



WHY GOOD ADVICE SOMETIMES DRIVES CLIENTS AWAY

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When a client leaves, most advisers instinctively look to performance. Was there underperformance relative to the benchmark? Did we lag a popular theme? Were markets simply too volatile?

Decades of behavioural research and industry data tell a more nuanced story. Investment returns are rarely the primary reason clients terminate advisory relationships. In many cases, clients fire competent advisers for reasons that have little to do with portfolio construction and much more to do with psychology, communication, and perceived value.

Understanding these drivers is critical not only for retention but for improving client outcomes.

When investors earn less than the market

One of the most cited industry studies on investor behaviour is Morningstar's annual "Mind the Gap"¹ study. The research compares time-weighted fund returns (what the fund earned) with dollar-weighted investor returns (what investors experienced based on their cash flows).

Consistently, the data shows that investors underperform the very funds they invest in, typically by 1% to 2% per annum on average, and in some years more. This gap is largely attributed to poor timing decisions: buying after strong performance and selling after losses.

Similarly, DALBAR's long-running Quantitative Analysis of Investor Behaviour (QAIB)² has repeatedly shown that the average equity investor materially underperforms the broader equity market over long periods, not because the market failed, but because investor behaviour did.

These findings and insights matter for advisers. They suggest that the greatest risk to client outcomes is not necessarily poor asset allocation, but emotionally driven decision-making.

And this is where the paradox emerges: clients often leave the adviser who is attempting to protect them from precisely these behavioural mistakes.

Returns are rarely the primary exit driver

Multiple industry surveys examining adviser attrition show that performance dissatisfaction ranks lower than commonly assumed.

Research published through Morningstar's practice management studies indicates that clients more frequently cite issues related to:

¹ Source: Morningstar.com; "[Mind the Gap US 2025](#)".

² Source: Dalbar "[2025 QAIB report](#)".



INVESTMENT AND MARKET INSIGHTS

- Perceived lack of proactive communication
- Weak relationship connection
- Misalignment of expectations
- Fee transparency and value clarity

Performance is mentioned sometimes, but more often than not as a symptom rather than the root cause. In other words, clients may say they left because of returns, but closer examination often reveals that the real driver was a breakdown in confidence.

Confidence is not built solely on performance. It is built on clarity.

The psychology behind firing decisions

Behavioural finance provides powerful explanatory tools:

1. Loss Aversion

Daniel Kahneman and Amos Tversky's Prospect Theory demonstrates that investors feel the pain of losses roughly twice as intensely as the pleasure of equivalent gains. During drawdowns, emotional discomfort escalates rapidly. If that discomfort is not met with context and reassurance, clients may seek action to regain a sense of control.

2. Recency Bias

Clients place more emphasis on recent performance when forming judgments. A six-month underperformance period can overshadow years of disciplined returns.

3. Regret Minimisation

Clients compare their diversified portfolio to whichever asset class or stock performed best recently. When they feel they "missed out," they experience regret, and regret often triggers change.

These behavioural tendencies are not signs of irrationality. They are normal human responses. But when unaddressed, they can lead to termination decisions at precisely the wrong time.

The timing problem: Leaving at market extremes

Data consistently shows that retail flows tend to follow performance. Fund flow research³ demonstrates that investors allocate capital disproportionately to recent winners.

This has two implications:

1. Clients often increase risk late in bull markets.
2. Clients often reduce risk late in bear markets.

When advisers are dismissed during periods of volatility or underperformance relative to a concentrated theme, the change frequently coincides with emotional extremes. The client who leaves during stress often crystallises losses and misses subsequent recovery. The adviser who was attempting to enforce discipline becomes associated with discomfort. Ironically, good advice often feels wrong in real time, particularly when diversification lags concentrated speculation.

³ Source: [Costly Search and Mutual Fund Flows](#), published October 1990; [Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors](#), published April 2000.



INVESTMENT AND MARKET INSIGHTS

Communication as the decisive variable

If performance is not the dominant driver of attrition, what is?

Evidence consistently points to communication frequency and quality. Clients want:

- Proactive updates, not reactive explanations.
- Context around volatility.
- Reinforcement of long-term objectives.
- Clear articulation of the purpose behind portfolio positioning.

When communication is scarce, clients fill the information gap with media narratives, social comparisons, and worst-case assumptions. Markets fluctuate daily. Headlines amplify those fluctuations. Without structured communication, the narrative surrounding a portfolio can deteriorate quickly. Advisers who provide consistent framing reduce uncertainty. Advisers who remain silent during volatility allow fear to compound.

The value misalignment problem

Another recurring theme in client departures is fee perception. If advisory value is framed primarily as “investment performance,” then performance volatility automatically challenges the perceived worth of the relationship.

Research into the “value of advice”⁴ suggests that behavioural coaching, asset allocation discipline, tax efficiency, and withdrawal strategy decisions often contribute more to long-term outcomes than fund selection alone.

If clients do not clearly understand these dimensions of value, they evaluate the relationship through a limiting lens. Advisers who articulate value beyond returns build durability into their practice.

The deeper reality: Clients seek emotional safety

At its core, firing an adviser is rarely about spreadsheets. It is about emotional safety. During uncertain periods, clients ask:

- Is my money safe?
- Is this strategy still right?
- Does my adviser understand my concerns?
- Am I being left behind?

When those questions are answered proactively and consistently, relationships strengthen even during market stress. When they are not, clients may seek reassurance elsewhere.

What this means for advisory practices

The data suggest several clear conclusions:

1. Behavioural coaching is not optional; it is central to value creation.
2. Expectation setting at onboarding reduces future friction.
3. Diversification must be explained before it is tested.
4. Proactive communication during calm markets builds resilience for turbulent ones.
5. Silence during volatility is often more damaging than volatility itself.

⁴ Source: [Vanguard Advisor's Alpha](#)



INVESTMENT AND MARKET INSIGHTS

Clients rarely leave because markets fall. They leave when confidence erodes. Confidence erodes when communication, context, and connection are insufficient.

Conclusion

The evidence is clear - clients do not consistently fire advisers because of poor returns. They fire advisers because the relationship failed to carry them through discomfort. In many cases, the adviser who is dismissed was acting prudently, enforcing discipline, maintaining diversification, and protecting long-term sustainability. Prudent advice must be paired with a strong narrative.

In advisory businesses, performance matters. But confidence sustains, and confidence is built long before it is tested.

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