Industry **Insights**

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Sun Life

Persuasion in the affluent sales process isn't as complicated as you might think

Four key components to develop your persuasion skills

The power of persuasion isn't something you're just born with. It's a skill you can develop. Below are the four essential components:

1. **Trust**
   A Client is more likely to recognize expertise and credibility in someone they trust, and trust requires an emotional connection. Unfortunately, research has shown that advisors frequently overestimate the connection that they have with affluent Clients. This trend has been detectable for over 20 years, and it speaks to the importance of relationship building with Clients.

2. **Credibility**
   Too often advisors rely on market performance to build credibility with Clients. However, research shows that Clients typically don't credit advisors when the markets go up and portfolio values rise. Instead, you can build that credibility by bringing research reports, outside experts, information from respected periodicals and other materials to the table. What's more, such efforts aren't subject to market fluctuations.

3. **Complementing Stories**
   It's difficult to make an emotional impact with numbers alone. That's why relevant stories can be a powerful tool to help you drive home a point. If you practice telling relevant stories so they feel natural and concise, it can go a long way to building an emotional connection.

4. **Mini-Close**
   "Can I make a suggestion?" This simple question is a great example of the "mini-close," a way to arrive at a call to action that feels more like natural conversation. Whether you're going to suggest adjusting a portfolio, moving assets or scheduling the next meeting, this approach is far more personal than many of the closing techniques you might have heard about. It moves you towards your sales goal without sacrificing the empathy you've built.

Source: Wealth Management

TAKEAWAY

Many advisors think they've mastered the skill of persuasion but have developed the habit of making classic mistakes: talking too much, not listening and using numbers without providing context. Don't overlook the value of establishing an emotional connection.

The investors are moving into your home

A culprit of Canada's affordability crisis is close to home

It's no secret that Canadian real estate is booming. Canada is among the "SCANNZ" economies (Sweden, Canada, Australia, Norway, New Zealand), which have gained notoriety because of potential real estate bubbles.

This has created a housing affordability crisis, and the victims are disproportionately the poor and the young. An entire generation faces diminishing hope of ever owning a home.

Politicians and other public figures have identified several factors including foreign investors, low supply and unusually low interest rates. These all play a part, but evidence suggests an additional factor: domestic investors.

New data from Statistics Canada show owners of multiple properties held between 29% and 41% of the housing stock in Ontario, British Columbia, Nova Scotia and New Brunswick between 2019 and 2020. They totaled 22% of all owners in Nova Scotia, 20% in New Brunswick, 16% in Ontario and 15% in British Columbia.

With increasing Canadian wealth and the low cost of debt, real estate has become the diversification asset of choice for some. With the Bank of Canada's recent 0.5% hike in the key interest rate (bringing it to 1.5%), the big five commercial banks were quick to respond by raising their prime lending rate to 3.7% on June 1st (from 3.2%). Many suspect additional rate increases will follow. Only time will tell if this (or another policy change such as a new tax) will influence the behaviour of property investors.

Source: BNN Bloomberg

TAKEAWAY

Help Clients prepare for rising costs of debt by stress testing their financial roadmap in anticipation of rising interest rates. It would be prudent to account for a potential correction in real estate values when determining a Client's net worth.

Inside the mind of the ultra-wealthy

The psychological drivers of entrepreneurship and wealth

Many books on wealth promote the stock market and investments as key means of growing assets. However, a German researcher found the most important prerequisite to becoming wealthy is self-employment. Their research revealed that households with members who are entrepreneurs are worth €2.5 million more than households without.

There are also recurring patterns in the lives, mindsets and personalities of ultra-high net worth individuals. More than one in three stated they owed between 70-100% of their success to their sales skills.

Another key habit shared by those of high net worth is how to deal with setbacks. Typically, these people take responsibility for setbacks and crises rather than trying to blame external circumstances or the actions of others. They then focus on turning the challenge into an opportunity, rather than simply trying to reestablish the status quo.

Source: [Family Wealth Report]

TAKEAWAY

Entrepreneurial thinking, sales skills and the ability to transform setbacks into opportunities are often foundations of success to reach high net worth status.

Brand familiarity applies to advisors too

Building brand familiarity has added benefits aside from growing your Client base.

