

How an advisor adds value through behavioral coaching

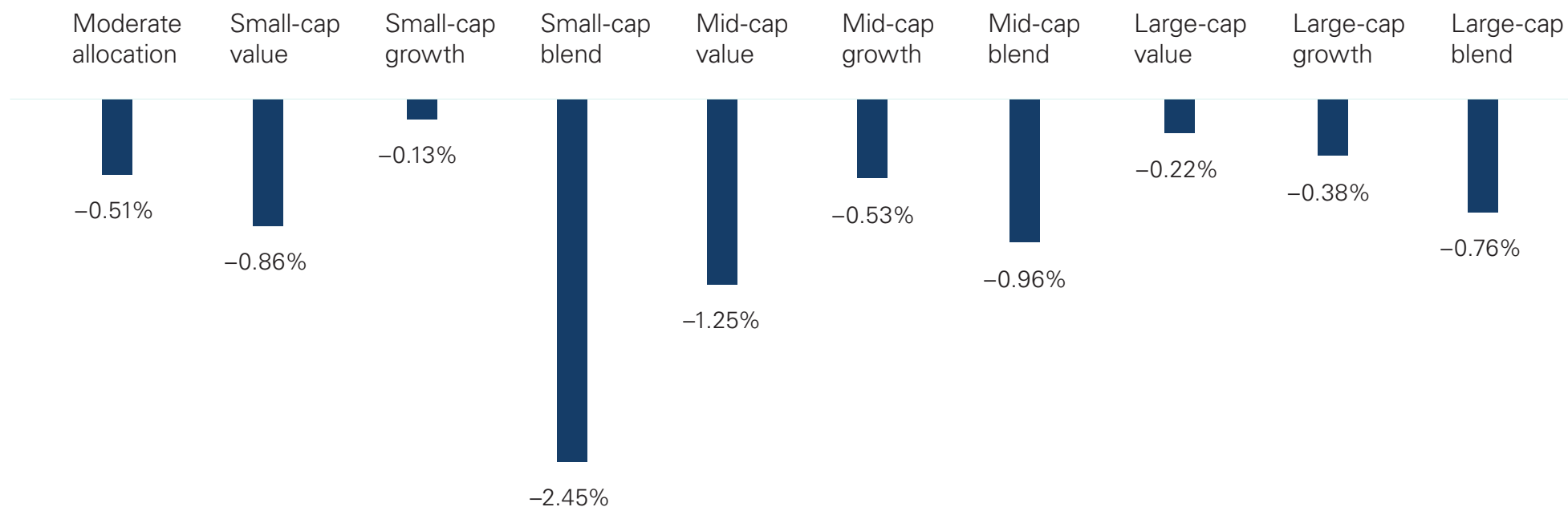
VANGUARD ADVISOR'S ALPHA[®]

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Vanguard[®]

The problem:

Disparity between investor returns versus fund returns: Ten years ended December 31, 2017



Notes: The time-weighted returns in this figure represent the average annual investor returns, compared with fund returns, in each category. Investor returns assume that the growth of a fund's total net assets for a given period is driven by market returns and investor cash flow. An internal rate-of-return function calculates the constant growth rate that links the beginning total net assets and periodic cash flows to the ending total net assets. Fund categories include fund-of-fund assets and cash flows to best capture investors' experience when that structure is common.

Source: Vanguard calculations, based on data from Morningstar, Inc.

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Why do we have the problem?

Common human biases:

Overconfidence

Availability

Inertia

Framing

Loss aversion

Representativeness



The solution:

