



*Advisor Impact* conducted the first Economics of Loyalty study in 2008 to examine the scope, depth and quality of the relationship between a client and his or her financial advisor. By 2010, following on the heels of extreme market turbulence, it was clear that an update was needed.

The study is about understanding the deepest and most profitable client-advisor relationships. There is a clear disconnect between the percentage of clients who are satisfied and loyal and the percentage who *provide referrals*. The reason for this focus is simple. *A referral is a transfer of trust*. When you think about it, it's one of the most tangible actions a client can take to tell you that they trust you.

### The Mystery of Referrals

Most advisors say referrals are an important source of new business, yet only a small percentage of clients actually provides referrals. In the research:

- 91% of clients are comfortable providing a referral but only 29% of clients provided a referral.

Cluster	Percentage of all respondents	Percentage providing a loyalty rating of 4 or 5 out of 5	Percentage who had provided a referral in last 12 months
Disgruntled	12%	59%	13%
Complacent	39%	97%	0%
Content	25%	99%	0%
Engaged	24%	99%	100%

In our view, the ideal client is the '*Engaged client*', one who meets three key criteria - one who is satisfied, loyal and actively providing referrals. Client satisfaction and loyalty simply aren't enough. Advisors need to understand what drives client *engagement* and how that is linked to client referrals or to a higher level of trust. There is a disconnect between the motivation to refer and action. Who is the *Engaged client*? What is different about the *Engaged client* and the other clients? Client *engagement* is, at the highest level, characterized by two things:

- Working with the right clients and
- Having the right conversations and questions

Client *engagement* starts with the right 'fit'. As an advisor, it's important to work only, or primarily, for those clients for whom you can do your best work. That fit likely includes such factors as adding real value, choosing right investment style and a strategy that clients understand and agree to. Financial planning, for example, plays a substantial role among the most *engaged* clients. Over 64% of *Engaged* clients say they have a financial plan, compared to 44% of other clients.

### Having the Right Conversations

Sixty-eight percent of engaged clients say they expect regular financial planning reviews. By and large an *Engaged* client's advisor not only delivers, but typically exceeds expectations of their client. Therefore, *Engaged* clients have stronger personal relationships with advisors.

### Increasing Referrals

Despite the fact that 91% of clients say they are somewhat or very comfortable providing a referral, only 29% actually provided a referral. We describe this challenge as a "*referral gap*" or a '*motivation gap*'. Clients need to spot a good referral opportunity. It might be when:

- speaking with a friend who has lost a spouse,
- a colleague who is selling a business,
- a tax problem or legal problem arises
- a family member who is going into retirement.

These triggers the opportunity for a referral. All clients should become an *Engaged* client. Why? They expect service way above the norm. This will apply to most other professions: dentistry, legal, financial, accounting, etc. An *Engaged* client may be helping out their financial advisor with a referral but *indirectly* they are also helping out themselves by *expecting* superior services in return.

**Question:** *Some 40 years ago, the seeds of the "financial planning" profession began. Since then, mainstream media has seized the air-waves. The media keeps the focus on hot daily items that ill-serve the average client. As an industry, how can we create a more balanced conversation?*

**Answer:** The mainstream media are the mortal enemy of a long-term planning perspective. (They cover the news, which is antithetical to the truth.) My advice is simply to man your oar. I don't care what "the industry" does any more than I care what the media do. The "industry" created *sub-prime mortgages* - need I say more? You can't make a deal with the devil.

1. The media, which does not know you, only wants to keep you reading and watching. It is **anti-counseling**.
2. The choice of who to believe is entirely yours. It is a total waste of precious time and energy to get worked up over the media.

### Review of What's Ahead

It's that time again when harried finance editors ask reporters to call investment professionals and cobble together top predictions for the coming year. These are fun to write.

