

Research commentary

# Trust and financial advice

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*Commentary by Anna Madamba, senior research analyst, Vanguard Centre for Investor Research.*

By hiring an adviser, an investor takes a leap of faith. He or she trusts that the adviser will provide proper guidance and oversight of their finances.

Once, trust in financial institutions – and in financial advisers – was widely taken for granted. But the global financial crisis of 2008–2009 eroded many investors' confidence in the people and organisations charged with managing money.

The bond of trust you share with your clients is the cornerstone of your relationship, and of your business. Recent Vanguard research examines the role of trust in the adviser-client relationship and the factors that can strengthen or weaken it.

A brief summary follows, or [you can read the report in its entirety](#).

## The components of trust

In 2015 and 2016, Vanguard surveyed nearly 4,000 advised investors in the United States to gain insight into how trust is built between advisers and clients.

We identified three components of trust – functional, emotional and ethical. Although the emotional aspect was generally regarded as most important each component contributes to the overall assessment of an adviser's trustworthiness and a failure in any component can compromise trust.

**Functional attributes****Emotional attributes****Ethical attributes****Feedback**

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Functional attributes	Emotional attributes	Ethical attributes
industry qualifications.	perspectives.	integrity.
Awareness of trends in the markets.	Ability to relate to or make a connection with clients.	OK Having no conflicts of interest or ulterior motives.
Knowing how to conceive, execute and reassess a financial plan.	Giving clients a sense of relief and security.	Acting in clients' interests at all times.
	Serving as clients' advocate, pursuing their goals almost as if they were his or her own.	Compensated fairly.

Source: Vanguard. Note: This list is not all-inclusive. For a full list of trust attributes, [read our research](#).

## What drives trust – and what breaks it

Putting the components of trust into effect requires knowing the specific qualities or behaviours associated with each type of trust.

Our research found that being the client's advocate and acting in his or her best interest are the top two factors that determine overall trust. Each was almost twice as influential as the third identified factor – having an adviser who "is someone I can relate to." Even seemingly critical attributes such as "no conflict of interest" and "does what he/she says he/she will" scored lower in driving adviser trustworthiness.

About one-quarter of the respondents in our study had had an experience that undermined their trust in their financial adviser (either their current adviser or a previous one).

There may be multiple reasons for an investor to distrust an adviser. The reasons most commonly cited relate to investment performance and neglecting the relationship. Additional reasons given included other emotional and ethical aspects of the relationship.

**Reasons for broken trust (multiple responses allowed):**

Caused my portfolio to underperform	46%
Did not pay enough attention to me or my portfolio	44%
Steered me toward poor investment choices given my risk tolerance and goals	43%

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to achieve  
for me

OK

Did not make me feel that my  
business or  
portfolio was important

34%

Lack of timely communication

34%

Source: Vanguard. Note: This list is not all-inclusive. For a full list of trust attributes, [read our research](#).

## Building and sustaining trust

Financial advisers can employ a variety of approaches to manage trust proactively. These can involve standards of ethical and fiduciary conduct, the pricing and quality of products and services, types of compensation arrangements, and a focus on elements of emotional, ethical and functional trust embedded in their marketing and client experience.

It's not enough for financial advisers simply to do what they are hired to do. An advisory relationship needs to be continuously nurtured. Being the client's advocate and acting in his or her best interest top the list of attributes that are central to building trust.

Trust is associated with client loyalty and positive outcomes for the advisory business. It's clear, therefore, that advisers should seek to manage trust proactively.

## Learn more – and take action

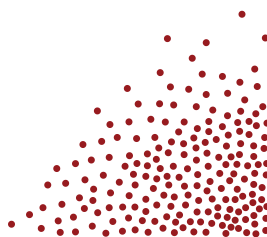
You'll find much more information on the importance of trust in the adviser-client relationship in our report.

[Download the full report](#)

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Professional advice is key to investor success. But how are advisers adapting to a complex future? Find out more and register your interest for a 2019 workshop.

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