Why Do Investors Fire Their Financial Advisor?

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Introduction

What motivates an investor to fire their financial advisor? Obviously being fired is not a good thing for a financial advisor, as it results in lost business from the client but also lost referrals and potential clients being discouraged by negative reviews. Naturally, any advisor would be interested to know how to prevent such setbacks in their practice. Moreover, answering this question also gives broader insight into potential issues in an advisor-client relationship. Even when these issues are not problematic to the point of termination, they can still undermine business in the form of behavioral issues, lack of engagement, or ungiven referrals.

In this research, we endeavored to better understand the motivations behind firing decisions. Our findings suggest a few common issues; however, they are multifaceted. Many of these issues can be traced back to three underlying drivers that advisors should pay heed to and can remedy: 1) insufficient focus on the person side of personal finance; 2) advisors' inability to communicate their value; and 3) a mismatch of expectations early in the relationship.

Key Takeaways

- Overall, we found that clients fired their advisors for a number of reasons, not just due to cost and return performance, but also due to things like their relationship and lack of communication. These reasons suggest that although there are recurring themes for why advisors are fired, assumptions as to why investors fire their advisor may be overly focused on returns.
- Our findings suggest that investors are most commonly motivated by reasons pertaining to *Quality of Relationship* and *Quality of Financial Advice* when firing a financial advisor.
- However, identifying surface-level reasons for firing is just the first step toward a solution. To understand how to ameliorate these issues, advisors should focus on the underlying drivers, three of which we identified in this research: 1) insufficient focus on the person side of personal finance; 2) advisors' inability to communicate their value; and 3) a mismatch of expectations early in the relationship.

Financial Reasons Just Scratch the Surface

It's easy to blame firing decisions on conspicuous reasons, such as lackluster returns or high costs, but previous research examining why investors fire their financial advisors has found a much more complex story. Recent research by The Ensemble Practice[1] found that, along with cost and performance reasons, many investors identified lack of communication and listening skills as the drivers of their firing decision. However, the largest portion of respondents selected "other" to explain their decision, meaning that people's firing reasons may be complicated and difficult to categorize. Other research[2] examined why individuals fired their advisors during the Great Recession and found that "loss of net worth" was not a primary driver; in fact, variables related to money in general (for example, reported decrease in income) were not the main reasons given for why advisors were fired. Given previous findings, it is clear that the reasons are complicated, and simple accounts that focus exclusively on return performance may miss the mark.

"Why Did you Choose to Stop Working With an Advisor?"

To better understand what motivated investors to fire their advisors, we asked those who had terminated services with an advisor the following question: "Why did you choose to stop working with [an] advisor?" The question was open-ended, allowing us to collect people's thoughts in their own words. We featured this question in three different surveys, which included a total of 3,003 people, conducted during specific periods of 2021 and 2022.[3] Using this strategy, we were able to collect 184 total responses from people who indicated that they had terminated services with an advisor.

To analyze the data, we began by looking to existing research[4] to identify common motivations behind an investor's decision to fire an advisor (Exhibit 1). Using this master list of common motivations, we manually categorized each response into one or more motivation categories.[5] Using this technique, each response could be assigned to multiple motivations, based on how many topics a person brought up in their explanation of their reasons.

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[1] Palaveev, Philip. (n.d.). "Why People Fire Advisors." Retrieved July 8, 2022, from https://www.fa-mag.com/news/why-people-find-advisors-64599.html

[2] Cheng, Y., Kalenkoski, C. M., & Gibson, P. (2019). "Factors Associated With Hiring and Firing Financial Advisors During the Great Recession." *Journal of Financial Counseling and Planning*, 30(2), 289-303.

[3] Participants were first asked if they had ever chosen to stop working with an advisor. If they responded yes to this question, they were then directed to the open-ended question. In two of the surveys, participants were shown this initial question if they had investable assets. In one survey, participants were shown this question if they noted that they received financial advice in a previous question.

