The role of the financial advisor has changed dramatically in recent years due to the proliferation of investment products and downward pressure on fees.

To set themselves apart in this new landscape, financial advisors are increasingly employing low-cost passive investment products alongside the expertise of discretionary fund managers as they seek to meet or exceed the long-term goals of their clients.

In a recent Core Shares-hosted webinar, local wealth managers noted that shifting client demands have prompted financial advisors to adapt.

Partly due to the relatively low returns from the South African market in recent years, clients have become more fee-sensitive, and are looking for outperformance with reduced costs.

In response, financial advisors are increasingly incorporating passive investment strategies – including exchange-traded funds (ETFs) – and discretionary fund management services into client portfolios.

The passive component reduces overall portfolio costs, improves diversification, and enhances both the predictability of returns as well as transparency.

On the other hand, the actively managed component is aimed at delivering above-market returns. Due to the wide range of investment products and stocks in the market today, and how difficult it is to beat the market, financial advisors are increasingly leaving the active manager selection process in the hands of specialised discretionary fund managers.

This promotes efficiencies and means financial advisors can focus their efforts on providing sound advice and on keeping their clients invested through the cycle so that they remain aligned to their long-term financial goals.

Debra Slabber, Business Development Manager at Morningstar Investment Management, said on the webinar that the firm’s research shows that clients look for advisors who can help them reach their financial goals, who have the relevant skills and knowledge, and who communicate and explain financial concepts well and in an understandable manner.

Morningstar’s research also shows that it is important for advisors to ensure that expectations are aligned and clearly communicated upfront, meaning goal setting is an essential undertaking.

To achieve those goals, advisors have a critical role to play in encouraging investors to ‘stay the course’ – to remain invested – and to avoid making impulsive decisions when market conditions change. This means that ongoing communication is an important responsibility for the modern financial advisor, particularly when markets move lower.