

# Quilter

## Adviser Delta

*Helping advisers to demonstrate  
their true value*







## Introduction

*One of Quilter’s core beliefs is in the value of face to face professional advice. We fundamentally believe that customers receive better outcomes by engaging with a financial adviser and building a long-term plan that is managed through an ongoing relationship.*

With the entire financial services industry focused more than ever on articulating and demonstrating the value that it offers to customers, we want to ensure that customers have a full and clear understanding of just how much value they get from working with a financial adviser. We are doing this by defining and quantifying that value, and then arming advisers with the knowledge, tools and resources to articulate it effectively.

## Introducing Adviser Delta: part of Quilter’s ‘Valued Adviser’ initiative

*Adviser Delta is part of Quilter’s overall ‘Valued Adviser’ initiative to support you in demonstrating and articulating your value. It is our response to the challenge of things like MiFID II, with its increased focus on cost.*

Our intention through Adviser Delta is to help show the value that you add to your clients, both emotionally, and empirically. ‘Delta’ is the Greek symbol for change or difference, and therefore we feel it is an appropriate descriptor to help describe the impact of something, in this case of financial advice and planning.

Adviser Delta aims to focus on advice, rather than product alone, to compare the tangible (and less tangible) benefits advised customers receive versus unadvised consumers. This summary document for advisers provides a snapshot of the broader research paper, which is available on request from Quilter.



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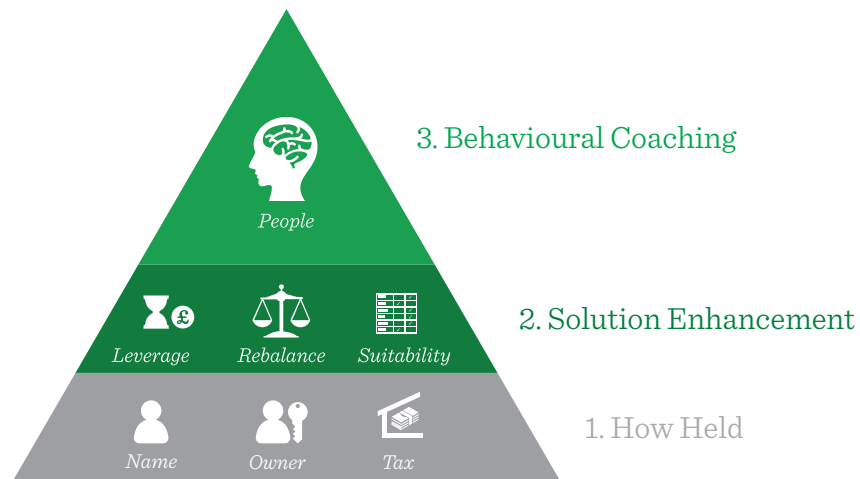




## What makes up ‘Adviser Delta’?

Adviser Delta is comprised of three elements:

1. How Held
2. Solution Enhancement
3. Behavioural Coaching



### 1. How Held

How the money or asset is held: whose name it is in, the ownership (and who will benefit from it) of the asset, and the tax treatment of any wrapper or tax shelter it is placed in. This is the ‘underpin’ of advice and hence is shown at the base of the Delta.

### 2. Solution Enhancement

The ‘extras’ that a customer gets because they implemented a solution with your help. For example, collective buying power to leverage price or obtain product enhancements; the impact of properly managed portfolios in terms of asset allocation, diversification, rebalancing and monitoring; and ongoing suitability.

### 3. Behavioural Coaching

The value you add by ensuring your clients do the right things, at the right time, to realise their financial goals. For example, stopping them over-trading; preventing them from panic selling; reassuring them that no action is required; creating a financial plan rather than a series of unconnected actions; being a trusted source.

By looking at all the activities you typically undertake for your client in each of these three elements, and comparing this to the actions a typical unadvised investor might take (as confirmed through our research with Boring Money in 2018), we are able to calculate a Delta figure that shows the difference advice makes.

**It's important to note that the Delta figure will clearly vary from customer to customer depending on their unique personal circumstances.** Our long-term aim with Adviser Delta is to look at a range of customer profiles and scenarios to examine the impact of advice, and ultimately to provide tools and resources for you to work through with your own clients.

