Don Phillips: Truth Teller

Advisors are in the behavior modification business, not the investing business, said Don Phillips of Morningstar at his company's 28th annual investment conference in June.

By **James J. Green** | June 20, 2016

Advisors are in the behavior modification business, not the investing business, said Don Phillips of Morningstar at his company's 28th annual investment conference in June. Phillips is one of those eminences grise that independent advisors are lucky to have. With years of experience and deep knowledge of and affection for the advisor industry, Phillips doesn't pander to advisors, despite his clear commitment to giving advisors the tools they need to succeed. He tends to tell the truth, even when that truth is hard to hear.

He told his general session audience in Chicago, for example, that while he's in favor of advisors acting in the best interests of their clients, he also worries that the DOL fiduciary rule will force advisors to "play defense rather than offense" when it comes to building retirement portfolios. That is, they will tend to pick an index fund rather than an actively managed fund since the index approach will be cheaper and less likely to draw any regulatory ire, even if it's not the best choice for the client. After all, "the way you make money in investing is to *not* follow the crowd," Phillips said.

The DOL fiduciary rule, he also suggested, is a result partly of a process that advisors have been seeking for years: to be treated like a real profession, like physicians or attorneys or CPAs. But now that the rule is here, it might well lead to a reduction in the number of advisors, he said. Just look at the number of doctors of all kinds leaving their profession because of the multiplication of regulation, he pointed out.

That's a problem, he said, because instead of fewer advisors, "we need more people helping to change" client behavior that is often not in their own best interests. "We wage these turf wars" over which advisor channel is better or more virtuous rather than "celebrating" those advisors in every channel who help clients change their behaviors for their own good.

In the discussion with two advisors (Blair duQuesnay and Bill Bernstein), moderated by Christine Benz of Morningstar, Phillips also refused to paint some of the biggest issues facing advisors and their clients as either black or white. The truth, the best option, is often in the middle, he suggested. For example, after hearing the panelists argue that the passive approach is the best and truest path to investing success, Phillips said the industry has been "having this civil war between active and passive," when what's needed is "not to get a bigger" allocation in clients' portfolios to either active or passive, "but to grow the whole pie."

So in the end, it's all about helping advisors' clients — and investors who don't have advisors — grow their retirement savings and meet their financial needs and goals, Phillips said.

One other session at the Morningstar Investment Conference used the lessons of behavioral finance to illustrate the crucial "behavior modification" role that advisors play for their clients.

Steve Wendel and Sarah Newcomb of Morningstar (disclosure: both Wendel and Newcomb blog for ThinkAdvisor.com) related the findings of Morningstar's behavioral economics unit to help advisors efficiently guide their clients away from self-defeating behavior. One behavioral bias that's under-appreciated, Wendel said, was the bias toward taking action. That is, when humans are faced with a particular challenge, like a plunging stock market, they want to do *something* — anything, really — to make themselves less anxious. However, in many of those situations, the best course of action is to not act at all, but rather stay committed to a financial plan made at a time of calm, not anxiety.

Wendel used the analogy of a soccer goalie who is faced with a penalty kick. The clear statistical evidence is that the best way to parry such a kick is for the goalie to stand in the middle, not to lunge left or right in anticipation that the ball will head one of those ways. Yet goalies consistently choose to move one way or the other. Those goalies need an advisor. Advisors need folks like Don Phillips.