Factors Associated With Hiring and Firing Financial Advisors During the Great Recession

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From 2007 to 2009, the U.S. economy went through a deep economic downturn which is popularly known as the Great Recession. It resulted in a significant loss of wealth for many investors. While some investors sought the advice of financial advisors; others did not. This study examines the economic situation of households using the National Longitudinal Survey of Youth (NLSY) and analyzes the financial advisor–client relationship during the Great Recession to determine who fired or hired a financial advisor during this period. The results indicate that losing money, measured by a decrease net worth, was not the main reason why clients fired their financial advisor during the Great Recession. Interestingly, the results also show that experiencing a decrease in net worth was not the main reason why individuals pursued the services of a financial adviser during this period. Instead, current income and an increase in income were the primary factors that impacted the client–advisor relationship during the financial crisis. These results are consistent with consumer demand theory in which financial services are a normal good that people purchase less of when their income falls.

Keywords: financial advisor, financial advice, recession, client–advisor relationship

From 2007 to 2009, the U.S. economy went through a deep economic downturn which is popularly known as the Great Recession. It resulted in a significant loss of wealth for many households. According to the Holmquist and McIntosh (2015), U.S. household wealth declined by 17 trillion dollars between the spring of 2007 and the first quarter of 2009. Hurd and Rohwedder (2010) found that a significant portion of households had negative housing equity. Consistently, the U.S. Bureau of Labor Statistics (2011) reported that U.S. households lost over 7 trillion dollars in home equity during this period.

The economic numbers from the Great Recession painted a bleak financial picture for many households. While some investors sought the advice of financial advisors; others did not. With existing relationships, some clients found the comfort of their advisors while others terminated their agreement. As the financial planning profession continues to grow, understanding the different elements of the advisor–client relationship becomes more important. Previously Cummings and James (2014), examine the factors that influence getting and dropping financial advisors among older households. This study is unique in that it focuses on how changes in households financial positions during the great recession impacted the advisor–client relationship using data from the National Longitudinal Survey of Youth 1997 (NLSY97). It shows that the decision to hire or fire a financial advisor went beyond financial matters.

Literature Review

Nowadays, individuals must take more responsibility for their financial well-being. Life cycle theory posits that individuals ought to smooth their marginal utility of consumption throughout their lifetime to get the maximum overall satisfaction. For decades, many American households relied on pensions provided by employers to fund their financial needs during retirement. However, pension plans

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have declined and many employers today rely on defined-contribution plans to help with their employees' retirement savings.

The Need for Financial Advisors

With the increase in defined-contribution plans, many studies have explored how well households manage their finances. Campbell, Jackson, Madrian, and Tufano (2011) argued that the financial system is difficult to understand. Thus, it is not efficient for consumers to learn personal finance through trial and error. Elmerick, Montalto, and Fox (2002) also found that households struggle to make sound financial decisions. Therefore, many rely on financial planners for advice. Benartzi, Previtero, and Thaler (2011) demonstrated that individuals have a difficult time determining how much money to spend each year in retirement due to the complex nature of the decumulation of assets. They argued that the majority of the population is better off by putting most of their wealth in annuity products.

The value of financial advisors is well documented. Chen and Severns (2016) documented that more than 70% of undergraduate students considered the financial planning profession to some extent. Moreland (2018) used the National Financial Capability Study data and showed that obtaining advice is positively associated with many financial behaviors. Guillemette and Jurgenson (2017) and Lei and Yao (2016) found values of financial advisors regarding investment choices and portfolio performance. Bearden (2015) used cross-sectional data of pending engagements and provided insights in handling conflicts of interests.