Consistent presence is a key factor in marketing any brand, including that of an advisor. This is because the more we see a brand, the more likely we're to think of it as trustworthy and safe. Additionally, individual encounters with a brand's advertisements can spur action – either immediately after seeing the content or after a short interval.

Brand awareness also increases brand equity. For example, if your well-known firm decided to add estate planning or a tax practice, the brand equity you've already built will help grow the new business.

However, strategic use of advertisements is key. Avoid hounding your audience with constant messaging. Less is more, and a selective approach will yield better results. Start by identifying where you'll be most visible to your ideal audience, then establish the most effective advertisement frequency.

Source: [Investment News]

TAKEAWAY

An advisor's brand visibility - via social media, online ads or email - can help build trust with your target audience and encourage them to consider you as a safe place for financial advice. However, balance is key – don't bombard your prospects with your presence too much.

Pipeline management isn't revolutionary, but it works

How advisors can consistently advance prospects through their pipeline.

Actively managing your pipeline means regular and thoughtful contact with prospects. Here are three tips for doing it effectively:

1. **Categorize your pipeline**
   Split your pipeline into three parts based on where the relationship currently stands:
   - **Potentials –** The ideal Client, but you haven't approached them about business
   - **Prospects –** You've had a business discussion and are still working to close them
   - **Periodics –** They've decided not to move forward with you or have said "not right now"
2. **Create a "new prospect" checklist**
   - Connect on social media
   - Complete an online search
   - Make a non-business contact
   - Add a thoughtful touch (e.g., sending an article on a specific topic)
3. **Start each day by checking in on your pipeline**
   - Think about each person, the next steps and what actions need to be taken
   - Dedicate time in your routine on a consistent basis

Source: Wealth Management

TAKEAWAY

The goal is to consistently add new prospects to the pipeline, then walk them down a path of becoming a long-term, loyal Client.

Differences in how advisors and UHNW Clients think

Ultra-high net worth individuals' preferences on financial advising and investment management

A study conducted by Chubb and the Wharton School of the University of Pennsylvania surveyed 100 ultra-high net worth (UHNW) investors, family office members and key financial decision makers.

UHNW Clients view their wealth holistically, whereas many wealth managers focus largely or exclusively on the risks and returns of financial investments. This study shows that UHNW asset owners generally expect their advisors to consider additional tangible assets to be part of their investment plans.

Other key insights that emerged from the survey include:

- Of the ultra-wealthy, 87% reported seeing tangible assets as part of their wealth, while only 53% of advisors consider these assets in the same way.
- There's a 37% gap between UHNW investors who believe tangible assets should be included in their balance sheet and wealth managers who coordinate with an insurance advisor or broker to protect those assets.
- 95% of respondents with $50M+ in wealth, and 80% of individuals with $30M+ in wealth would prioritize coverage and service over price.

- The number one insurance priority for UHNW individuals is knowing that an insurance carrier has a strong balance sheet and is financially stable, followed by its ability to handle complex situations.

Source: Chubb

TAKEAWAY

UHNW individuals face complex risks and are looking for guidance from those who understand the complexity of their wealth. Wealth managers should consider working with insurance advisors, brokers and carriers who specialize in UHNW Clients to ensure they're covered more holistically.

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Younger Canadians are ready to track financial goals and invest

They're financially engaged but may lack investment know-how

Pollara Strategic Insights conducted a recent study of 1,500 adult Canadians for BMO. They found that 62% of Gen Z respondents (age 18 – 25) and 54% of millennials (age 26 – 41) reviewed their goals at least quarterly. In line with that finding, younger respondents were more likely to invest than put their money in savings accounts, compared with older respondents.

However, those who primarily held cash said they did so because they didn't know how to invest (49% of Gen Z and 39% of millennials). The survey found that 18% of Gen Z and 10% of millennial respondents sought professional advice for the first time during the pandemic – likely because of life changes in some cases. One-third of Gen Z respondents (33%) and just over one-fifth of millennials (22%) admitted they referred to financial influencers and social media for their investment decisions.

Source: Investment Executive

TAKEAWAY

Millennials and Gen Z are both looking for professional advice for their financial decisions. Along with teaching younger Clients about investments, advisors should also help them plan.

What's involved in a reasonable effort to find an heir?

Important steps in the task of an executor.