Clearly, given the range of individual customer outcomes possible across the investable universe, our conclusions are based on our research and analysis of the advice process. Accordingly, it should be noted that past performance is no guarantee of the future and that real-world customer outcomes may be higher or lower than those stated in the research paper. Furthermore, the actual advice process applied by a given adviser can vary, potentially diminishing or augmenting the portfolio the characteristics discussed.

**Nothing whatsoever in our Adviser Delta research paper constitutes personal financial advice and no part of it should be taken as a guarantee that any investment will outperform any other.**



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## Summary of key findings

*In June 2018 Quilter commissioned external research company Boring Money to examine the holdings and behaviours of individuals who hold investment products (over and above bank accounts) but who did not take financial advice in the selection of those products and do not take any ongoing advice as to their management.*

The research from Boring Money and our own research with professional financial advisers suggests that most unadvised investors:

- ▶ tend to treat different pots of money differently
- ▶ have stocks and shares, and these are often held in ISAs
- ▶ are less likely to hold pensions (outside the workplace), and those who did were more likely to be invested in funds
- ▶ tend to pay little or no attention to the name, ownership and tax shelter under which their assets are held.

In terms of the construction and maintenance of portfolios, the Boring Money research showed us that unadvised investors tend to hold undiversified, equity-heavy portfolios which are very high risk, but these customers are often not adequately rewarded for the risks they take. We found seven characteristics that tend to decrease the return potential of unadvised investors, and five that also tend to increase their investment risk levels, as shown below:

TUIP Characteristic	Impact on Return Outcome	Impact on Risk Outcome	Adviser Delta Element
Lack of Equity Diversification	← Decreases Return	→ Increases Risk	Solution Enhancement
UK Bias	← Decreases Return	→ Increases Risk	Solution Enhancement
Lack of Asset Allocation	← Decreases Return	→ Increases Risk	Solution Enhancement
Lack of Pound Cost Averaging	Mixed	Mixed	Solution Enhancement
Buying 'Attention-grabbing' Assets	← Decreases Return	→ Increases Risk	Solution Enhancement
Non Rebalancing	← Decreases Return	→ Increases Risk	Solution Enhancement
Overtrading	← Decreases Return	N/A	Behavioural Coaching
Panic Selling	← Decreases Return	N/A	Behavioural Coaching

*Characteristics of a Typical Unadvised Investor Portfolio (TUIP), and impacts on return and risk outcomes.*

**As a result of this research into unadvised investor behaviour, we believe that most unadvised customers who currently build their own investment portfolios would experience better financial outcomes if they:**

- ▶ took professional financial advice on how to hold their assets in the most appropriate way
- ▶ invested in the way usually recommended by professional financial advisers
- ▶ built a trusted relationship with a professional financial adviser and followed their advice on an ongoing basis.

We recognise that a client's personal situation (e.g. life stage, wealth, and income) could increase or decrease the Delta figure greatly. In terms of quantifying this value for Adviser Delta, given the possible range of individual customer outcomes, our conclusions are based on our research and analysis of the advice process. We have attempted to identify the likely impact on the customer relative to the outcomes they would probably experience if they took advice. Where possible, we have quantified these impacts within a range, and used an 'averaging approach' for each element of the Adviser Delta figure so that it is displayed as a yearly equivalent.



## Summary table of the three elements of delta for a typical unadvised client:

### 1. How Held

Typical Unadvised Investor Portfolio (TUIP) Characteristic	Return Outcome Impact* Minimum <i>*if unadvised client had utilised already</i>	Return Outcome Impact* Maximum <i>*if unadvised client was either a higher rate tax payer or had assets that are impacted after nil rate/allowances (may be more for 45% tax payer)</i>	Return Outcome p.a. Relative rate for example client
Bank account Personal Saving Allowance	0%	40% of interest up to £1000 p.a. if placed in lower rate partner's name	0.0%
Pension balancing	0%	20% tax saved on income a retirement by adding to smaller funds or partner	0.26%
Joint ownership for CGT allowances (non ISA)	0%	20% of growth for higher rate tax payer	0.0% <i>- not included in this example</i>
Trusts to reduce IHT	0%	40% of inheritance taxation	0.35%
Pension	0%	40% of tax relief when a pension was otherwise not considered by unadvised client	0.0% <i>- not included in this example</i>
CGT harvesting / Bed & ISA	0%	20% of growth for higher rate tax payer	0.24% <i>- (assumes 3% growth)</i>
<b>TOTAL</b>	<b>0%</b>	<b>n/a</b>	<b>0.85%</b>

