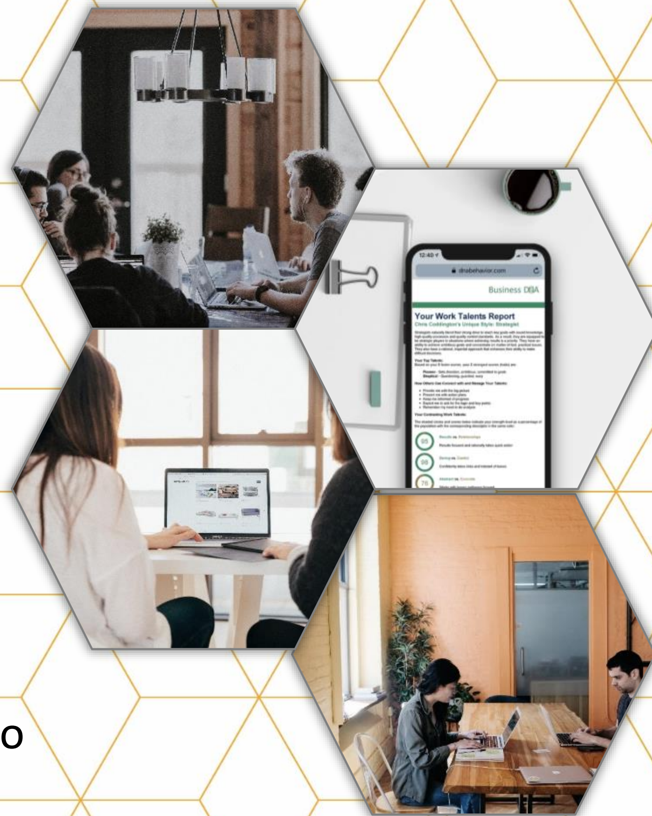

Blind Spots in Financial Advice Processes

Why Traditional Discovery Methods Lead to Flawed Recommendations

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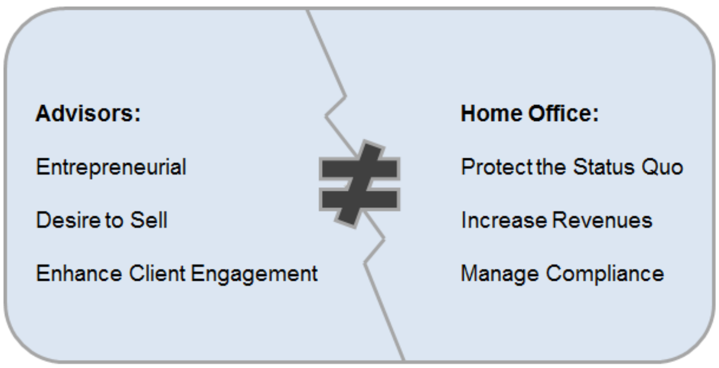
Executive Summary to Primary Paper

DNA Behavior

1. Introduction

Every financial advisory firm has a client planning process which it considers to be sound. However, it is likely that the process will have one or more key areas that are missing or are not being adequately executed with the appropriate systems.

In raising these "blind spots" we fully recognize that there is an inherent tension between enhancing client engagement, which boosts revenues, and compliance, which protects the business. Further, there is a general stress between advisors who tend to be entrepreneurial focused on sales and home offices interested in protecting the status quo but wanting more revenue. Where are the blind-spots in your firm's current advisory process causing this gap?

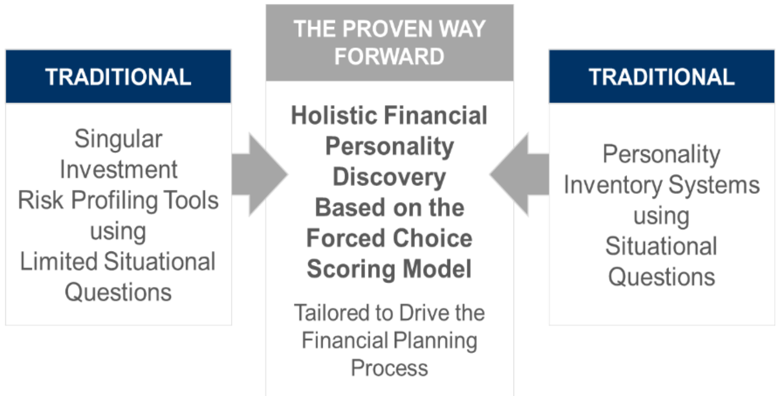


This Executive Summary to our primary white paper serves to highlight some of these critical "blind spots" that your firm should be aware of, and then recommended actions to consider.