Vanguard Advisor's Alpha[®] behavioral coaching

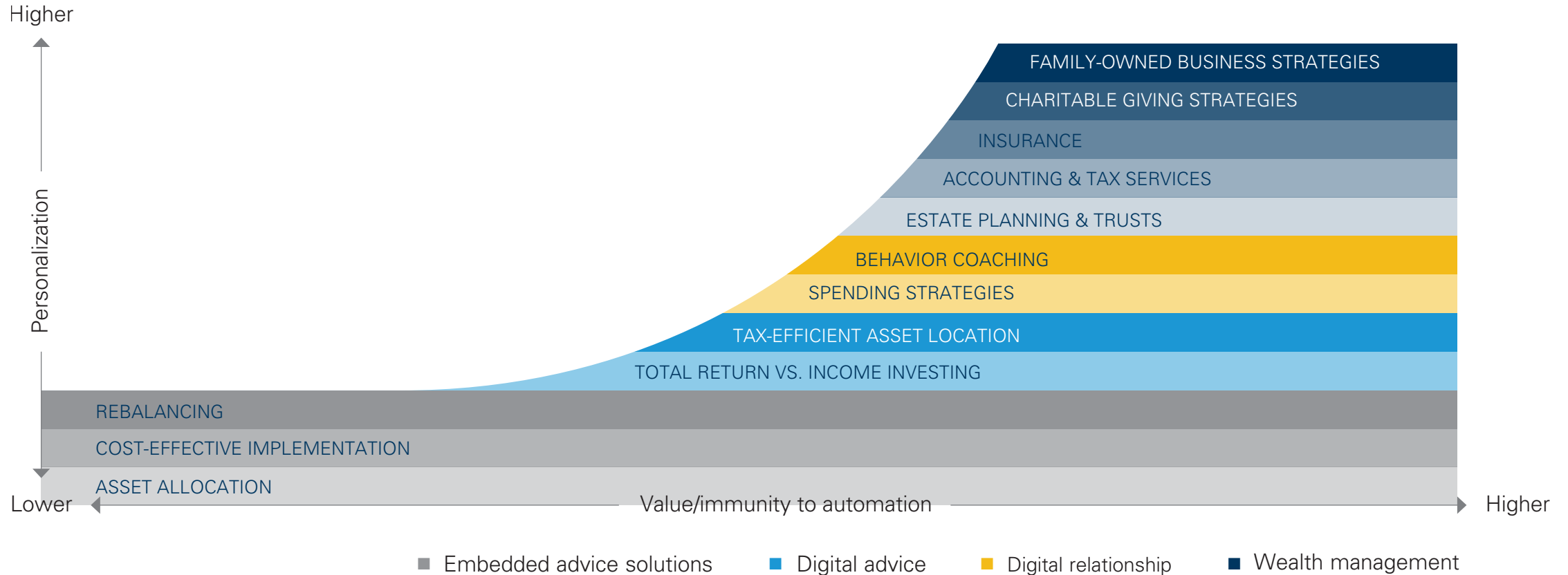
1% - 2%

Source: Francis M. Kinniry Jr., Colleen M. Jaconetti, Michael A. DiJoseph, Yan Zilbering, and Donald G. Bennyhoff, 2019. *Putting a value on your value: Quantifying Vanguard Advisor's Alpha[®]*. Valley Forge, Pa.: The Vanguard Group.

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Behavioral coaching is business development

Automation is here. Focus on the human elements of advice.

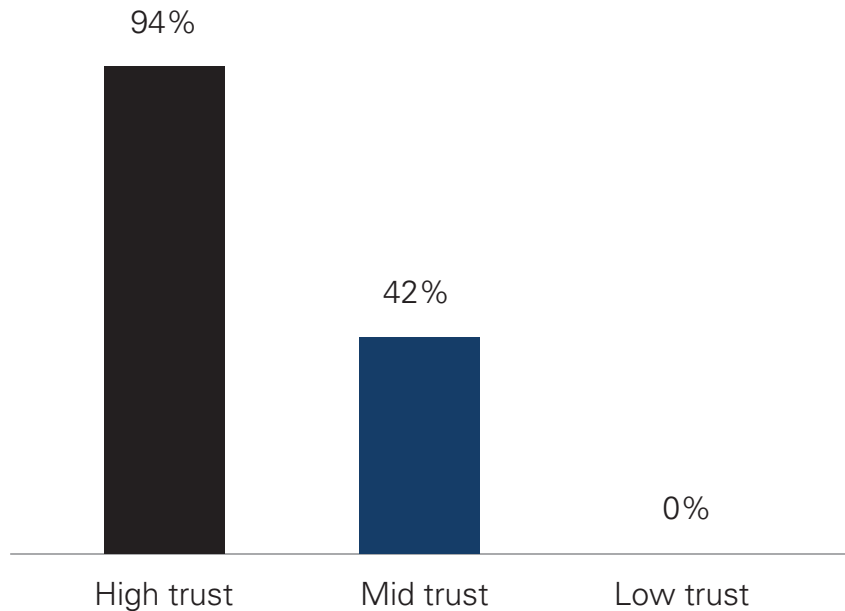


Source: Vanguard.

