorded the frequency, but also assigned a level to the competency. The levels were based on complexity and degree of influence. For example, if an advisor displayed the competency of Achievement Orientation by expressing frustration at efficiency and wanting to achieve a standard of excellence, but did not act to improve, then Level 1 was assigned. If an advisor took calculated entrepreneurial risks and committed significant resources of time and money toward Achievement, then Level 6 was assigned. The number of levels varied for each competency.

A partial regression coefficient was calculated for each competency. The findings revealed that six key competencies accounted for over 70% of the variance in client portfolio performance. Since the competencies themselves demonstrate some degree of

overlap and are thus correlated with one another the sum of the regression coefficients exceeds .70. Conceptual (Strategic) Thinking does not enter the Structured Equation Model analysis because its variance is absorbed by Achievement, Integrity and Self-Confidence.

(#) = partial regression coefficient

- **Integrity (.45)**
 - Levels 1-2: Open and honest, “walks talk”, actions consistent with what advisor says is important
 - Level 3: “Does what’s right” even if doing so risks losing account.

- **Client Service Orientation (.32)**
 - Level 5: Hears underlying needs (family as well as client)
 - Level 6: Takes long-term action in clients’ best interest

- **Concern for Order/Quality (.30)**
 - Levels 3-5: Attention to detail, has all data at fingertips, continually checks, monitors and follows-up
 - Level 7: Has systems for getting data: financial and personal/family

- **Teamwork (.19)**
 - Level 2: Uses colleagues in firm, client influencers in community (lawyer, accountant, minister, family MD)
 - Level 7: Resolves conflicts among clients, family members

- **Self-Confidence (.18)**
 - Level 2: States confidence in own ability
 - Level 3: “Courage” to confront client when off plan, taking long-term action in clients’ best interest, does what is right, at risk of losing client

- **Achievement Orientation (.15)**
 - Level 3: States, acts on self-imposed standard of excellence
 - Level 4: Acts to improve, do better
 - Level 5: States quantitative results for client

- **Conceptual (Strategic) Thinking**
 - Levels 1-2: Sees discrepancies, patterns in client behavior
 - Level 3: Has clear “mental model”, rules, strategy (E.g. “build relationships with multiple generations of family”)

- **Develops/Teaches Others**

- Levels 1-2: Explains, trains client in finance, market history, risk preference curves, etc.
- **Initiative**
 - Levels 1-2: Anticipates problems and opportunities
 - Levels 3-4: Takes action before being forced to by events
- **Interpersonal Understanding**
 - Levels 1-2: Understands clients' explicit intentions and feelings
 - Levels 3-4: Understands underlying meanings, reasons why, patterns of behavior

CONCLUSION

The evidence suggests several breakthrough findings for the financial services industry. There is now statistical data to support the theory that strong moral and emotional competencies lead to helping clients make decisions to increase their investment return (i.e. soft skills equal hard results).

A key differentiator between financial advisors who help their clients achieve positive returns and those who help their clients achieve superior returns is moral and emotional competency (i.e. the difference between achieving optimal performance and sustained optimal performance).

Demonstrating a high level of Integrity had the strongest impact on helping their clients achieve positive returns, while five additional competencies (Client Service Orientation, Concern for Order/Quality, Teamwork, Self Confidence, Achievement Orientation) also yielded a strong impact. Improvement of these six competencies can take place over time with proper training and development of advisors.

The results of this study suggest that training in moral and emotional competencies will not only help clients achieve positive returns, but may also significantly improve the performance of financial advisors. Behavioral advice designed to improve and develop moral and emotional competencies may strongly benefit financial advisors, their clients and financial services firms. Further implications of this work may include or apply to recruiting and talent selection of financial advisors.

REFERENCES

Boyatzis, R. E. (1982). *The competent manager: A model of effective performance*. New York: Wiley

Consortium for Research on Emotional Intelligence in Organizations (1998) *Emotional Competence Framework*. Retrieved December 12, 2006, from http://www.eiconsortium.org/research/emotional_competence_framework.htm

Goleman, D. (1998b). *Working with emotional intelligence*. New York: Bantam Books.

Spencer, L. M., & Spencer, S. M. (1993). *Competence at work: Models for superior performance*. New York: Wiley.