2. Summary of the Blind Spots that Your Firm Should be Aware Of

1. The traditional fact-finding processes that your firm uses to gather financial details about the client are not likely to be enough to truly know the client.
2. Online marketing systems that gather information about a client's spending patterns and demographic data do not provide the complete picture of a client's behavior needs and how to serve them.
3. The hidden obstacle to success for advisory firms is human behavior, and this is more than just making an intuitive assessment of the client's investment risk profile.
4. Independent research shows that 93.6% of the financial planning process is the behavioral management of clients. Yet our research shows 53% of advisors invest 1 to 2 hours of time in the discovery process, and 50% of advisors spend under 6 hours in the complete financial planning process.
5. The flaws in advisory processes start with poor communication and missed expectations between the advisor and client. The consequences will flow all the way down to flawed recommendations and a lack of compliance which the firm may not be immediately aware of.
6. Investment risk profile systems used indiscriminately may not correctly reconcile the gap between the client's required investment returns, financial capacity and the preferred risk approach.
7. Having a range of model investment portfolios solely based on a risk profile does not infer an ability to make appropriate investment choices. There are positive indications from regulatory

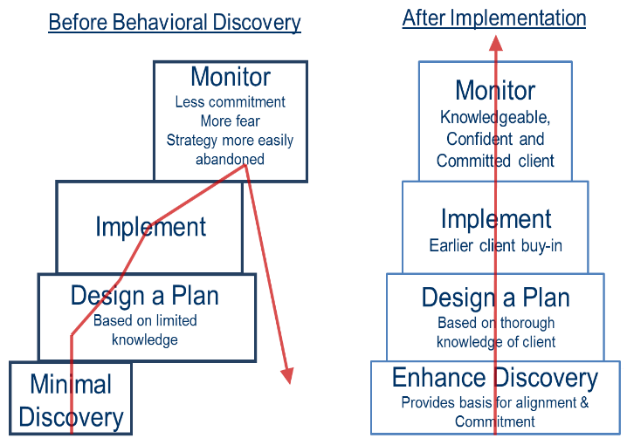
authorities that more needs to be known about the broader client behavioral biases than that which can be identified by a typical investment risk profile.



8. Advisors are over focused on investment risk as the central issue in financial planning, and are over relying on tools that are singular in nature and not reliable.
9. Bad financial habits, such as over spending or following the herd, and poor relationships can cause greater risks to a client achieving their goals than bad investment decisions.
10. Often financial advisors overly rely on client representations not recognizing that the client has a lack of personal self-awareness of who they are and their true capabilities, or what they really need or want in terms of their life and finances.
11. Advisors tend to over use their intuition shaped by their own behavioral biases and perspectives which may not be aligned to who the client is.
12. Most advisors do not have a structured process for interviewing the client that sufficiently engages and guides them to reveal their true attitudes and behaviors.
13. Typically an Investment Policy Statement (“IPS”) has been used as a means to only summarize investment related issues. Few advisors consistently use an IPS as a tool to ensure there is mutual clarity with the client in terms of their goals, financial capacity and behavioral biases which are driving the making of suitable investment recommendations.
14. What compliance procedures do get followed tend to be structured around the perceived minimum for a product sale. This has led to what can best be described as “Tickbox Compliance” whereby the goal is to satisfy an internal compliance department or, if necessary, a regulator.
15. Adopting a process with client sign-off may not be enough for compliance if the client does not understand the implications of what they are approving.
16. Technology systems may not be adequately capturing the right data and all discussions for suitability compliance.

3. Recommendations

1. We advocate the implementation of an Engagement Compliance Planning Process that is founded on human behavioral discovery management on an end to end basis. Please refer to Appendix A for the recommended model of this process. This process will meet the dual objectives of increasing client engagement (and therefore revenues) and also suitability compliance.



