MEMORANDUM

To: IRI Team
From: maslansky luntz + partners Team
Re: Insights from the Annual Meeting, 2010
Date: December 14, 2010

Introduction

Last year, we introduced you to the Post-Trust Era. We told you that investors are more skeptical than ever before about the advice they receive from their advisors and the financial industry in general. And we explained how you can address this skepticism with a more personal approach to investors’ needs.

Over the course of 2010, we’ve conducted a number of Instant Response dial sessions with both retirees and pre-retirees. And we’ve seen a definite shift in mood. The anger toward the financial industry has started to recede as memories of the bailouts and bonuses fade. Investors have begun to move to a “recovery” mentality, and are ready to start considering more investing and income-generation techniques.

But that doesn’t mean a return to business as usual.

The Post-Trust Era is alive and well. And it’s not going away anytime soon. The days of investors handing control over to their financial advisors are over. They want more personal involvement and engagement at every level of the investment process, and the financial industry has to adjust to meet these new needs.

To succeed, financial services firms and advisors need to be aware of investors’ changing preferences, the reasons behind them, and how to respond to them with messages and products that address and overcome their skepticism.

In short, it’s time to RE-DEFINE your relationship with clients. The bar has been raised, and expectations are higher than before. They want to feel like they are getting more communication, more education, and more collaboration. They want to feel in control of their retirement and their investments – and they want you to help.

They don’t expect you to have all the answers. In fact, that’s one of the defining features of the Post-Trust Era. They don’t believe anyone can have all the answers. But they do expect you to work with them to find the right answers for me.
As investors begin to shift away from a “post-collapse” mentality to this new “recovery” mentality, these two beliefs have begun to define their approaches to advisors and investing moving forward. These beliefs frame every decision retirees and pre-retirees make, and they define what it means to be an investor in 2010 and beyond.

1) **“It’s bigger than you and me. It’s all about ME.”** Comedian Stephen Colbert’s comment is a spot-on description of how people that are near or in retirement feel today. It’s not about healthcare for the uninsured; it’s about Medicare for ME. It’s not about leaving money for my children; it’s about having money for ME. It’s not about putting my grandkids through college; it’s about ME not outliving my money. They feel they’ve worked hard and have done their part. In many cases, they feel as though their hard work has now been squandered. Now it’s time to think about themselves.

   **“You need to know about ME!”**

2) **It’s emotional not rational.** If you think this is about giving “just the facts” you are mistaken. If you think you have a monopoly on the truth, you are wrong. This is no more a rational discussion than equities are a rational market. Emotion rules and the key to connecting with skeptical consumers is to understand where they are emotionally before you start to bombard them with numbers and statistics.

3) **Close the gap.** There are many advisors and financial services companies who spend tremendous amounts of time educating their clients, listening to their needs and trying to keep clients in the loop. And many of those clients will say that they aren’t getting the education, communication or control they want. And therein lies the rub. Your reality and your client’s perception are often not the same. The challenge for advisors and financial services companies is to try to close the gap. To use the right language and the right techniques to ensure that your effort is not lost on your clients and prospects so that they will “feel” like they are getting what you are giving.

4) **The only thing certain is uncertainty.** These investors have been disabused of the notion that there are certainties and absolutes when it comes to the market. There is no such thing as a sure thing. The market may be recovering. The economy may be improving. Banks may be giving loans again and people may be getting their jobs back. But these jaded, skeptical consumers know that for every piece of good news there is potential for really bad news. They no longer believe that anyone can predict the economy, the stock market, the job market... or much anything else. And that means that even a strong recovery in the market won’t equate to a recovery of trust.
“Yeah, I get financial advice...
I use an advisor, the newspaper, and the Ouija board.”

This new “recovery” mentality demands a new approach to how you communicate with these customers. With a new, skeptical mindset, they are reevaluating the financial industry and their advisors, their attitudes toward retirement, and their investment strategy.

This document is meant to give you an overview of how to recognize and address investors’ shifting attitudes toward investing and retirement. The findings below are based on a live research session with 24 retirees and pre-retirees conducted at IRI’s annual meeting in Chicago. But they also draw on a much larger body of research we have conducted in the financial services industry over the past five years and especially in the last eleven months.

We tested a series of messages with our participants and allowed them to respond on a second-by-second basis to the messages using handheld dials. These dials register the users’ visceral responses to messages, giving us insight into what resonates on an emotional level with investors and what turns them away. In certain sections you will see boxes marked “language to use” or “language to lose.” The messages inside these boxes are the actual messages tested during this session and represent approaches that we recommend using or avoiding in future communication efforts.

