Coaching through biases for better outcomes.

Identify biases—yours and your clients’

Biases are unconscious beliefs or ideas that influence decisions. All humans have biases that affect their thinking. When financial advisors take time to understand what biases are and how they impact financial decisions—from their own perspective and their clients’—they are better equipped to coach clients toward better outcomes.

Top five reported biases for advisors and investors

We recently surveyed advisors about their biases and those they observe with their clients, including three that they tend to share: loss aversion, recency, and familiarity. The chart below shows the top five biases for both advisors and their clients, with 1 being the largest percentage of responses, and 5 being the least.

Bias	What it means	Most common among investors	Most common among advisors
Loss aversion	Having a greater sensitivity to losses than to gains	1	2
Recency	Giving more value to outcomes from the recent past	2	5
Herding	Being influenced by peers to follow trends	3	
Familiarity	A tendency to invest in things that are familiar	4	1
Hindsight	False belief of having correctly predicted a past event	5	
Overconfidence	Overestimating one's own skill and accuracy		4
Information	False belief that more information will improve decision-making		3

We measured 10 biases in total, including these three biases that received negligible results:

Mental accounting - Applying different values to the same amount of money based on its origin or intended purpose

Narrative - Tendency to irrationally overweight stories versus objective facts

Status quo bias - A preference to stick with the status quo and resist new ideas

Source: SEI Behavioural Coaching Survey, May 2023, n=169. Those biases without a rank did not receive a large enough response for the category indicated.

Potential impacts of biases on outcomes

Our research highlights important similarities and differences among the biases of advisors and their clients that could meaningfully impact outcomes if left unchecked.

Bias	What was reported	Potential impact
Loss aversion	This was the most common response given by advisors as a bias they often observe with clients (62%). However, advisors also recognized this bias among themselves (34%).	With clients and advisors having stronger feelings about losses than they have about gains, the resulting decisions could limit opportunities for growth potential. Advisors may recommend investments that are more conservative than a client's risk profile in an effort to avoid a potential loss.
Recency	Advisors indicated recency bias as the second most prevalent bias among clients (50%) and one of the most common among themselves (21%). It can create a mindset in which decisions are made based on recent market events instead of considering the complete picture.	This short-term perspective discounts the full history of the markets and may lead advisors and clients to select ill-suited investments or avoid certain investments that align with their long-term objectives. For example, in 2000 and 2008, both advisors and investors assumed that rising markets would continue to go up.
Familiarity	The tendency to recommend or invest in things that are familiar was noted as the most prevalent bias among advisors by far (62%) but also cited as a common bias for investors (25%).	Advisors may be making recommendations based on those they've made in the past, including specific families of strategies, companies, or providers. It might even impact diversification if specific geographies, asset types, or asset classes are chosen because they are familiar. This could affect growth potential and the ability to achieve client goals.
Herding and hindsight	Advisors indicated that they have observed herding (29%) and hindsight (18%) biases among investors.	When making investment decisions, investors are being swayed by what they are hearing from friends, family, peers, and the media, as well as how their investments performed in the past.
Information and overconfidence	Advisors noted information (32%) and overconfidence (22%) biases are among those they observe in themselves.	These biases can lead to recommendations that may be underdiversified or that underestimate the risks associated with certain investments. For advisors who act as the portfolio manager of their client portfolios (rep-as-PM), research noted that volatility for those accounts was twice that of fund strategist portfolios, in which the asset management is outsourced.[1]

Source: SEI Behavioural Coaching Survey, May 2023, n=169

[1] Envestnet, "Digging Into Portfolio Performance Outliers" Envestat Report, May 2018.

Three steps to managing biases

There are several ways advisors can help mitigate the potential impact of biases for better investor outcomes.

1

Become a client coach

Advisors who coach clients can build trust, with deeper and stronger relationships that can lead to better retention and outcomes. Coaching goes beyond providing investment guidance through a client's financial journey. It's a partnership in which advisors and clients work together, taking factors such as behaviours, tendencies, and biases into consideration.

Coaching enables advisors to connect with clients on a more personal and emotional level, creating a collaborative dynamic for developing and implementing financial plans. Clients are more likely to feel invested—literally and emotionally—in their advisor and their success. People tend to feel emotional about their money. It is connected to many things they value most such as homes, lifestyles, and the ability to care for family.

Quantifying the value of coaching

Effective coaching can help clients slow down their emotional responses and think rationally about things, helping to yield quantifiable results.