### 2. Solution Enhancement

Typical Unadvised Investor Portfolio (TUIP) Characteristic	Return Outcome Impact* Minimum <i>*reduction or limitation to overall return potential when compared against an advised equivalent</i>	Return Outcome Impact* Maximum <i>*reduction or limitation to overall return potential when compared against an advised equivalent</i>	Return Outcome Impact Midpoint
Lack of Equity Diversification	0%	3.12%	1.56%
UK Bias	0%	4.4%	2.2%
Lack of Asset Allocation	0%	1.42%	0.71%
Lack of Pound Cost Averaging	-0.22%	0.23%	0.005%
Buying 'Attention grabbing' Assets	No estimate available	No estimate available	n/a
Not rebalancing	0%	0.35%	0.175%
<b>TOTAL</b>	<b>-0.22%</b>	<b>9.52%</b>	<b>4.65%</b>



### 3. Behavioural Coaching

Typical Unadvised Investor Portfolio (TUIP) Characteristic	Return Outcome Impact* Minimum <i>*reduction or limitation to overall return potential when compared against an advised equivalent</i>	Return Outcome Impact* Maximum <i>*reduction or limitation to overall return potential when compared against an advised equivalent</i>	Return Outcome Impact Midpoint
Overtrading	0%	1.03%	0.515%
Panic Selling	0%	0.44%	0.22%
<b>TOTAL</b>	<b>0%</b>	<b>1.47%</b>	<b>0.735%</b>

#### Summary of the three elements of Delta

Typical Unadvised Investor Portfolio (TUIP) Characteristic	Return Outcome Impact* Minimum <i>*reduction or limitation to overall return potential when compared against an advised equivalent</i>	Return Outcome Impact* Maximum <i>*reduction or limitation to overall return potential when compared against an advised equivalent</i>	Return Outcome Impact Midpoint/ example client
How Held	0%	n/a	0.85% p.a.
Solution enhancement	-0.22%	9.52% Quilter modelled estimate	4.65%
Behavioural coaching	0%	1.47%	0.735%
<b>TOTAL</b>	<b>-0.22%</b>	<b>9.52%</b>	<b>6.235%</b>

The figures shown are the summary of our extensive research of over 40 academic papers. In each of the characteristics listed, we noted the research with the lowest impact figures (return outcome impact Minimum), as well as the highest figures (Return outcome impact Maximum), and chose a mid point as our chosen basis for Delta.

Given that some of our conclusions are based on client scenarios, we expect Adviser Delta to be an ongoing research topic, where we test our assumptions and build our knowledge through ‘real world’ application of the concepts with advisers and clients.

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## Adviser Delta – a case study

### Meet Sam

- ▶ Age 43
- ▶ Married
- ▶ 2 young children
- ▶ Higher rate tax payer (with large pension fund)
- ▶ Partner is lower rate tax payer (with small pension fund)
- ▶ 22 years to intended retirement age
- ▶ Estate over £1 million



Stay invested/inertia breakers/do nothing?	0.74%	} 4.04%
Investment solution enhancement	2.45%	
Bank interest/CGT harvesting/Allowances/Shelters	0.24%	
Single/joint/cross proposed/Trust?	0.35%	
Name?	0.26%	

### How Held

By ensuring Sam's assets are in the right name, ownership and tax shelter he can legally and ethically reduce the amount paid to HMRC. For example, exploring whether to top up his partner's pension provision rather than only his own, produces an annualised Delta of 0.26%. Getting Sam to sign a simple nominee's form to ensure the right ownership of those assets produces an annualised Delta of 0.35% until his expected mortality, whilst doing some 'Bed & ISA-ing' which Sam had never considered before creates a Delta of 0.24%. So, an annualised Delta for Sam of 0.85% purely through his adviser making sure that his money was in the right name, ownership and tax shelter.

### Solution Enhancement

Sam holds a typical unadvised portfolio, with 5 of the 6 characteristics identified through the Boring Money research. By placing Sam's savings in a properly structured, well-diversified and regularly rebalanced multi-asset solution, in this instance the adviser creates an annualised Delta of 2.45%.

### Behavioural Coaching

By mentally anchoring Sam's objectives to a financial plan, and ensuring he remains invested through market downturns and avoids some of those common behaviours exhibited by non-advised investors, the adviser creates an annualised Delta of 0.74%.