ATTITUDES TOWARD ADVISORS

Talking to investors about their advisors offers an insightful window into investor opinions of the financial industry as a whole – without the added baggage of bailouts and bonuses. Relationships with individual advisors help define investor attitudes toward and confidence in investing in today’s market.

1. **There’s no “we” in investing.** Investors greet anything advisors tell them with increased skepticism. Especially in the wake of the financial crisis, they believe that advisors will put aside what’s best for the individual to help boost profit margins or to fill a quota. Any talk of market trends or historical behavior only heightens this suspicion. They simply do not believe that advisors have their best financial interests at heart.

   “Most advisors just sell what their boss or their firm tells them to sell. It’s not about what’s best for me.”
2. **But there is an “I.”** As we’ve already indicated, investors are focused on the bottom line too – their own. That means they won’t rely as much on advisors as they have in the past. We told you last year that investors had begun questioning the skills of their advisors, and would change if the opportunity presented itself. In many ways, that opportunity has presented itself, but it has come from an unexpected source: me. Investors still want a relationship with their advisor, but until they rebuild some of that lost trust, they are going to rely more on their own research skills and less on advisors’ recommendations.

“The bottom line is ME. I’m the one who’s going to win or lose, whatever they say. So I’ve got to look out for myself.”

“I used to rely on financial advisors for 80%, and did my own research for 20%. Now that’s totally reversed.”

3. **Relationships with advisors are deepening.** None of this is to say that investors have stopped talking to advisors. In fact, just the opposite appears to be true. Most of the retirees and pre-retirees we’ve talked to this year say they’re have MORE conversations with their advisors, and that they’re considering many old, new, and different investment strategies to get their portfolios back on track.

4. **But that doesn’t mean trust is growing.** Unfortunately for advisors, most investors we spoke with don’t see much added value in these conversations. As we mentioned above, they think their advisors are continuing to rely on “the same old strategies” to investing and retirement. They’re ready for some new thinking.

“Most of my advisors are still pushing the same old investment strategies on me. I mean, hello – have you seen what’s happening out there??”

5. **Education vs. Sales.** Education has always been an important part of the financial advisors’ role. Today, the nature of education is very different than in the past. The key to building trust with a skeptical audience is to acknowledge and address their skepticism. Talk about the negatives of a strategy or product before you talk about the positives. Inform them about why others might reject a strategy before explaining to them why you believe they should accept a strategy. Educating a skeptics is about more than just giving them as many positive facts and arguments as you can muster. Instead, it is about painting a complete picture of the pros and cons and then helping your client make their own decision. Retirement-age investors see education as a valuable product an advisor can provide—but they want a more balanced approach to education than in the past.
“The word ‘advisor’ makes me think of ‘educator.’”

“Nobody can predict the stock market, so I want an advisor that can give me more alternatives.”

6. **“Listening” + personalization = success.** Listening has always been an important part of the financial advisors job. Today it is more important than ever. It seems that every investor believes their situation is unique, whether or not it is actually true. And every client wants to feel that the investment strategy is built around a deep understanding of the client. In some cases, this requires substantive personalization – in other words, actually creating a unique investment strategy. More often is requires communication personalization – the act of communicating the strategy in a way that demonstrates a link between the client’s goals and the investment strategy’s objectives.

The problem many advisors have is **not** that their strategy is cookie-cutter. The problem is that they make it sound cookie-cutter in the language they use.

- Advisors should not only listen to clients but should be explicit and say: “I want to take some time to listen to your changing situation.”
- Once a recommended strategy is developed advisors should connect each element to the client’s situation. “I have chosen this asset allocation because you told me you are comfortable with this level of risk in seeking optimal performance...”
- And advisor’s should be clear: “I recommend this strategy because I believe it makes sense for you given what you have told me about your situation.”

In this way, advisors communicate the essential elements clients seek from their financial advisor.

“They’ve got to know what your goals are. What your needs are. They’ve got to be good listeners. I don’t want someone to come in and sell and sell and talk and talk.”

“I’m looking for someone who’s really going to listen to me, not to take a cookie-cutter approach.”
ATTITUDES TOWARD THEIR OWN RETIREMENT

7. **There’s no such thing as a sure thing anymore.** It used to be that when people thought about retirement the images included sailboats and beach houses—where they would go and what they would do with their free time. Now, even after a significant improvement in the market, they worry. They stop thinking about 55 and start considering 65. Some even wonder if they will ever be able to retire at all – let alone whether they’ll have anything left over for their children. In this environment, anything that talks of a guarantee or financial security will be greeted with enhanced skepticism.

“When I think about retirement I think about having less than I have now. That’s just the way it looks.”