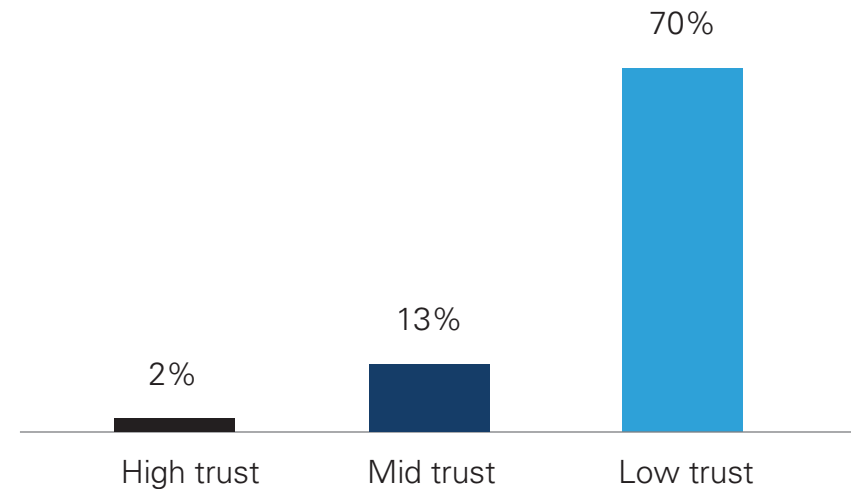
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Behavioral coaching builds client trust, which motivates referrals and drives assets