Within the financial market, information asymmetry is problematic for consumers. For example, Bertrand and Morse (2011) found that many individuals who borrow using payday loans are unaware of their real price. However, once a consumer realizes the actual cost associated with these predatory type loans, there is a change in behavior. In their shrouded attributes model, Gabaix and Laibson (2006) argued, that in many financial markets, information is compressed and hard for individual investors to observe in such a way that will allow them to make optimal decisions. Porto and Xiao (2016) and Collins (2012) argued that the demand for financial advice is often linked to financial knowledge. Many investors seek the knowledge of a financial advisor to help with complex investment decisions. Bae and Sandager (1997) showed that clients hire financial advisors for help with retirement planning, tax planning, and investment planning. Block and Sweeney (2004) found that people on average are not confident in their ability to manage their investments and plan for retirement, but more than 90% are satisfied in the assistance they receive from financial advisors. Xiao and Porto (2016) identified advice topics related to satisfactions using National Financial Capability Study. Hung, Clancy, Dominitz, Talley, and Berrebi, (2008) reported that over 70% of investors consult financial advisors before making investment decisions. Hung and Yoong (2010) provided supporting evidence which showed that financial advice could improve investment behavior. Since many consumers rely on financial advisors for guidance, understanding how down markets affect the client–advisor relationship is useful for managing these relationships. The Great Recession presents an ideal environment to examine the financial advisor–client relationship during this time.

Influence of the Great Recession on Having a Financial Advisor

Loss aversion theory (Tversky & Kahneman, 1991) states that people are much more willing to avoid a given amount of losses than to take an equal chance of acquiring the same amount of gains. Significant total net wealth lost during the Great Recession negatively impacted the satisfaction of financial clients. Overreaction to chance events, as pointed out by Kahneman and Riepe (1998), is another factor to consider during the Great Recession. Investors make emotional decisions in response to a loss of wealth. These emotions are expected to influence the decision whether to hire a financial advisor, especially during the Great Recession. Per Taylor et al. (2010), 62% of individuals reduced their spending during the Great Recession to make ends meet. For some, financial planning fees are among those expenses likely to be cut, particularly if they experience poor investment performance. On the other hand, some investors will realize their limitations and hire a financial advisor. People often look for financial advisors because they have financial problems (Joo & Grable, 2001) or experience a major life event such as an inheritance or the sale of a business (Investment Company Institute, 2007).

The Financial Planning Association Research Center (2010) showed that financial advisors used a variety of approaches to keep their clients during the economic downfall. For example, more time was spent communicating with clients,

and a much larger percentage reported reevaluating their client's financial options and strategies because of the economic crisis. In this study, we explore the factors that influence the advisor–client relationship during the Great Recession, providing valuable information for practitioners in financial planning. Using prospect theory as the framework, the authors hypothesize the following

> H1: Clients who experienced the greatest percentage decline in their wealth during the Great Recession were more likely to fire their financial advisors.
> H2: Those who experienced the greatest percentage decline in their wealth during the Great Recession were more likely to hire a financial advisor.

Methods

Data and Sample

The data used for this study come from the National Longitudinal Survey of Youth 1979 (NLSY79). Starting in 1979, individuals born between 1957 and 1964 were interviewed every 2 years. In 2007, the survey included 7,757 respondents. The NLSY asked respondents in both 2007 and 2009 if they ". . . *consulted a financial advisor about how to plan their finances after retirement?"* This study uses the questions from both 2007 and 2009 which capture the Great Recession. Based on these answers, respondents are categorized into four groups. The group classified as "Fire" captures those who had an advisor in 2007 but not in 2009. The group categorized as "Keep" identifies those respondents who had an advisor in both 2007 and 2009. The group classified as "Hire" are those respondents who did not have an advisor in 2007 but hired a new one in 2009. The last group classified as "Never" are those who did not work with an advisor in either of those 2 years.

Table 1 shows the sampling selection process for this study. Given that the purpose of this study is to analyze how changes in financial wealth affected the client–advisor relationship, the sample consists of respondents who answered the question above and reported valid information about their income and their net worth in both years. It is important to note that there are a relatively high number of missing values for family net worth in the year 2009. According to the codebook, most of the missing net worth values are due to random valid skips on related questions used to construct the overall net worth in this survey. The question for net worth is not in the 2009 data. Instead, the question of "*Amount left over after all debts are paid from selling all assets*" is used. Regardless, the sample size is still large enough to perform the analysis in this article.