But for readers, they're more entertaining a year later. Review the Barclays Capital Global Macro Survey of more than *two thousand institutional investors*. The pick for the best performing asset class in 2011 was:

- equities (with 40% support), followed by
- commodities (34%) and
- bonds (less than 10%).
- consensus prediction was a 15% gain in the S&P 500 for the year.

As we now know, the truth turned out to be rather different due to Greece, Italy, etc. Returns from commodities and equities were negative. The year-to-date return for the S&P 500 was close to zero. *Remember, these were the forecasts of the big institutional investors.*

*Barron's*, meanwhile, was telling readers this time last year that smart stock pickers were "looking eastward" in 2011. The year was to be dominated by fast growth and rising inflation, and the smart thing was to reweight toward China and other tigers. That didn't really turn out to be such a good idea, as China had another bad year. The Hong Kong Hang Seng index was down nearly 17% to early December.

The past year was dominated by fears. Given this backdrop, risk assets struggled through 2011 as the year saw a *renewed flight-to-quality theme*.

1. Bonds outperformed stocks in 2011.
2. The US stock market outperforms the MSCI World Index and the Canadian index by a wide margin, by around 10% for the year.
3. The US, Germany and Brazil outperform Japan, Spain and China.
4. Corporations continued to perform well in 2011, which helped promote high levels of dividend growth, share buybacks, business reinvestment and M&A activity.
5. Given the flight-to-quality trade that dominated 2011, bond funds saw greater inflows than did equities.

So if the experts can't get the broad asset class movements right, what chance on earth have they of correctly and consistently predicting individual stock or commodity performances? But year after year, that doesn't stop them from trying.

One prominent investment bank team was quoted by *The Australian Financial Review* last January as saying that platinum was the metal to back in 2011. As of early December, the spot platinum price was down nearly 14% for the year. On the Australian stock exchange, platinum stocks Platinum Australia and Aquarius Platinum—both recommended by the bank—had delivered returns to the end of November of -83% and -53%, respectively. Ouch!

Currencies are another variable that defy even the most assiduous forecasters. In its 2011 outlook, published in the *London Daily Telegraph* in December 2010, a major Brit-

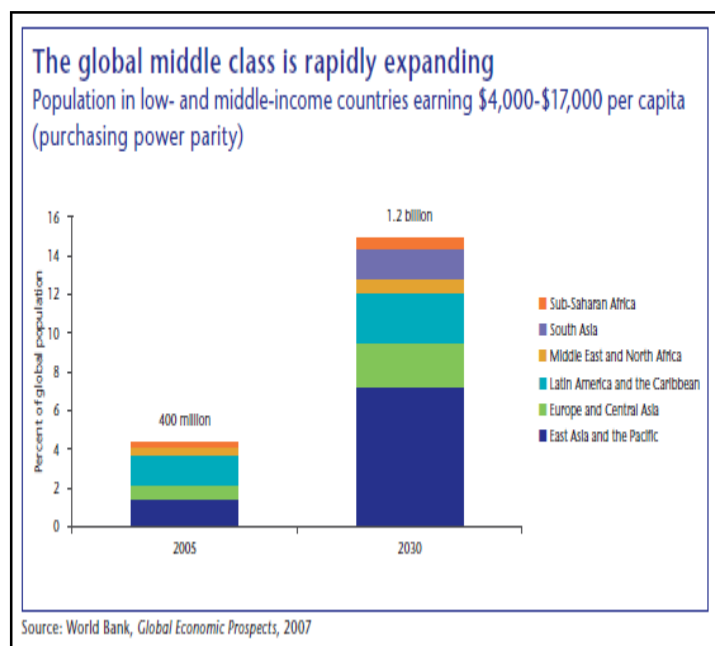
ish bank forecast sterling would be the best performing currency of the year. The banks also predicted stock markets would outperform bonds. A year later, sterling ranked only a distant fourth behind the Japanese yen, Norwegian krone, and Swiss franc.