Extremely likely or likely to offer referral



Extremely likely or likely to switch advisors

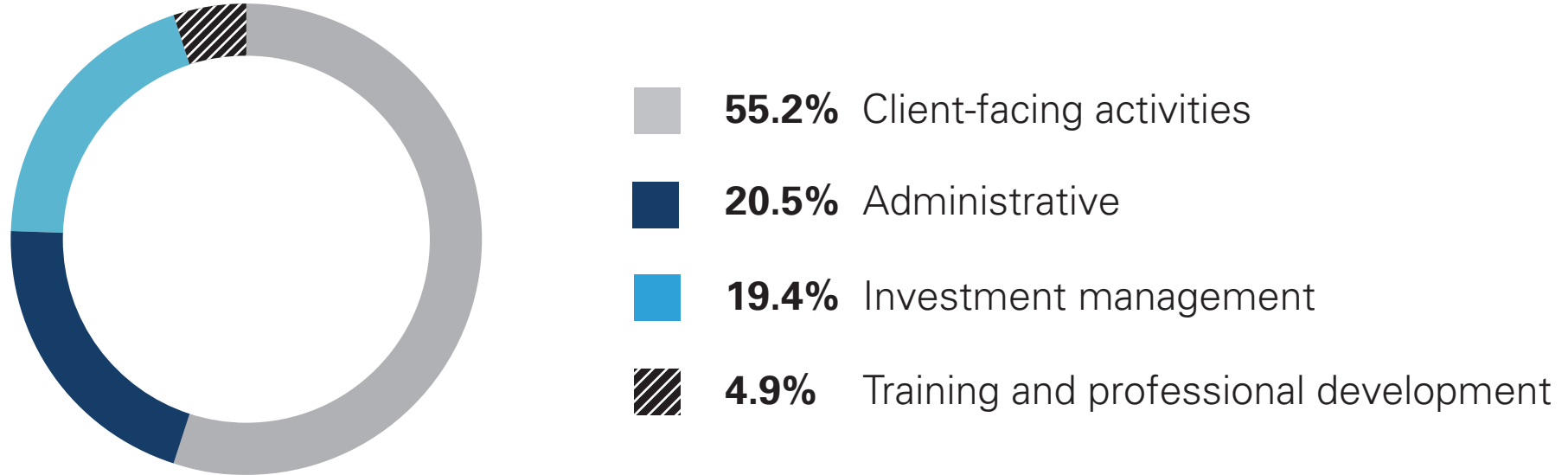


Source: Donald G. Bennyhoff, Francis M. Kinniry Jr., and Michael A. DiJoseph, 2018. *The evolution of Vanguard Advisor's Alpha®*: From portfolios to people. Valley Forge, Pa.: The Vanguard Group.

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Where are you getting the best return on the investment of your time?

Advisor time allocation by activity



Source: Donald G. Bennyhoff, Francis M. Kinniry Jr., and Michael A. DiJoseph, 2018. The evolution of Vanguard Advisor's Alpha®: From Portfolios to People. Valley Forge, Pa.: The Vanguard Group.

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How Vanguard views behavioral coaching

Behavioral coaching is to help clients change their behaviors, which helps them achieve their goals.

Vanguard's 3 Ps of behavioral coaching:

Planning

Proactivity

Positivity

Source: Donald G. Bennyhoff, 2018. *The Vanguard Advisor's Alpha® guide to proactive behavioral coaching*. Valley Forge, Pa.: The Vanguard Group.

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■ Planning

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Financial planning

Lay the foundation with a written financial plan

A written financial plan helps address clients' broader concerns and serves as a touchstone for behavioral coaching.

Affluent investors' top five household economic concerns



17.2%

**Protecting
current
level of
wealth**



11.4%

**Health of
myself or
family
members**



11.1%

**Planning
for
retirement**



8.5%

**Cost of
health
care**



7.6%

**Rate of
return in
stock
market**

Sources: Phoenix Marketing International and Cerulli Associates.

Note: Affluent households include those possessing \$1 million or more in investable assets.


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Recommendation:

Create simple, one-page summary plans to anchor client conversations

Support a customized, detailed financial plan with a summary for each client.



The one-page plan comes from conversations about a client's values and goals

Q What's most important to you?

- A**
- Give my children a good start in life.
 - Be independent.
 - Spend time with family.



The values expressed in client conversations become goals

Values

- Give my children a good start in life.
- Be independent.
- Spend time with family.

Goals

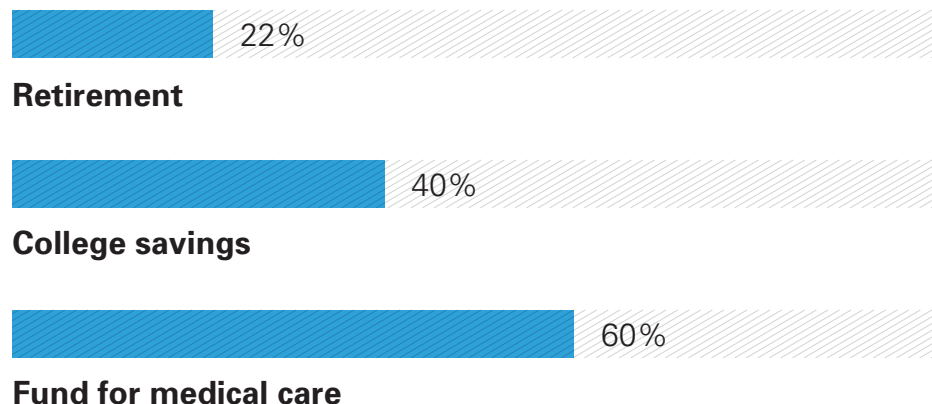
- Have \$50,000 in a 529 account for each child by the child's senior year.
- Have \$1.5 million in retirement accounts by age 65.
- Enable one spouse to work part-time within two years.

Recommendation:

Show progress toward goals in later meetings

At every meeting, show the client a graph that demonstrates progress to the stated goals. And refer to your regular meetings as update or progress meetings, not "performance reviews."

Focus on top goals



A man with glasses and a woman in business attire are looking at a tablet together. The man is pointing at the screen while the woman looks on. The background is a blurred office setting with large windows.