TABLE 1. NLSY Sample Selection Criteria

Criteria	*N*
Whole sample in 1979	12,686
Number of response in year 2010	7,565
Responses to retirement preparation question in year 2008	7,166
Responses to retirement preparation question in year 2010	7,024
Reported family income larger than 1,000 in year 2008	5,908
Reported family income larger than 1,000 in year 2010	5,194
Family net worth not missing in year 2008	5,148
Family net worth not missing in year 2010	3,813
Risk tolerance question (first one)	3,736

Control Variables

The first section of our control variables is monetary. The main purpose of this study is to analyze the impact of a financial loss on the client–advisor relationship. We include a change of income, a change of net worth, and income and net worth level in the year 2007. Income and net worth levels are related given that most advisors are required to work with clients with a minimum net worth to make a living. Following consumer demand theory, the current income of individuals who hire a financial adviser should be taken into consideration. Thus, we controlled for income when analyzing the impact of the change in net worth on the decision to either hire or fire a financial advisor.

Individual demographic factors are also included as control variables. Education level, intelligence, race, gender, age, marital status, region, and home ownership are included. Given that a financial crisis is beyond the control of financial advisors, we expect those who are more educated to have a better understanding of financial markets fluctuations and focus on the long-term client–advisor relationship. The same idea applies to intelligence score. Other factors such as gender, age, marital status, homeownership, and race might

impact the client–advisor relationship due to omitted variables that are related. The economic impact of the financial crisis varied across regions. Accordingly, region is included in the analysis as a control. Also included in the model are stock and mutual fund ownership. The ownership of these assets is included because respondents who are exposed to the financial market are expected to react differently compared with those who are not. Martin and Finke (2012) showed the impact of life events on the client–advisor relationship. Hence, job loss and inheritance are also included in the model.

Descriptive Statistics

Table 2 shows the descriptive statistics for each variable used in the analysis. We report the decrease in income and net worth between 2007 and 2009. Both income and net worth measure the financial status of respondents and are expected to be significantly associated with either hiring or firing a financial advisor. The descriptive results reveal that the group of respondents who kept their advisors during the recession had a higher family income and net worth when compared to the overall sample. With regards to salary, the results reveal that average income did not fall during this period. Interestingly, income increased the most among the group of respondents who hired a financial advisor during the Great Recession. Net worth, on average, fell $90,000 between 2007 and 2009, and it decreased the most for the groups categorized as "Fire" and "Keep." Individuals in these two groups were working with advisors in 2007. As such, they were more likely to have a greater portion of their wealth invested. Hence, compared to individuals in the other groups, the financial market downturn would have had a greater impact on their wealth. Even though there are differences in the decrease in net worth across groups, the relative percentage change does not differ significantly.

It is important to consider human capital when studying individuals' behavior. The NLSY has a question that asks respondents about the length of their education. Four categories of education level are created based on the length of time individuals spent in school, less than some college (<13 years), some college (13–15 years), college (16 years) and graduate school (>16 years). In addition to education, IQ score is included in the analysis following Chatterjee, Finke, and Harness (2009). Respondents categorized as "Keep" tend to have a much higher level of education compared to those who are classified as "Fire." Similarly, respondents in the group "Hire" tend to have more education compared to the group "Never." Comparable results are found when examining IQ scores.

Race is included as a control variable. Coleman (2003) found that investment preference varies among different cultural groups. Almost 50% of respondents in the sample used in the analysis are White. Furthermore, a significant portion of respondents that are in the group "keep" are White. Gender is included to account for differences between males and females in factors such as investment, risk tolerance, and social interactions.