*It's a tough business, isn't it?*

And remember these are major financial institutions with armies of expert analysts, mountains of data, and sophisticated forecasting tools. So what is an ordinary investor supposed to do? The lessons might be that:

- Forecasting is hard, particularly about the future! You can do all the analysis you want, but events have a way of messing with your assumptions.
- The second lesson is you don't really need forecasts to succeed as an investor.
- The third lesson is that the past has gone. The news may be gloomy, but that information is in the price.
- When risk appetites are low, the price of safety is higher than at other times. But the expected reward for risk is higher.

*It's human to feel anxious about bad news because we fear loss more than we like gains.* The final lesson is that nothing lasts forever. In fact, of all the forecasts ever made, the only one really worth counting on is *that things change*.



### **The Rise of the World Middle Class**

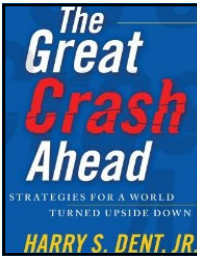
"In 2004, General Motors sold 10 cars in the U.S. for every one car sold in China; the ratio is now quickly approaching one to one, and soon China will be a bigger market than the U.S. for America's largest automaker. In 2008, Nokia, the largest cell phone maker in the world, had net sales of \$8.2 billion in China, more than three times its U.S. revenues."

*Surjit Bhalla, Middle Class Report*

Indian economist, Surjit Bhalla, found that middle class's share of the whole world's population rose from one-third to over half (57%) between 1990 and 2006. According to Mr Bhalla's calculations, the number of middle-class people in Asia has overtaken the number in the West for the first time since 1700. *Surjit Bhalla, Middle Class Report*

The enrichment of the developing societies is their emergence as consumers and ultimately as investors. The Harry Dent fallacy, which holds that the equity market in the United States must inevitably decline as the baby boomers retire and become net sellers of stocks is bogus. This assumes that the market for U.S. stocks is essentially limited to U.S. investors only, a notion which grows more patently absurd by the day. It is like saying the United Kingdom still rules. We all grew up in the paradigm where the U.S. economy carried the world, and the U.S. consumer carried the American economy.

"We're not in Kansas anymore." *Nick Murray, Advisor*



Taking advantage of government measures that encouraged such officials to go into business, he went off for a stint at China's first commodity-futures trading company. Soon afterwards he found himself designing the country's first ski resort, near the northern city of Harbin. Now, as chairman of the Nanshan Ski Village, in the desert hills near Beijing, he presides over the capital's main winter-sports recreation ground.

This season 3million Chinese will take up a sport that was unavailable in the country only 15 years ago. China has around 300 ski runs. "When the Chinese first got rich," says Mr Lu, "they wanted to go to Thailand and South Korea. Now they want to go skiing." Every weekend the resort is packed with IT executives and bankers. This is the emerging markets' new middle class at play.

**Brazilian market place...**

Casas Bahia, the country's largest retailer, is celebrating the opening of its first ever store in a favela. It is selling television sets and refrigerators in a place that, at first glance, has no running water or electricity. Among the shacks, though, rise three-storey brick structures with satellite dishes on their tin roofs. Brazilians flock to buy on installment credit. In a country with no credit history, the system is cumbersome: the staff interview customers about their qualifications and get them to sign stacks of promissory notes, like post-dated cheques, before allowing them to take their purchases home. Messy but it works.

**China's market place...**

Back in 1992 Lu Jian was a dissatisfied mid-level bureaucrat at China's department of transport and communications who became surplus.

