
Advisors, investors talk past each other, says Russell report

By Editor Test Thu, Mar 22, 2012

Advisors say that clients' return expectations for 2012 are slightly higher than their own: 4.3% for a conservative portfolio, 6.5% for a balanced one and 9.3% for an aggressive one.

Advisors and clients evaluate a portfolio's performance differently, according to the *Financial Professional Outlook*, Russell Investment's latest quarterly survey of U.S. financial advisors.

The current iteration of the FPO includes responses from about 600 financial advisors working in 141 national, regional and independent advisory firms nationwide.

While 53% of advisors surveyed said they "measure performance in terms of the portfolio's progress towards meeting the client's investing goals," only 29% say clients also measure performance this way.

Instead, advisors said that clients typically gauge portfolio performance by short-term factors such as one-year returns (54%), the portfolio's absolute return (49%) and portfolio volatility (41%).

"With the market volatility seen in 2011, it's not surprising that individual investors are fixated on one-year returns and portfolio volatility. But there is little actionable value in these short-term, backward-looking measures for the individual investor," said Frank Pape, director of Consulting Services for Russell's U.S. advisor-sold business.

Most advisors (78%) were optimistic about the capital markets over the next three years (78%), but only 18% of advisors believed that clients shared that optimism. While this is higher than the 9% recorded in the December iteration of the FPO survey, it is below levels seen in early 2011.

In 2012, advisors on average expect a 3.9% return for a conservative portfolio, 5.9% for a balanced portfolio and 8.3% for an aggressive portfolio. Despite client pessimism, the advisors say that clients' return expectations are slightly higher than their own: 4.3% for a conservative portfolio, 6.5% for a balanced portfolio and 9.3% for an aggressive portfolio.

"The broad equity markets have already met or surpassed the expectations of advisors and their clients in the latest FPO, with the U.S. broad market Russell 3000 Index up 9.49%, the Russell Global ex-U.S. Index up 13.5% and the Barclays Capital U.S. Aggregate Bond Index up 0.85% year-to-date as of 2/29/12. But we are only three months into the year and anything could happen," Pape said.

Priorities differ between advisors and their clients, advisors say. Advisors are most likely to want to talk about portfolio rebalancing and asset allocation, but only 11% of advisors say clients raised this topic themselves.

Additional topics introduced to clients by advisors included portfolio performance (34%) and running out of money in retirement (30%). Clients most often initiated conversations around market volatility (56%),

government policy (49%), global events (39%) and portfolio performance (39%).

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