Being the executor of an estate comes with many different responsibilities, including notifying heirs. Finding heirs can be challenging, though online resources have helped make it easier. Estate law requires that executors make reasonable efforts to locate heirs. However, the law doesn't outline what those reasonable efforts entail. Still, there are steps executors can take to avoid personal liability in case a search turns up empty but the heir ultimately re-appears.

A good practice is to document search activities, including:

- speaking with family and their friends
- searching through various personal documents and social media
- reviewing records that are publicly available
- placing ads online to find the beneficiary

In the event of intestacy, an executor must make multiple reasonable inquires to find heirs. They need to consider there are unknown children that could inherit the estate, or if there could be heirs in other countries.

In the case of a deceased beneficiary, executors need to follow directions on who that portion of the estate should pass to instead. If there are no directions, it'll likely be distributed among the other heirs.

After making all reasonable efforts to find a missing beneficiary, executors have options to help you avoid liability. As appropriate, they can apply to the court to get declarations, orders or directions.

Note: Advisors must not act in a representative capacity for a Client, including as executor. Exceptions may apply if the Client is a related person and the advisor ensures that they have no conflict of interest in the exercise of such role.

Source: [Advisor's Edge]

TAKEAWAY

Reasonable efforts to find heirs can take a lot of time, research and money. Executors should ensure they're using all sources at their disposal to avoid personal liability.

Build Clients' confidence by having a security guide

Be proactive about cybersecurity

According to the 2021 Edelman's Trust Barometer, more than two thirds of Canadians are worried about cyberattacks. What can you do to protect your firm and calm the worries of Clients?

Your firm should have a security guide and include it in the onboarding process. Use your security guide to tell Clients about the measures you've taken to keep their information secure. Write this guide in clear language, avoid any jargon and provide examples of what interactions will look like.

Here are six questions to answer in your security guide:

1. What methods of communication you'll use and when you'll use them.
2. What questions you will and won't ask.
3. What number to call to report suspicious transaction inquires.
4. What method you'll use to verify sensitive requests.
5. What are extra security measures used (e.g., two-factor authentication).
6. What your continuity plan is in case of a cyberattack.

Additionally, you should be able to quickly address Clients' security concerns. By reinforcing security, you'll help boost Clients' confidence and comfort.

Source: Investment Executive

TAKEAWAY

Create a security guide to enhance Clients' confidence in your security measures.

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Is portfolio diversification harder than it used to be?

The unintended impact of globalization

Today there are tens of thousands of mutual funds and exchange traded funds available to retail investors. Funds from far-reaching locales or exotic fund factors involving niche industries are available alongside domestic offerings. You might think this unprecedented access to world equity markets would make diversification easier, but is that really true?

According to a recent study by CFA Institute (CFA), globalization has increased asset correlations across borders. Asset correlation is the degree to which two assets move in sync with one another. At its most extreme, a correlation of -1 means the assets moved in the exact opposite direction over the measurement period. A correlation of +1 means the assets moved in lockstep. CFA measured the correlation of key indices across various countries (e.g., S&P 500 in the USA, FTSE 250 in the United Kingdom, the DAX in Germany) with data stretching back to the 1980s. As expected, they found some indices were more correlated with others, likely because of an intertwining of industry and economy. But what's most intriguing is that all the correlations between all the indices in the study increased over time.

Where the average correlation coefficient was once 0.25 in 1980, it grew to 0.30 in 1990, 0.59 by the 2000s, and sits at 0.70 in 2022. Over that time, the minimum correlation coefficient rose from -0.51 to 0.37, meaning investors had little opportunity to diversify their portfolio by selecting international indices.

Moving forward, many experts have speculated that globalization could recede due to current trends in global affairs. This could force some countries to bring supply chains closer to home. If this happens, global stock market indices could become less correlated. For now, however, correlation remains a challenge to healthy diversification. Consider looking beyond purely geographical diversification in Clients' portfolios. Considerations could include diversification among sectoral groups and industries, growth/value tilts and small and large cap factors.

Source: CFA Institute

TAKEAWAY

Despite unprecedented options available to the retail investor, globalization hasn't made portfolio diversification easier. A variety of strategies should be considered to ensure diversification, including spreading across sectoral groups, growth/value tilts and others.