Levels of risk aversion are included to account for risk preferences. Following Chatterjee and Zahirovic-Herbert (2011), this variable was created using responses to three income gambling questions in the 1993 wave of the NLSY. While the questions were collected in 1993, it is the best measurement available, whether risk tolerance changes over time is not clear (Wang & Hanna, 1997). As shown in Table 1, using these questions as a measurement of risk tolerance does not reduce our sample size dramatically. The questions include three tradeoffs of income change choices. The first question asks respondents if they are willing to take a bet on a 50% chance of doubling their income and a 50% chance of cutting their income by one-third. The second question asks respondents if they are willing to take the bet on a 50% chance of doubling their income and a 50% chance of cutting their income by 20%. The third question asks respondents if they are willing to take the bet on a 50% chance of doubling their income and a 50% chance of cutting their income by 50%. If the respondents answered no to both choices of cutting their income by one-third and 20%, then they are placed in the group "very strong risk aversion." If respondents are willing to take the bet of losing no more than 20% of their income with an equal chance of doubling their income, then they are characterized as "strong risk aversion." Those who are willing to bet on losing one-third of their income but not up to 50% of their income for an equal chance of doubling their income are labeled as "moderate risk aversion." The last group of "weak risk aversion" are those who are willing to lose half of their income for an equal chance of doubling their income. As shown in Table 2, most respondents in the group "keep" are risk tolerant.

Region is included in the model to identify where respondents lived when the survey was administered and because

TABLE 2. Means and Standard Deviations of Variables of NLSY—by Categories

Variable	All (N = 3,736)	Fire (N = 253)	Keep (N = 512)	Hire (N = 384)	Never (N = 2,469)	F-Test P-value
Decrease of income	−$1,307.66	−$4,536.35	−$549.426	−$6,337.67	−$351.738	.1401
	($52,173.54)	($67,294.03)	($67,627.63)	($51,828.6)	($46,444.9)	
Decrease of net worth	$94,406.32	$139,314.69	$197,532.8	$123,443	$63,903.1	**<.0001**
	($476,865.47)	($520,991.56)	($699,789.7)	(582,869)	($384,659)	
Family income of 2007	$86,355.22	$102,667.11	$137,427.2	$99,935.7	$71,980.7	**<.0001**
	($77,295.40)	($77,730.41)	($106,599.6)	($76,357.8)	($63,857.2)	
Family net worth of 2007	$341,087.67	$464,442.88	$720,745.3	$442,358	$233,967	**<.0001**
	($609,129.07)	($712,473.16)	($901,108.2)	($664,808)	($459,018)	
Percentage decrease of net worth	27.68%	30.00%	27.41%	28.58%	27.31%	
Homeownership	0.130	0.142	0.164	0.112	0.124	**.0573**
	(0.336)	(0.350)	(0.371)	(0.316)	(0.330)	
Own stock	0.161	0.190	0.299	0.216	0.121	**<.0001**
	(0.368)	(0.393)	(0.458)	(0.412)	(0.326)	
Own mutual fund	0.145	0.225	0.348	0.203	0.086	**<.0001**
	(0.352)	(0.419)	(0.477)	(0.403)	(0.280)	
Declared bankruptcy before	0.151	0.178	0.092	0.117	0.165	**<.0001**
	(0.358)	(0.383)	(0.289)	(0.322)	(0.371)	
Had job loss	0.152	0.162	0.115	0.125	0.163	**.0187**
	(0.359)	(0.369)	(0.320)	(0.331)	(0.369)	
Inheritance	0.225	0.237	0.326	0.237	0.201	**<.0001**
	(0.418)	(0.426)	(0.469)	(0.426)	(0.401	
Less than some college	0.449	0.336	0.230	0.346	0.521	**<.0001**
	(0.497)	(0.473)	(0.422)	(0.476)	(0.500)	
Some college	0.266	0.304	0.232	0.258	0.271	.1542
	(0.442)	(0.461)	(0.423)	(0.438)	(0.444)	
College	0.151	0.221	0.273	0.203	0.111	**<.0001**
	(0.358)	(0.416)	(0.446)	(0.403)	(0.314)	
Graduate school	0.134	0.138	0.264	0.193	0.098	**<.0001**
	(0.341)	(0.346)	(0.441)	(0.395)	(0.297)	
Intelligence score (IQ)	48.829	54.493	62.804	55.477	44.317	**<.0001**
	(28.585)	(27.194)	(25.294)	(27.018)	(28.376)	
Race—White	0.556	0.573	0.693	0.599	0.519	**<.0001**
	(0.497)	(0.496)	(0.462)	(0.491)	(0.500)	
Race—Other	0.088	0.079	0.090	0.081	0.090	.8879
	(0.284)	(0.270)	(0.286)	(0.273)	(0.286)	
Race—Black	0.226	0.285	0.143	0.229	0.237	**<.0001**
	(0.418)	(0.452)	(0.350)	(0.421)	(0.425)	
Race—Hispanic	0.139	0.067	0.080	0.104	0.164	**<.0001**
	(0.346)	(0.251)	(0.272)	(0.306)	(0.370)	