■ Proactivity

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Proactivity

Recommendation: Coach for tomorrow today!

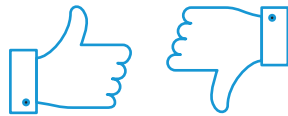
*Offer answers to as many
of a client's fears as possible
before periods of market
volatility or other stress.*

In the consumer's world, many tools exist to assist with purchasing decisions

For many of life's most important decisions, this decision-making process often works well, but not with investing.



Word of mouth



Favorite ratings



Warranties



Star ratings

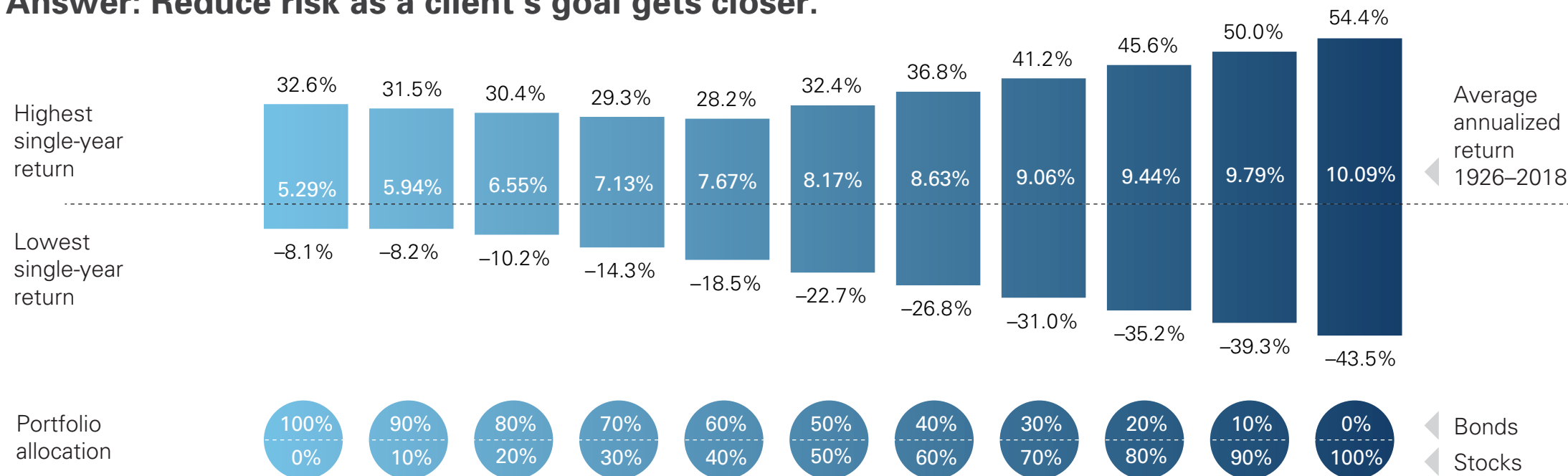


Buyer's guides

Addressing fear:

Losing money in a market downturn

Answer: Reduce risk as a client's goal gets closer.



Source: Vanguard.

Stocks are represented by the Standard & Poor's 90 Index from 1926, through March 3, 1957; the S&P 500 Index from March 4, 1957, through 1974; the Dow Jones Wilshire 5000 Index from 1975 through April 22, 2005; the MSCI US Broad Market Index from April 23, 2005, to June 2, 2013; and the CRSP US Total Market Index thereafter. Bonds are represented by the S&P High Grade Corporate Index from 1926 through 1968; the Citigroup High Grade Index from 1969 through 1972; the Lehman Brothers U.S. Long Credit AA Index from 1973 through 1975; the Barclays U.S. Aggregate Bond Index from 1976 to 2009; and the Bloomberg Barclays U.S. Aggregate Float Adjusted Bond Index thereafter. Data are through December 31, 2018.