2. To truly understand the client requires structured processes that not only seek to communicate with the client on their unique terms but also educate them about the effects of their interaction with financial products and their own financial preferences and biases.
3. We recommend that your firm undertake an objective review of the systems it has to holistically uncover the complete financial personality style of the client. This is so that all dimensions of how a person makes decisions are understood along with what motivates them.
4. Your firm should consider establishing a formal system for how risk profiling and other financial behavior information will be used. Further the underlying assessment questions and analysis of the responses from such profiling systems needs to be reviewed. Otherwise, the principle of "wrong data in, wrong advice delivered" applies.
5. We recommend that the reports produced by such financial personality discovery systems need to have sufficient depth, but yet be easy to understand for facilitating a robust client discussion. Ideally, the reports encourage the right questions be asked of the client about their risk profile and the other behavioral factors that influence their decisions. The reports should also be understandable for the clients to improve their personal self-awareness and be educational.
6. Advisors need to have greater personal behavioral self-awareness so that they do not incorrectly influence the recommendations made to clients. The advisors natural biases need to be monitored against the recommendations they give to clients.
7. A structured behavioral interviewing process should be established which aligns the "risk behavior gap" between the core of who the client naturally is in terms of their life and financial decision-making style, including their risk profile, to their current situational behavioral attitudes and preferences, goals and financial capacity.
8. An IPS which has the right inputs from a robust discovery process and is signed off by the client should be mandatory. This should not be reduced to a tick in the box compliance step.
9. We recommend firms define a specific structure for their IPS so that the behavioral discovery process can be implemented on a consistent basis with every client, while at the same time recognizing that each person is unique.
10. A review needs to be conducted by firms of their technology systems for capturing and retaining the right data and all discussions for monitoring suitability compliance on a continuous basis.
11. Firms will need to substantially invest in training their advisors and teams to develop a far higher level of behavioral awareness for knowing and serving their clients.

4. Questions to Consider

1. Do you know the blind spots in your firm's financial advice processes?
2. Does your firm have a robust system for discovering the complete financial personality of the client and documenting all of the elements without advisor bias?
3. What financial advisory processes has your firm established that properly utilizes risk profiling and other behavioral insights in making recommendations, and getting client buy-in to those recommendations?
4. Does your firm have the systems to capture and then monitor the discussions between advisors and clients about the behavioral basis for their recommendations?
5. Does your firm have easy to use technology systems for regularly monitoring the basis of all recommendations made to clients based on who they are?
6. When did your firm last undertake a thoroughly conducted objective review of its client discovery processes in the same way that it reviews business strategy, investment, internal controls, corporate governance and other key facets of the business?
7. What steps are your leadership team committed to for growing the business in the future on a sustainable basis?
8. What training programs does your firm have for equipping the advisors to address the "soft skills" required to deliver financial advice in an engaging and compliant way?

Appendix A: Engagement Compliance System

Stage Of Client Contact	Issue	Problem Fixed Here	Result For Advisor and Client
Initial Client Engagement	Misinterpretation of client communication and learning style	Objective communication style discovery: • Segment clients based on communication and learning style • Identify tactics for customizing the client experience and work flow for different styles	Increased client engagement and participation: • Matching ideal client for individual advisor • Advisor adapt communication style to client style • Tailored advice to learning style of client
Initial Client Discovery Process	Incomplete and incorrect discovery process	Objective holistic financial personality discovery: • Identify a valid methodology that is reliable and shows true client perspective • Use proven behavioral systems that correctly interpret client financial attitudes profile and identify more than investment issues.	Enhanced behavioral self-awareness of: • Investment risk propensity and tolerance • Financial habits • Trust issues • Goals and aspirations • Behavioral finance biases
Exploring Client Suitability to Plan	Inappropriate recommendations to deep rooted behaviors, current goals and financial capacity. Also, the incorrect influence of advisor biases.	Structured discussion and documentation: • Behavioral interview • Investment policy statement • Financial product suitability	Increased client participation: • Clients are guided to solution • Clients take more responsibility for decisions • Correct alignment of financial products to client behaviors and needs
Financial Plan Monitoring	Inadequate capture of data and discussions for monitoring of client to changes in attitudes, personal circumstances and events	Compliance monitoring system enhancements: • Automatic system alerts for changes • Continuous management of behavioral attitudes • Management of advisor bias	Management of client emotions: • Proactive discussion of events on client terms • Appropriate plan adjustments made
Overall Ongoing Client Management	Poor client financial feedback loop	Sustainable growth programs: • Financial education • Financial mentoring	Sustainable Quality Life development: • Client is better positioned to understand themselves and how their financial choices are influenced by their own emotions • Deeper connection between values, life purpose and money
Summary	Cost of poor systems: • Zero tolerance for mistakes • Client financial, emotional and health issues		Benefit: • Clients are correctly advised • Clients understand the financial planning process better and more likely to make correct future decisions

	• Multiple of revenue for firm • Diversion of advisory staff from productive tasks • Increased PI insurance premiums and challenges • Negative publicity		• Increased sustainable revenue • Higher profitability