(*Continued*)

TABLE 2. Means and Standard Deviations of Variables of NLSY—by Categories *(Continued)*

Variable	All (N = 3,736)	Fire (N = 253)	Keep (N = 512)	Hire (N = 384)	Never (N = 2,469)	F-Test P-value
Gender—Male	0.474	0.510	0.496	0.443	0.471	.2724
	(0.499)	(0.501)	(0.500)	(0.497)	(0.499)	
Risk averse level—Very Strong	0.471	0.466	0.418	0.471	0.483	**.0665**
	(0.499)	(0.500)	(0.494)	(0.500)	(0.500)	
Risk averse level—Strong	0.127	0.123	0.150	0.133	0.122	.3532
	(0.333)	(0.329)	(0.358)	(0.340)	(0.327)	
Risk averse level—Moderate	0.169	0.182	0.217	0.190	0.155	**.0042**
	(0.375)	(0.386)	(0.412)	(0.393)	(0.362)	
Risk averse level—Weak	0.232	0.229	0.215	0.206	0.239	.3772
	(0.422)	(0.421)	(0.411)	(0.405)	(0.427)	
Region—North East	0.135	0.154	0.141	0.120	0.134	.6303
	(0.341)	(0.362)	(0.348)	(0.325)	(0.340)	
Region—North	0.258	0.261	0.314	0.263	0.245	**.0123**
	(0.437)	(0.440)	(0.465)	(0.441)	(0.430)	
Region—South	0.399	0.360	0.348	0.385	0.415	**.0166**
	(0.490)	(0.481)	(0.477)	(0.487)	(0.493)	
Region—West	0.201	0.217	0.193	0.227	0.196	.4769
	(0.401)	(0.413)	(0.395)	(0.419)	(0.397)	
Age	46.622	46.664	46.797	46.672	46.574	.2037
	(2.230)	(2.284)	(2.221)	(2.316)	(2.211)	
Age squared	2178.570	2812.730	2194.870	2183.610	2173.980	.2000
	(208.704)	(214.016)	(208.086)	(216.965)	(206.898)	
Marital status—Married	0.637	0.688	0.730	0.674	0.607	**<.0001**
	(0.481)	(0.464)	(0.444)	(0.469)	(0.489)	

this study aims to capture individuals' reaction to wealth lost during the Great Recession. Controlling for the U.S. region also captures the impact of the housing market collapse in different parts of the country. It is expected that those who lived in an area that was severely impacted by falling home prices during the Great Recession might behave differently in terms of hiring advisors and firing advisors. Age is included to capture age differences in financial behavior. Older respondents, on average, have more financial wealth as they have a longer time to save. Hence, when it comes to the management of financial assets, older individuals ought to receive more benefits working with an advisor compared to younger respondents. Age squared is also included to capture potential nonlinearity. When approaching retirement, individuals might behave differently with respect to their financial matters compared with those who just entered the financial market. However, no significant differences are observed across age groups. This study also accounts for the marital status of respondents. Roughly 63% of the sample is married. Since married couples tend to make financial decisions together, this should be taken into consideration. Whether or not a respondent is a homeowner is also included. Homeowners on average have more financial resources than renters and could experience a higher marginal benefit from working with a professional advisor. Whether the respondents own stocks and mutual funds are included in the model. Respondents participating in the financial market by holding stocks and mutual funds are expected to experience a larger amount of financial losses compared to nonmarket participants. On the other hand, respondents who buy stocks and mutual funds are expected to be more sophisticated and better able to identify a good