**BUFFETT ON GOLD**

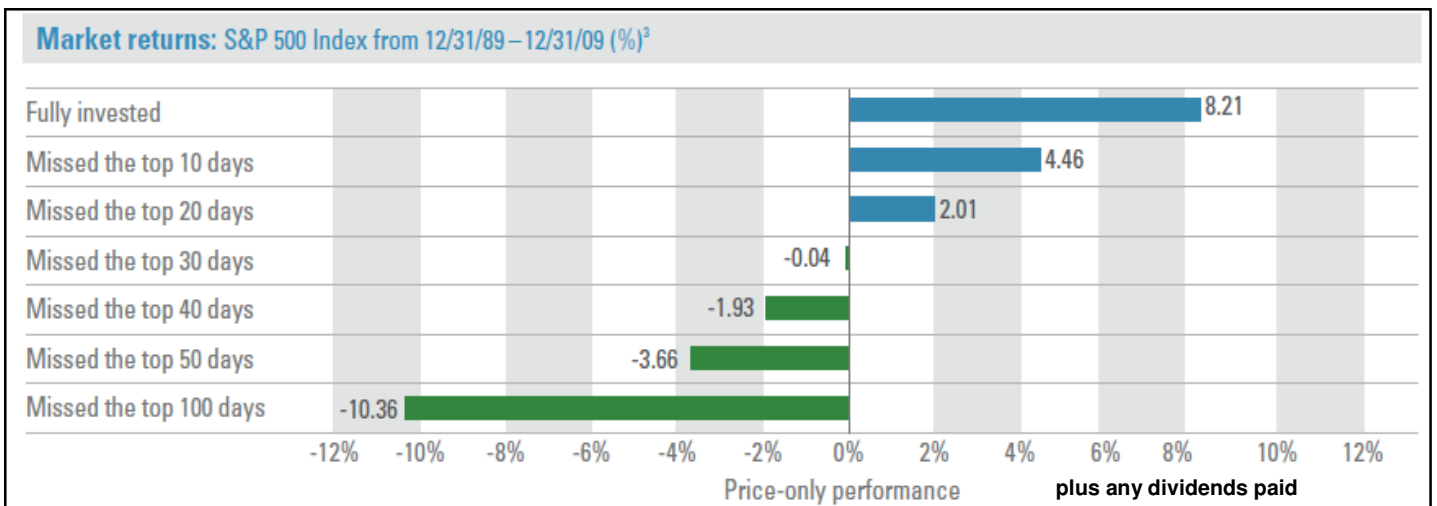
*"You could take all the gold that's ever been mined, and it would fill a cube 67 feet in each direction. For what that's worth at current gold prices, you could buy all - not some - all of the farmland in the United States. Plus, you could buy 10 Exxon Mobils, plus have \$1 trillion of walking-around money. Or you could have a big cube of metal."*

*Which would you take?*

*Which is going to produce more value?*

**BE DIVERSIFIED! STAY INVESTED!**

Despite the best efforts of investment professionals, it is virtually impossible to guess in advance which investment will have the best return in any given year.



## Why 'I Don't Know' Is Often Best Money Answer

December 19, 2011, 1:00 pm By [CARL RICHARDS](#), source: *The New York TIMES*

Of all the phrases in the financial planning world, "I don't know" may well be the most powerful. There are other phrases like "it depends" that are similar, but underlying them all is the fact that we are trying to make money decisions without a great deal of certainty. The reality is that we just don't know what the next five, 10 or 20 years are going to look like. One of the most dangerous things I see in the investment and financial planning world is [a false sense of precision](#).

In fact, I think there is a tremendous sense of freedom that comes with recognizing that we just don't know what the future will look like. At that point, the process of financial planning becomes about making the best guess we can about that future. Then we consistently course correct as we go, before we get too far off track.

You may have heard this example in terms of [a pilot's flight plan](#). Pilots take the process of preparing a flight plan very seriously, but they also know that the moment they take off, their plan will probably need to be changed. The weather may change, birds may start migrating or the airport they're headed to may close halfway there. All they know for sure is that they'll need to make ongoing course corrections throughout the flight.