[4] Costa, P., & Henshaw, J. E. (2022). "Quantifying the investor's view on the value of human and robo-advice." Vanguard; Marco, M., Pelligra, V., Martignon, L., & Berg, N. (2014). "Retail investors and financial advisors: New evidence on trust and advice taking heuristics." *Journal of Business Research*, 67, 1749-57; Cummings, Benjamin F. and James, Russell N., "Determinants of Seeking Financial Advice Among Older Adults" (March 2, 2014). Available at SSRN: https://ssrn.com/abstract=2434268.; Kimiyaghalam, F., Mansori, S., & Safari, M. (2016). "Who Seeks A Financial Planner? A Review of Literature." *Journal for Studies in Management and Planning*, 02, 170-89.; Luther, R., Coleman, L. J., Kelkar, M., & Foudray, G. (2018). "Generational differences in perceptions of financial planners." *Journal of Financial Services Marketing*, 23(2), 112-127; Stolper, O., & Walter, A. (2019). "Birds of a Feather: The Impact of Homophily on the Propensity to Follow Financial Advice." *The Review of Financial Studies*, 32(2), 524-63.

[5] To ensure the quality of the manual coding, we first established inter-rater reliability—as established by a Krippendorff's alpha ≥ 0.64—on 20% of the data.

Exhibit 1 Common Motivations Behind Firing Decisions

Client comfort/discomfort handling financial issues: *Advisor was fired because of the confidence the client had in their own skills and knowledge regarding finances.*
Quality of relationship with an advisor: *Advisor was fired because the client did not have a good relationship with their advisor due to any number of issues, such as a mismatch in values, not having trust in the advisor, and not having a good rapport.*
Quality of communication with an advisor: *Advisor was fired because client did not like the communication they had with their advisor regarding financial services.*
Self-presentation of the advisor: *Advisor was fired because of how they presented their business (for example, office, staff, and so on) to their client.*
Recommended or encouraged by friends/family: *Advisor was fired because client was encouraged to do so by trusted individuals.*
Behavioral coaching: *Advisor was fired because they did not provide sufficient support to help the client act in a way that was beneficial to their finances, such as not explaining the financial plan, not motivating the client to stick to the plan, or not providing guidance on what not to do in certain financial situations.*
Specific financial needs/goals: *Advisor was fired because the client had a specific financial issue that needed to be resolved such as planning for retirement, handling loss of spouse, or tax planning.*
Quality of financial advice and services: *Advisor was fired because their financial services were not perceived by the client to be helping the client achieve their financial goals.*
Cost of services: *Advisor was fired because the price of doing business with them was too high.*
Return performance-driven factors: *Advisor was fired because the client did not see the returns performance they wanted.*
Moved away: *Advisor was fired because the client or advisor moved away and services were no longer local.*
One-off: *Advisor was fired because the client was only seeking out a one-time meeting with the advisor.*
Other—Emotion-related reason: *Advisor was fired because the client had an emotional issue otherwise not categorizable.*
Other—Finance-related reason: *Advisor was fired because the client had a financial issue otherwise not categorizable.*

Source: Morningstar Research.

Who Fires Their Advisor?

We began our analysis by asking "Who has ever fired their advisor?" Out of the 3,003 people who received one of the three surveys, only 185 individuals marked that they had fired an advisor in the past. In other words, only 6% of our sample ever felt the need to break a relationship with an advisor, which generally means that firing is a relatively rare occurrence and is good news for advisors. However, existing research[6] notes that many people stick with their advisor because they don't want to incur the cost of switching; instead, they choose to move assets out of an advisors' practice instead of ending the

[6] Cummings, Benjamin F. and James, Russell N. "Determinants of Seeking Financial Advice Among Older Adults." (March 2, 2014). Available at SSRN: https://ssrn.com/abstract=2434268.

relationship entirely. We did not address this kind of disengagement and instead focused on cases where there was a clear break.