advisor who they might have stayed with during the Great Recession. Therefore, the direction and the impact of being a homeowner and stock market participant are not clear, leaving uncertainty about whether individuals will hire or fire a financial advisor. Overall, the percentage of respondents holding stocks and mutual funds is around 15%. The data also suggest that those who kept their financial advisors and those who hired a financial advisor during the Great Recession are more likely to own stocks and mutual funds.

A dummy variable is created to indicate whether the primary respondent or their spouse ever declared bankruptcy prior to 2007. Bankruptcy is coded from the question "*have you or your spouse ever declared bankruptcy?*" Respondents who declared bankruptcy are expected to behave differently on financial matters when compared to those who chose gradually to pay off debt. Approximately 15% of all respondents in our analysis declared bankruptcy before 2007. A dummy variable for whether the respondent reported losing their job during either one of the two survey years is created from the question *"how many weeks were you unemployed in the calendar year in 2009?*" Respondents who lose their job during a down market experience more uncertainty about their finances and are expected to be less likely to hire and more likely to fire financial advisors. Whether or not a respondent received an inheritance is also included in the model. In order to capture inheritance, the following survey years 2003, 2005, 2007, and 2009 are used. Inheritance information is obtained from the question "*R/spouse received income/property from estate/trusts/inheritances since last time interview?*" Individuals who receive an inheritance are different from those who built their wealth by themselves. Arguably, those who receive an inheritance will benefit from the services offered by financial advisors.

Multivariate Analyses

A probit regression model is used for the multivariate analyses. The first model analyzes the probability of respondents firing a financial advisor and the second model examines the probability that respondents hire a financial advisor during the Great Recession.

As stated earlier, the groups "Fire" and "Keep" are respondents that had an advisor in year 2007 but chose differently in year 2009. To identify the characteristics of individuals who fired their financial advisor during the Great Recession, a subsample is created that consist solely of those who were engaged in a client–advisor relationship in 2007. Hence, the subsamples consist of those who are classified as "Fire" and "Keep." The groups of "Hire" and "Never" are respondents who had no advisors in year 2007 but chose differently in year 2009. They are combined to create another subsample that is used to analyze the characteristics of individuals who employed the services of financial advisors during the Great Recession (tables are not shown but are available from the authors upon request).

Results

The regression results are shown in Tables 3 and 4. In Table 3, columns 1 and 2 show the marginal effects of various variables on the probabilities of firing and hiring a financial advisor. Column 3 and column 4 are similar to columns 1 and 2 but include additional personality measures. Column 1 and column 2 in Table 4 focus on respondents who either hired or fired a financial advisor that provided comprehensive financial planning. While columns 3 and 4 provide empirical results from 2009 to 2011 which captures the recovery of the market (Table 5).

As shown in Table 3 column 1, few variables are statistically significant. This is an indication that most of the variables used, which are mostly related to money, are not the main reasons why clients fire advisors. Experiencing an increase in income from 2007 to 2009 at the personal or family level are associated significantly with a higher probability of hiring a financial advisor during the Great Recession. A decrease in net worth, which creates financial problems and is expected to increase the likelihood of hiring a financial advisor, is not found to be statistically significant. The multivariate results on a change in income or net worth are not as expected, indicating that client–advisor relationships during the Great Recession went beyond the management of money.