“It’s always a crapshoot no matter what.”

8. **“Retirement income” is not top of mind.** Despite all the advertisements that focus on retirement income for life and all the advice retirees may hear about income, the notion of “retirement income” is still somewhat foreign to pre-retirees and retirees alike. It is not that retirees don’t have income; it is just that they don’t necessary think of it as income in the way financial services companies do. They think about dividends. They think about their budgets and spending their money carefully. But do they think about all of their sources of income and how they can generate enough of it to cover their expenses each month? The answer is, not really.

“Well, I’m getting dividends. And I’m pretty diversified. But I don’t really have an income-generation strategy, no.”

“The day I retired I switched from being a long-term investor to being a long-term protector.”

9. **The clouds are beginning to clear.** Especially among more affluent investors, there’s a growing sense that the worst is behind them. They’ve weathered the storm, and they can breathe a small sigh of relief. Although they’re still not sure they want to dive back into the markets, they can at least see their retirement again. And that’s a step in the right direction.
ATTITUDES TOWARD INVESTING

10. **It’s a rollercoaster out there.** They’ve been watching the markets. They’ve seen the recovery of the last year. But they’ve also seen the volatility that’s accompanied the general upward trend. So while they know there’s great potential to make a lot of money back in today’s market, they’re still terrified of unexpected dips and drops.

> “Right now I feel like I’m in the Las Vegas Stock Exchange, not the New York Stock Exchange.”

11. **Political uncertainty is holding people back.** A year ago, the big banks were still weak, the results of the auto bailouts were uncertain, and the political conversation centered around whether and when to provide more stimulus. Today, the Tea Party is ascendant, and the economic conversation in Washington is where and how much to cut. All of this political volatility has not helped instill confidence in the markets, and because no one is quite sure what the new order in Washington will bring—or whether the game will change again in two years—they’re holding back on a firm investment strategy.

> “I’m not doing anything until after the election. And even then I need to see what the politicians are doing before I decide what to do with my money.”

12. **Avoid extremes and absolutes.** Extreme approaches fail. Every time. Too optimistic—not credible. Too pessimistic—not credible. Too absolute—not credible. These skeptics reject the promises of easy riches and the threats of fear-based selling. They reject the idea that anything can be 100%—or 0%. They find messages that use shades of gray and “in betweens” to be much more credible than messages that are black and white. Below is an example of extreme very candid language from a hypothetical advisor to her client that simply goes too far.

When you, either in your 401K, or IRA, or just in your discretionary investment account, put money into things like treasuries or stable value funds you are effectively talking your money off the table. You are saying, “This money, I’m not going to use it to generate more money, nuh, uh. I just want to keep it safe.” But you can’t have it both ways. Either you cling to safety and when it is time to retire you DON’T HAVE ENOUGH MONEY, or, you take a little risk in stocks and go for the higher returns that will enable you to retire wealthier and yes, happier. Because
believe me, while money can’t buy happiness, being broke, is a pretty sure ticket to being miserable.

“He can’t predict the future either! We don’t know what’s going to happen. ‘You MUST do this’ just doesn’t work.”

“There’s no credibility there.”

13. **Investing for the long-term has returned.** Last year, we told you investors rejected any investment strategy that focused on “the long-term.” In the post-crisis mentality, that term signified the idea that there’s nothing you can do to erase the losses you’ve already suffered, so you may as well keep riding the rollercoaster until things turn around. And for investors terrified of losing even more money, that idea exacerbated those fears, instead of soothing them.

But now that the worst appears to be over, the mood has shifted somewhat. The initial shock has passed. Investors of all stripes have returned to the task of rebuilding their portfolios, and that means investing for the long-term. They understand the need to rebuild slowly and consistently, and they’re not expecting any short-term miracles. That means they’re more open to hearing about long-term investment strategies.

“Sometimes you just need to hear, ‘hang in there,’ from your advisor.”

“You can’t second-guess yourself. You just have to stay with it.”

14. **Expectations have tempered.** Simply put, investors don’t expect to recover all of their losses. And they’re still afraid of unexpected drops in the future. All of that means that aggressive investments and risk-taking are on the way out – conservative and protection are the new buzzwords. Retirees and even pre-retirees want more conservative, long-term investments that will help them protect what’s left of their nest eggs.

“I tell my advisor I want to look at a glorified savings account. I’d be very happy with that.”

“I’ve tended to be an aggressive investor, willing to ride the ups and downs. And I crashed and burned and hit the wall. I have to be much more careful.”