So, taking into account Sam's circumstances, his existing holdings and behaviours, his expected retirement age and his expected mortality, **we can show all the elements that create an individual Adviser Delta for Sam of 4.04%.**

As we have said repeatedly, a client's personal situation (e.g. life stage, wealth, and income) will increase or decrease the Delta figure greatly, and we intend to continue to test our assumptions and build our knowledge through further 'real world' case studies.



## So how do you take this forward?

*As part of our Valued Adviser initiative, we have built digital ‘Valued Adviser hubs’ that contain a range of resources to help you express the value of your service and build even greater trust with your clients.*

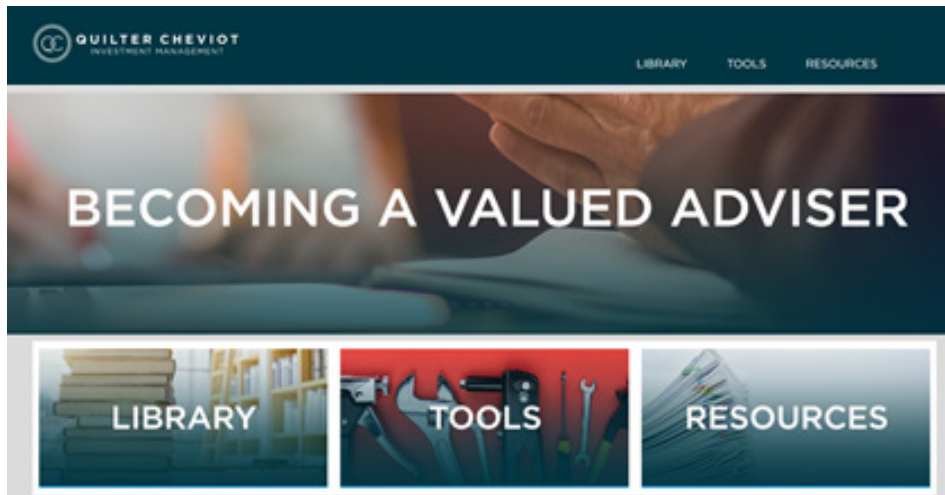
The adviser hub can be accessed through Quilter Cheviot’s website:

<https://www.quiltercheviot.com/guide-to-bespoke-investment-management/valued-adviser-home-page/>

Intrinsic advisers and Quilter Private Client Advisers can view the material on their adviser Extranet sites.

On the hub you will find a range of resources, tools, client facing materials and thought provokers to help you articulate and amplify the value of your advice. The key differentiator being that the client facing elements are ready for you to use with your own brand - immediately.

For ease of access, we have three areas for you to visit – Library, Tools, and Resources.



### 1. Library

This is where you will find videos, resources, learning tips and papers referring to the themes of Adviser Delta, Trusted Advisor and Behavioural Economics.



## 2. Tools

This is where you will find a wealth of client-facing tools to help you articulate your value to clients. They are ready to use in your own brand, and have been built using the foundations of Adviser Delta, Trusted Advisor and Behavioural Economics throughout. They have been created with financial advisers and planners, and are proven to have impact with clients.

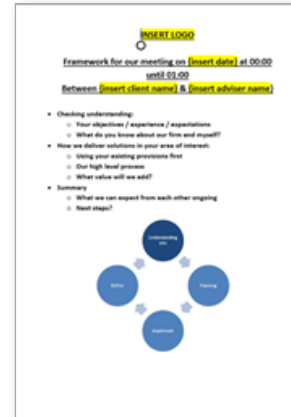
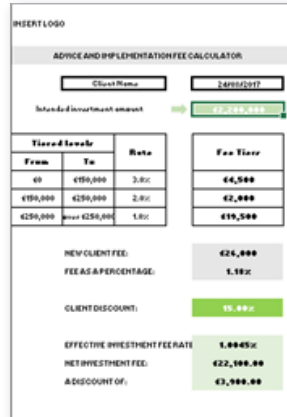
They include:

- ▶ client meeting frameworks (new and existing clients)
- ▶ client-facing fee calculators
- ▶ a link to a site that gamifies three core elements of advice


## 3. Resources

This is where you can find the research papers and other useful information relating to the value of advice. Like all the other areas of library and tools, we will add to these on an ongoing basis to build an even stronger resource centre for you.

We hope these resources will help you articulate and demonstrate the value of your advice, and help accelerate trust and credibility in the financial services profession.







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