To identify whether certain individuals were more likely to fire their advisor, we compared individuals who had and had not fired an advisor by certain demographics. We started by subsetting the data to include only individuals who currently have an advisor (N = 484), allowing us to ensure that our sample is relevant to advisors' typical client base. Our results suggest that individuals who have a higher income,[7] higher amount of investable assets,[8] and a higher level of financial literacy[9] are more likely to have fired an advisor in the past. We also found that those who are older[10] are more likely to have fired an advisor in the past—however, we recognize that this may be a spurious effect and the result of having had more experience working with financial advisors. When looking at gender, we did not find that either gender[11] was more likely to have fired an advisor.

Making Sense of Open-Ended Responses

To examine participants' open-ended responses, we first had to read through each participant's response and identify which of the categories in Exhibit 1 they fell under. Note that responses could fall under multiple categories because participants could give several reasons within their responses. For example, one participant responded, "No input. Mediocre advice. High fees." Their brief answer indicates that they had several reasons for firing their advisor, including *Quality of Communication with Advisor* ("No input."); *Quality of Financial Services and Advice* ("Mediocre advice."); and *Cost of Services* ("High fees."). Some of the responses we saw in the dataset were equally laconic, whereas others were quite verbose.

Organizing Open-Text Responses Into Categories

Given that human raters categorized participants' responses, we first established inter-rater reliability between the two raters to make sure they were aligned with each other in their approach. Inter-rater reliability measures the degree to which the two raters agree with each other on the categorization; this is done to ensure that responses are categorized in a consistent manner across individuals and there is good quality in the measurement process.[12] This validation allows raters to establish a standard way of approaching responses. To illustrate, consider the responses "he insulted me lol." Though this answer is about a communicative act (insulting), raters established that *Quality of Communication with Advisor* needed to reflect issues regarding the communication between advisors and clients relevant to the

[7] The difference in the average income between those who have not ($M = 121{,}530$, $SD = 115{,}160$) and have fired ($M = 178{,}500$, $SD = 347{,}587$) their advisor ($t(483) = 2.57$, $p < 0.05$, $d=0.22$) was statistically significant.

[8] The difference in the average investable assets between those who have not ($M = 543{,}524$, $SD = 975{,}965$) and have fired ($M = 1{,}022{,}836$, $SD = 1{,}501{,}407$) their advisor ($t(483) = 3.37$, $p < 0.05$, $d=0.38$) was statistically significant.

[9] The difference in the average financial literacy level between those who have not ($M = 2.76$, $SD = 0.56$) and have fired ($M = 2.96$, $SD = 0.20$) their advisor ($t(483) = 2.44$, $p < 0.05$, $d=0.47$) was statistically significant.

[10] The difference in the average age between those who have not ($M = 48.92$, $SD = 14.08$) and have fired ($M = 55.64$, $SD = 13.00$) their advisor ($t(483) = 3.59$, $p < 0.05$, $d=0.50$) was statistically significant.

[11] The difference between the proportion of participants by gender who have and have not fired an advisor ($X2$ (1, $N = 483$) $= 0.001$, $p > 0.05$) was not significant.

[12] To establish reliability, raters both categorized the same subsample of 20% of the total responses. Raters were found to agree with each other on average 98% of times across all the categories and reliability was established (mean Krippendorff's $\alpha = .80$). Disagreements were discussed and resolved by the two raters.

financial advising process. As such, this response was also coded as *Quality of Relationship with Advisor* since the exchange of insults indicates a negative aspect of the relationship.

Once we achieved sufficient reliability, we proceeded to categorize all the responses into the different categories. See Exhibit 2 for an example of how various responses would be classified into six common categories.