“I want slow, steady, gradual. I want to maintain the lifestyle I’ve had, now that I have time to enjoy it.”
15. **They may be more willing to be aggressive with NEW money.** That doesn’t mean risk-taking is completely gone. Although they want to ring-fence and protect most of their money, there is a small slice they might be willing to be more aggressive with. Investors know that they still need to generate some income, and we’re starting to see some willingness to use new money – dividends, side income, etc – for that purpose. It’s certainly a far cry from the gun slinging days earlier this decade, but it is a glimmer of a change.

“I’m being cautiously highly aggressive. How’s that for a tongue-twister?”

16. **People don’t like “annuities” but they do like what they do for investors.** We have seen this over and over again. People like hearing about the benefits of annuities, they turn negative when they hear the word itself. They have heard horror stories of high fees and downsides. We realize, of course, that the word must be used, but this obstacle must be overcome before investors will consider buying. In this case, focus on the benefits—the WHY—before the product itself. Here is one approach for communicating about annuities to investors that worked well:

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language to use + annuities

The point is that they can help you plan for a secure financial retirement. You should discuss them carefully with your financial advisor. Make sure you understand how they work, and how much they cost, and see if they make sense to you as a comfort to you in your later years - a time when you may well need a lot of comfort. I am a particular fan of variable annuities, because my parents bought them all throughout their working lives. And they were the best investment my parents ever made. They kept my parents in a very comfortable style in their retirement.

“There is a huge negative perception about what annuities are. If people want to sell them, they have a lot of work to do to make sure people understand them.”

“Annuities always sound nice, but you’re going to pay a fee for it somewhere.”

“There’s always some sort of major catch.”
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17. **Focus on principles, not products.** Investors understand and appreciate the principles behind annuities and other insured retirement products. Throughout our research this year, the terms “protected growth” and “lifetime income” have consistently given them a positive lens to view annuities. That’s not to say they’ll completely or instantly embrace insured retirement products wholeheartedly. They want a lot more information before they’re willing to make them a part of their investment strategy. But focusing on these benefits can open the door to a broader discussion of annuities’ place in a balanced portfolio.

> “Providing income that would outlive me? That sounds really good.”
> “It’s really important that I can’t outlive this.”
> “I need to know a lot more about this before I’ll really consider investing – how much should I invest? What’s the catch?”

18. **Annuities are PART of a balanced portfolio.** There is a RIGHT way to talk about annuities. And that’s because of the one piece of investment advice everyone remembers: diversify. Both retirees and pre-retirees want to mitigate risk and optimize growth by maintaining a balanced portfolio—and that includes putting a PART of their investments in annuities. When you talk about how annuities are a tool and a part of a balanced portfolio, they listen. They like the idea of consistent returns, even if they are small, and they feel like annuities are the closest they’re going to get to a “sure thing” in this economy. Many investors also like the idea of annuities acting as financial protection—both for them and their heirs, as in the following example.

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**language to use + realism**

These annuities aren’t for everyone, and they shouldn’t form your entire retirement strategy. But they can help cover your basic income needs for as long as you live. And they’re a good option if you want more protected, guaranteed income in retirement.

> “5% for the rest of your life sounds really good for an old retired guy. As ONE of the tools in a diversified portfolio, I think they have a place.”

> “I have annuities and they’re making 4-5%, which in 2008 was looking pretty good. It needs to be part of your portfolio.”
CONCLUSION

Investors are beginning to think again about making money. The financial crisis has left some nagging and lasting scars, but the fear is beginning to recede. The market turnaround has made people more willing to take the steps necessary to position their portfolios for the long and short term. They need smart advice and assistance to make the most of their compressed time horizons but the attributes they’re looking for in those advisors has changed; you must now be willing to engage them on their terms more than ever before.

Just as we told you last year, the most significant change in investor behavior we’ve seen is a shift toward a more PERSONAL focus. To be successful with investors today – and to earn their trust – you need to understand their personal frustrations and dreams, their individual financial situation, and their personal risk tolerance. Sometimes, that means acknowledging that annuities and insured retirement products aren’t always going to be the right answer. And it definitely means providing investors with more complete information on what annuities do and how they work. Only then can the process of reengaging investors in a product-focused discussion truly begin.

METHODOLOGY

The findings above are based on a live research session with 24 retirees and pre-retirees conducted at IRI’s annual meeting in Chicago. All participants were ages 50-74 and had $250,000 to $2 million in investable assets outside their primary residence. The group was recruited to provide a mix of retirees and pre-retirees, and a mix of Republicans and Democrats. All were recruited from Chicago metro area. Participants were presented with a series of videotaped messages and asked to provide instant, anonymous, moment-by-moment responses utilizing handheld dials. Trends and comparisons are based on similar research done around the United States with investors over the past five years.