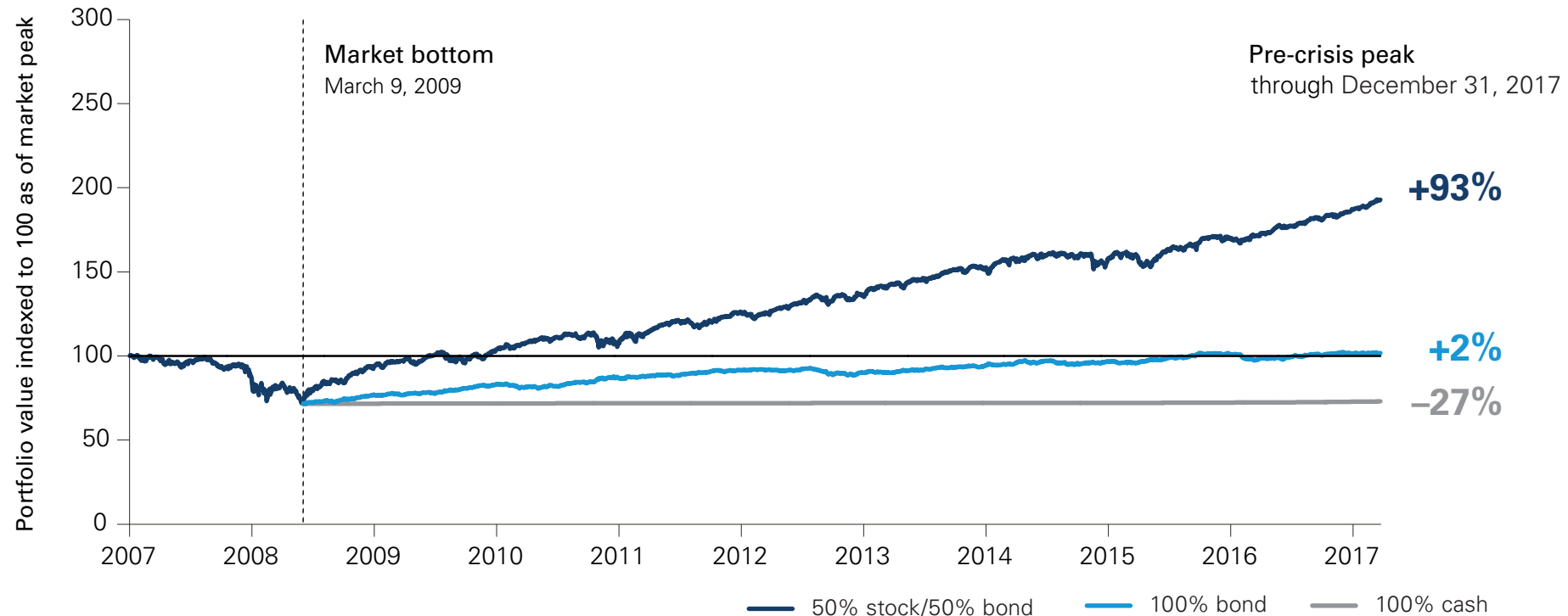
Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

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Addressing fear:

Losing money in a market downturn

Answer: Stress the importance of a balanced portfolio.



Sources: Vanguard calculations, using data from Morningstar, Inc. All data as of December 31, 2017.