But the flight plan is still to reach the destination. Accepting the fact that we just don't know allows us to let go of any anxiety around the idea that we should be able to find someone who does know. And let me share a secret with you about that: *There isn't anyone who knows what the next week, month, year or even decade will look like in the stock market. Anyone who says they do is someone you should run away from.*

The reality is no one knows. Jim Cramer doesn't know. The teams of experts from the large banks and brokerage firms don't know. And we all know what happens when you rely on a Federal Reserve chairman knowing. It turns out he doesn't know either.

It's so tempting to believe that there's someone out there, someone with a big enough computer or access to a huge research staff. But there isn't. And even if there is, it's highly improbable that you or anyone will identify them beforehand, when their predictions will be of any value.

Sure, there are plenty of people who can claim that they got a certain prediction correct after the fact. But remember, if you're in the prediction or forecasting business, you're bound to get a few right, *just like a broken clock is right at least twice a day.*

MSCI Index	MSCI Index Code	Last	Day	MTD	3MTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
AUSTRIA LC	LARGE CAP 650001	325.175	2.72%	2.72%	-5.74%	2.72%	-41.00%	-2.50%	-19.82%	N/A
BELGIUM LC	650002	329.133	1.90%	1.90%	12.98%	1.90%	2.03%	16.79%	-19.45%	-6.26%
DENMARK LC	650004	841.824	2.42%	2.42%	13.05%	2.42%	-10.43%	17.25%	-1.05%	3.38%
FINLAND LC	650017	309.772	2.47%	2.47%	-9.95%	2.47%	-32.03%	-16.55%	-17.48%	-13.14%
FRANCE LC	650018	538.950	1.96%	1.96%	-0.55%	1.96%	-14.52%	-0.83%	-10.23%	-3.44%
GERMANY LC	650019	661.757	2.97%	2.97%	-1.02%	2.97%	-14.82%	2.75%	-5.41%	-1.63%
IRELAND LC	650022	218.134	0.00%	0.00%	17.39%	0.00%	-0.90%	-2.40%	-26.24%	-12.79%
ITALY LC	650023	388.886	2.20%	2.20%	-2.14%	2.20%	-18.95%	-6.15%	-16.97%	-6.15%
NETHERLANDS LC	650026	606.225	1.53%	1.53%	3.21%	1.53%	-7.21%	5.27%	-7.28%	-3.49%
NORWAY LC	650030	718.249	1.00%	1.00%	2.22%	1.00%	-7.20%	12.67%	-6.10%	6.68%
UNITED KINGDOM LC	650039	846.471	0.00%	0.00%	0.76%	0.00%	-5.04%	5.97%	-2.43%	0.13%
EUROPE LC	650010	644.883	1.05%	1.05%	0.58%	1.05%	-10.32%	2.79%	-7.07%	-1.87%
EAFE LC	650005	578.486	0.72%	0.72%	-1.56%	0.72%	-13.88%	0.78%	-9.17%	-2.21%
AUSTRALIA LC	650000	694.157	0.00%	0.00%	-5.95%	0.00%	-14.44%	3.58%	-5.23%	1.19%
HONG KONG LC	650021	984.167	0.00%	0.00%	-5.88%	0.00%	-17.52%	13.91%	-0.16%	4.73%
JAPAN LC	650024	390.940	0.00%	0.00%	-5.21%	0.00%	-21.83%	-6.05%	-16.39%	-4.29%
CANADA LC	650003	800.655	0.00%	0.00%	-2.48%	0.00%	-12.79%	5.19%	-2.93%	3.95%
USA LC	650040	826.567	0.00%	0.00%	0.56%	0.00%	0.32%	9.75%	-2.34%	0.38%
WORLD LC	650038	699.440	0.30%	0.30%	-0.50%	0.30%	-6.91%	5.36%	-5.60%	-0.70%

Index	Cdn\$ 1 YR
S&P 500	2.3%
Russel 2000	-3.2%
TSX	-11.1%
MSCI Emerging	-18.6%