Exhibit 2 Categorization of Responses Examples

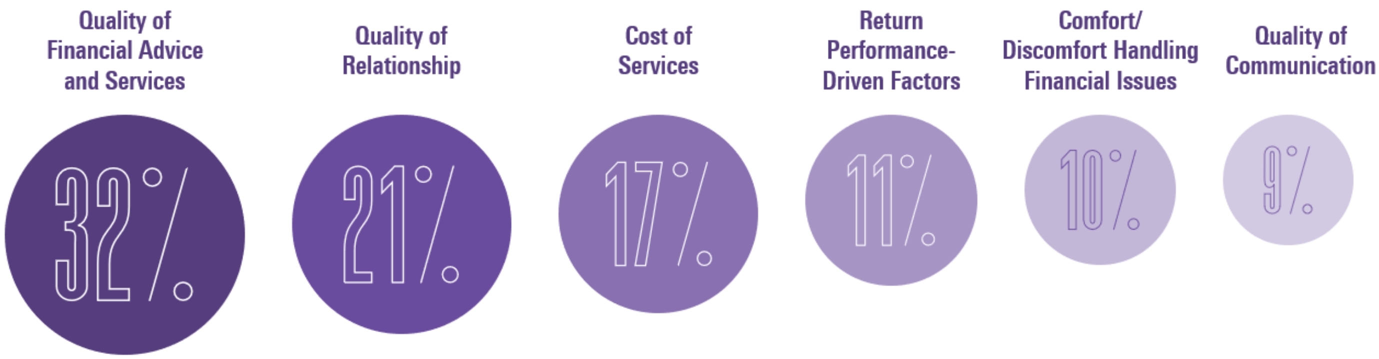
Source: Morningstar Research.

What Categories Are the Most Influential?

Once we categorized the responses, our next step was to identify the frequency of each of the different reasons. In other words, what causes do investors cite most often when explaining why they fired their advisor? We found the two most cited reasons investors fired their advisor were the *Quality of Financial Advice and Services* (32% of responses) and the *Quality of The Relationship* (21% of responses) categories. Responders also tended to cite *Cost of Services* (17%), *Return Performance* (11%), as well as their *Comfort Handling Financial Issues on Their Own* (10%) as reasons for firing (see Exhibit 3 for the six most common reasons for firing an advisor).

Overall, we found that clients fired their advisors for several reasons, not only because of cost and return performance, but also because of things like the relationship and communication they had with their financial advisor. The quality of financial advice and services was most frequently cited as the reason for firing a financial advisor, but the quality of relationship and cost also appeared more often than many of the other categories.[13] This suggests that although there are recurring themes for why advisors are fired, assumptions as to why investors fire their advisor may be overly focused on returns.

Exhibit 3 Six Most Common Reasons for Firing an Advisor



Source: Morningstar Research.

Takeaways for Advisors

Once we identified why individuals fire financial advisors, naturally, our next question was: "What can advisors do to reduce the chances of being fired by their clients?" To answer this question, we gathered insights from existing literature to identify ways for advisors to address the six most commonly cited reasons we found for firing an advisor.

The exhibit on page 8 connects each of these reasons to three overarching lessons for advisors along with practical ways advisors can implement these insights. For example, if a person is unsatisfied with their financial advisor for reasons pertaining to *Quality of Relationship* or *Quality of Advice,* an advisor can work on emphasizing the person side of personal finance. In our data, when an investor citied a reason related to these categories, the issue often stemmed from an advisor not dedicating enough time to understanding who their client is as a person and what their personal financial needs/goals are. Even some reasons related to a specific issue with an advisor's services seem to start with an advisor not recognizing the client's need for a particular service. Many of these issues could be remedied by devoting more time, attention, and resources to understanding the client, and perhaps leveraging help from established discussion guides, checklists, and exercises.

[13] The difference between the proportion of responses in the Quality of Financial Advice and Services category versus others (Cochran's Q (4, N = 184) = 36.22, $p < 0.05$) was significant. The difference between the proportion of responses in the Quality of Financial Advice and Services category versus Quality of Relationship with Advisor (Cochran's Q (1, N = 184) = 6.37, $p < 0.05$), Returns Performance (Cochran's Q (1, N = 184) = 20.63, $p < 0.05$), and Comfort Handling Financial Issues (Cochran's Q (1, N = 184) = 23.03, $p < 0.05$) was significant. The difference between the proportion of responses in the Cost of Services category versus Comfort Handling Financial Issues (Cochran's Q (1, N = 184) = 4.67, $p < 0.05$) was significant.