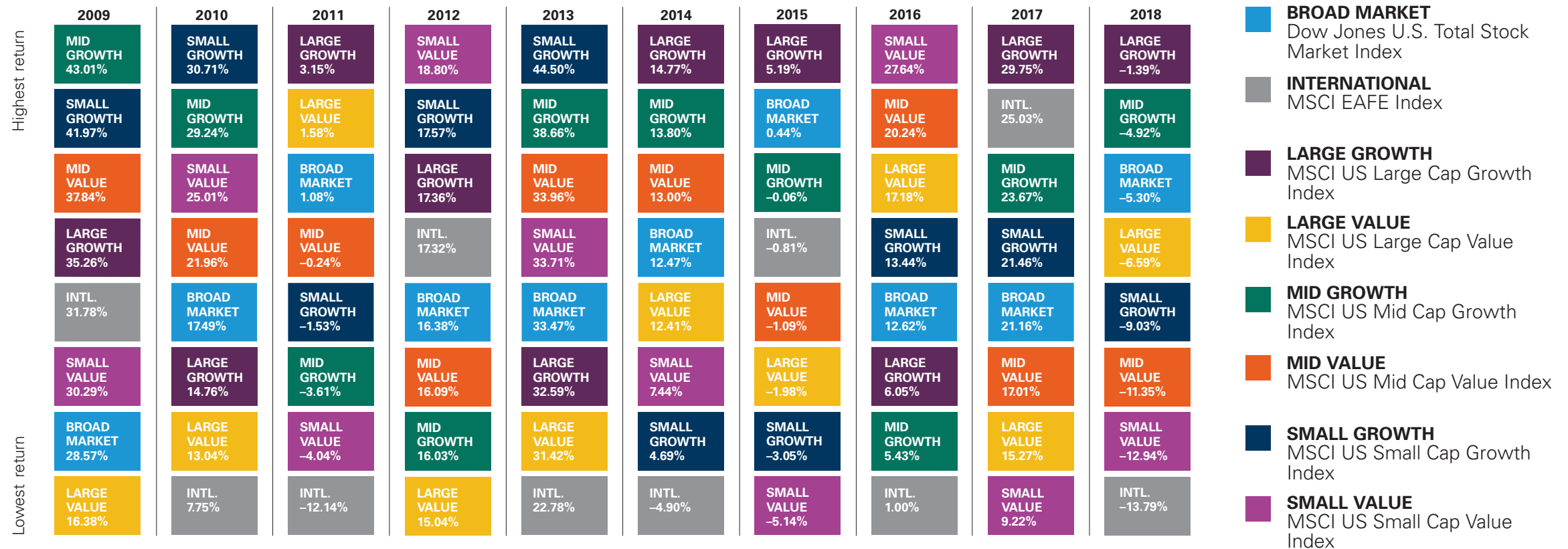
Notes: Stocks represented by the S&P 500 Index. Bonds represented by the Bloomberg Barclays U.S. Aggregate Bond Index. Cash represented by the 3-month U.S. Treasury bill. The 50% stock/50% bond portfolio was rebalanced monthly. Data provided by FactSet. Past performance is no guarantee of future returns.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

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Addressing fear: Uncertain world events

The answer: No one can predict the future.



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Source: Vanguard.

Past performance is not a guarantee of future results. In addition, the performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Diversification does not ensure a profit or protect against a loss.

A man with short, graying hair and glasses, wearing a dark blue suit jacket over a light-colored shirt, is looking directly at the camera. The background is a blurred office interior with large windows.

■ Positivity

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Vanguard's view

- Avoid wording or framing that could be perceived as derogatory or condescending.
- Acknowledge that you are human, too, and can be emotional, chase returns, and make decisions you regret.
- Demonstrate that we can learn from our mistakes.

What do clients served by traditional advisors really want?

A Vanguard survey of 1,750 clients served by traditional advisors found **empowerment** to be the most important attribute of clients' relationship with their advisors.

How do you get there?



Empowerment

Recommendation:

Coach your clients to
take control of their lives

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Recommendation:

Teach in parables



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BEHAVIOR | GAP

Additional resources



The Vanguard Advisor's Alpha guide to proactive behavioral coaching



The Vanguard Advisor's Alpha guide to proactive behavioral coaching



The evolution of Vanguard Advisor's Alpha: From portfolios to people

Important information

For more information about Vanguard funds or Vanguard ETFs, contact your financial advisor to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.

Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy and sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.

Mutual funds and all investments are subject to risk, which may result in loss of principal. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Investments in stocks or bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. These risks are especially high in emerging markets. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. It is possible that tax-managed funds will not meet their objective of being tax-efficient. Because company stock funds concentrate on a single stock they are considered riskier than diversified stock funds.

Investments in bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. High-yield bonds generally have medium- and lower-range credit-quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit-quality ratings. Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax. Diversification does not ensure a profit or protect against a loss.

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the Fund name refers to the approximate year (the target date) when an investor in the Fund would retire and leave the workforce. The Fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in the Target Retirement Fund is not guaranteed at any time, including on or after the target date.

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