Vanguard quantified this impact in their Advisor's Alpha study, which suggested that behavioural coaching is the single most impactful thing an advisor can do, adding an average of 150 basis points to their client's return. The study showed coaching to be more impactful than other important aspects, such as asset allocation, rebalancing and cost-effective implementation.[2]

2

Implement a co-planning approach

Co-planning is a different approach than a traditional advisor-driven experience. With co-planning, advisors and clients collaborate on all aspects of the wealth-planning process, revisiting and revising expectations based on the client's evolving needs and priorities. Advisors use technology, such as planning software, to help coach clients throughout the process.

According to our survey, 80% of advisors indicate that their typical client works with two to three financial experts, such as other financial advisors and insurance or tax specialists. Leveraging a co-planning approach can help advisors give clients a more holistic view of their wealth, develop stronger and deeper relationships, and potentially increase client retention.

Coach as the voice of reason: Help clients stay the course

Volatility will undoubtedly come, and you'll want to coach clients through it. Encourage them to remain focused on their holistic approach to investing, emphasize their goals, and center the risk conversation on the probability of missing a goal rather than periodic portfolio volatility.

Source: SEI Behavioural Coaching Survey, May 2023, n=169

[2] Vanguard, "Putting a value on your value: Quantifying Advisor's Alpha," August 2022.

3

Build processes to keep clients on track

This is especially important during times of volatility. When emotions run high, biases are more likely to be a factor, and 25% of advisors said that's when clients make changes to their existing financial plans.

However, there are opportunities for advisors to bridge the gaps and help keep clients on track during times of market uncertainty. According to our survey:

- Fifty-six percent (56%) of advisors say their firm has a process to proactively combat investor behaviour in times of market volatility.

  Opportunity: Forty-four percent (44%) of advisors do not have such a process in place.

- Sixty-one percent (61%) of advisors say they coach their clients early on to expect market ups and downs.

  Opportunity: Only 14% of advisors use their CRM or other systems to segment clients by their behavioural tendencies.

- Ninety-three percent (93%) of advisors believe clients trust their decisions, but outside influences such as family and friends (85%) or social media (89%) are either somewhat or very influential on client behaviour, creating a greater need for coaching.

  Opportunity: Only 12% of advisors say they are using social media to stay top of mind with their clients, and as many as 23% of advisors do not use social media at all.

Change the conversation.

We believe processes allow you to change the conversation with your clients from one based on product and market performance to one based on advice related to helping them achieve their personal goals. This approach offers a way to differentiate and elevate your service, and help you build deeper and longer-lasting relationships with your clients.

Embrace a goals-based wealth management approach

With goals-based wealth management, advisors use coaching to manage client expectations and behaviour to improve the likelihood of clients achieving their goals.

It starts with clients and advisors co-planning, framing investment principles from the client's viewpoint rather than the advisor's. Success is defined by progress toward client-determined goals rather than relative performance against an arbitrary benchmark.

Goals-based investing emphasizes investment solutions that match client goals with an appropriate strategy, taking advantage of the concept of "mental accounting." This can help reduce the anxiety of having all assets in a single pool.

It enables clients to think more deeply about their money and what they want it to do for them. It's supported by a disciplined planning process that helps advisors better understand clients' motives and purposes and aligns appropriate strategies for funding them.

By implementing a goals-based approach, advisors can also help clients establish plans that include charitable and generational transfer strategies that build wealth for their family's future.

Financial planning vs. wealth transfer

Fifty-nine percent (59%) of advisors noted that they have created financial plans for more than half of their clients, while 41% of advisors may not be viewing co-planning as a priority.