Similarly, we found a specific underlying motivation for the categories of *Communication, Comfort Handling Financial Issues on their Own,* and *Cost.* Each of these categories reflects a need to effectively communicate the value of a financial advisor. Though there will be some cases where a client no longer needs a financial advisor, there is often just a misunderstanding of the value advisors bring to the table. Many individuals who cited *Communication* as their firing reason indicated that since they haven't heard from their advisor, the advisor must not be doing anything. Although an advisor may be diligently monitoring their clients' accounts, if that work is not communicated, it may go unrecognized by clients. Lastly, the firing reason of *Cost* is more nuanced than at first glance. Of course, there will be instances where a service is too expensive for an individual, but other times, the individual may not believe the value of the service justifies the cost. In general, these issues can be addressed by effectively communicating value using tactics like reaching out to clients proactively, being available through different channels, and keeping clients updated on what market movements mean for them.

Reasons related to *Return Performance Driven Factors* often seem to stem from a persistent misconception in finance. Unfortunately, some investors seem to continue to associate advisors with generating outsize returns and are quick to point a finger when markets go awry. These issues can be prevented by setting expectations early in the relationship by emphasizing the importance of perspective and by helping clients focus on their long-term goals and not short-term returns.

How to not get fired

Percent of investors who fired their advisor for each reason

How to prevent it

- **32%** Quality of Financial Advice and Services
- **21%** Quality of Relationship with Advisor

Emphasize the Relationship

Have a conversation with your clients regarding your commitment to the best interest standard and what that means for your relationship with them and their money.

Onboarding discussions should go beyond top-of-mind topics. Use discussion guides and tools to understand your clients' deeper goals. Remember, the client should be speaking for most of the conversation.

Conduct goal-setting exercises with clients on a regular basis to keep up to date on their evolving financial goals and needs.

- **17%** Cost of Services
- **10%** Comfort/Discomfort Handling Financial Issues
- **9%** Quality of Communication

Communicate Your Value

Walk clients through the financial planning process and help them understand their options and what trade-offs they should consider.

Help your clients understand the services you provide and how they can be used in their personal situation.

Reach out to clients proactively--out of sight is out of mind.

Keep clients updated on both the actions you take with their account and what market insights mean for them.

Use different communication channels (for example, email, video chat) to be accessible to clients in a mode they are comfortable with.

- **11%** Return Performance-Driven Factors

Set Expectations Early

Act as a financial coach/teacher and help clients understand the value of long-term investing.

Remind clients that the metric for success is achieving their long-term financial goals, not a return percentage. Clients may need more reminders during times of volatility.

Use the power of framing; instead of meeting regularly for "performance report meetings," call them "progress meetings." This helps keep long-term goals top of mind and deemphasizes recent returns.

If a client insists on only investing for immediate returns, consider releasing them as a client.

Labotka & Lamas (2023). *Why do investors fire their advisor?* Morningstar Wealth.

The Complexity of Firing Decisions

Asking why investors fired their financial advisor provides us with a better understanding of the various things that can go wrong in an advisor-client relationship. In our study, we do find that instances of firing are relatively rare, but nonetheless terminations do happen and the consequences are damaging to an advisor's practice. Our findings suggest that investors are most commonly motivated by reasons pertaining to *Quality of Relationship* and *Quality of Financial Advice* when firing a financial advisor. However, identifying surface-level reasons for firing is just the first step toward a solution. To understand how to ameliorate these issues, advisors should focus on the underlying drivers, three of which we identified in this research: 1) insufficient focus on the person side of personal finance; 2) advisors' inability to communicate their value; and 3) a mismatch of expectations early in the relationship.

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