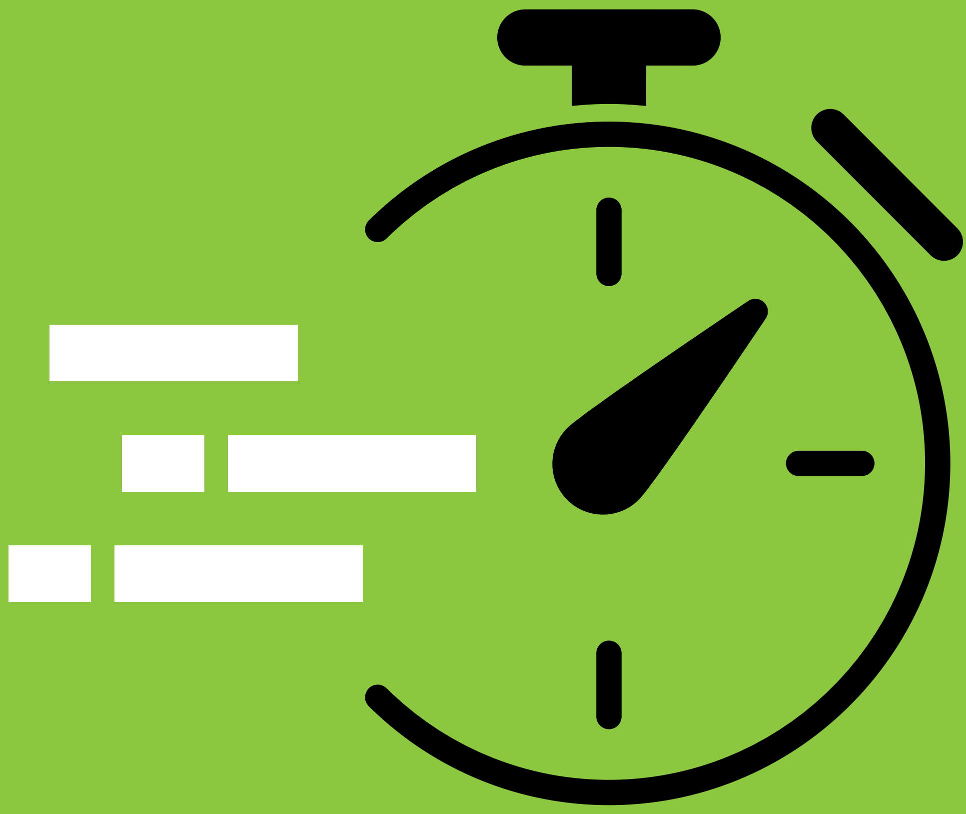
In addition, when asked if their clients have expressed interest in wealth transfer strategies, only 29% of advisors indicated that 50% or more of their clients have. Sixty-seven percent (67%) of advisors feel that interpersonal and emotional considerations make wealth transfer conversations difficult versus financial and tax considerations (33%), which may explain why fewer plans are being developed.

Source: SEI Behavioural Coaching Survey, May 2023, n=169

Get started

Build a more client-centric practice that includes tactics to address investor behaviours:

- Understand the existence of biases—both of advisors and investors—and the impact they can have on investment progress.
- Shift your mindset away from the traditional, advisor-driven experience to one of coaching and co-planning to help clients develop their wealth plans.
- Embrace a goals-based approach to wealth management that helps investors feel more connected to their money and stay on track to reach their goals.



Discover SEI.

Contact your SEI relationship manager today at 855-734-1188 to learn more about biases, how goals-based wealth management can help mitigate their effects, and how coaching can help clients reach their goals.

SEI Investments Canada Company
130 King Street West
Suite 2810
Toronto, Ontario M5X 1E3
seic.ca

Important information

SEI Investments Canada Company, a wholly owned subsidiary of SEI Investments Company, is the Manager of the SEI Funds in Canada.

The information contained herein is for general and educational information purposes only and is not intended to constitute legal, tax, accounting, securities, research or investment advice regarding the Funds or any security in particular, nor an opinion regarding the appropriateness of any investment. This information should not be construed as a recommendation to purchase or sell a security, derivative or futures contract. You should not act or rely on the information contained herein without obtaining specific legal, tax, accounting and investment advice from an investment professional. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. There is no assurance as of the date of this material that the securities mentioned remain in or out of the SEI Funds.

This material may contain "forward-looking information" ("FLI") as such term is defined under applicable Canadian securities laws. FLI is disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action. FLI is subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from expectations as expressed or implied in this material. FLI reflects current expectations with respect to current events and is not a guarantee of future performance. Any FLI that may be included or incorporated by reference in this material is presented solely for the purpose of conveying current anticipated expectations and may not be appropriate for any other purposes.

Information contained herein that is based on external sources is believed to be reliable, but is not guaranteed by SEI Investments Canada Company, and the information may be incomplete or may change without notice.

There are risks involved with investing, including loss of principal. Diversification may not protect against market risk. There may be other holdings which are not discussed that may have additional specific risks. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavourable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Bonds and bond funds will decrease in value as interest rates rise.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

230463.09 AMD 10/23