There is evidence that higher education levels are associated significantly with a lower probability of firing current financial advisors and a higher probability of hiring a financial advisor during the study period. Respondents with a graduate school degree have a 0.15 lower probability of firing their advisor and a 0.05 higher probability of hiring a financial advisor during the Great Recession when compared to respondents with less than some college education. It is reasonable to assume that respondents who received more education understand the financial crisis and were less

TABLE 3. Marginal Effects of Probit Regression

	Fire	Hire	Fire	Hire
	Keep and Fire	Hire and Never	Keep and Fire	Hire and Never
Variable	***N* = 781**	***N* = 2,951**	***N* = 765**	***N* = 2,849**
Decrease of income ($1,000)	0.0003563	**−0.0050493*****	−0.0005077	**−0.0044432*****
	(0.0027356)	**(0.0012798)**	(0.0027607)	**(0.0013224)**
Decrease of net worth ($1,000)	0.00003	0.0000994	0.0000145	0.0001119
	(0.0003323)	(0.0001554)	(0.0003267)	(0.0001554)
Family income of 2007 ($1,000)	**−0.0050893****	**0.0053678*****	−0.0041132	**0.0041986*****
	(0.0023878)	**(0.0011173)**	(0.0025779)	**(0.0012565)**
Family net worth of 2007 ($1,000)	−0.0002616	0.0001454	−0.0002271	0.0001239
	(0.0003068)	(0.0001618)	(0.0003052)	(0.0001652)
Homeownership	−0.326	−0.100	−0.017	−0.017
	(0.045)	(0.0180)	(0.046)	(0.018)
Own stock	−0.058	0.028	−0.037	0.019
	(0.040)	(0.0196)	(0.041)	(0.019)
Own mutual fund	**−0.079****	**0.0872*****	−0.057	**0.069*****
	(0.037)	**(0.0249)**	(0.038)	**(0.024)**
Declared bankruptcy before	**0.092***	−0.187	0.058	−0.021
	(0.054)	(0.168)	(0.053)	(0.017)
Had job loss	0.054	0.000	0.035	0.000
	(0.051)	(0.179)	(0.051)	(0.018)
Inheritance	−0.056	0.000	−0.029	−0.015
	(0.036)	(0.015)	(0.038)	(0.015)
Some college			−0.020	0.136
			(0.045)	(0.017)
College			−0.080	**0.056****
			(0.049)	**(0.025)**
Graduate school			−0**.150*****	**0.050***
			(0.050)	**(0.027)**
Intelligence score (IQ)			0.000	**0.0006578****
			(0.001)	**(0.0003011)**
Race—Other			0.007	−0.018
			(0.060)	(0.021)
Race—Black			**0.151*****	**0.033***
			(0.054)	**(0.019)**
Race—Hispanic			−0.077	−0.030
			(0.062)	(0.019)
Gender—Male			0.016	−0**.024***
			(0.033)	**(0.013)**
Risk averse level—Strong			−0.025	−0.009
			(0.051)	(0.019)

(*Continued*)

TABLE 3. Marginal Effects of Probit Regression *(Continued)*

	Fire	Hire	Fire	Hire
	Keep and Fire	**Hire and Never**	**Keep and Fire**	**Hire and Never**
Variable	***N* = 781**	***N* = 2,951**	***N* = 765**	***N* = 2,849**
Risk averse level—Moderate			−0.048	0.011
			(0.043)	(0.018)
Risk averse level—Weak			0.004	−0.011
			(0.044)	(0.016)
Region—North			−0.062	**0.041***
			(0.051)	**(0.024)**
Region—South			−0.035	0.029
			(0.051)	(0.021)
Region—West			0.041	**0.066****
			(0.059)	**(0.027)**
Age			−0.317	−0.166
			(0.310)	(0.120)
Age squared			0.003	0.002
			(0.003)	(0.001)
Marital status—Married			0.032	−0.003
			(0.038)	(0.014)
Psuedo R^2	4.57%	4.61%	7.31%	6.57%

*$p < .05$. **$p < .01$. ***$p < .001$.

likely to blame their advisors for their loss of wealth. Higher IQ scores are also found to be associated positively with a higher probability of hiring a financial advisor. The results are similar to the expectation that, the higher human capital respondents have, the more likely they are to realize the complexity of financial issues, leading to a higher probability of hiring a financial advisor. Race also is found to be significant. Compared with Whites, Blacks had a 0.15 higher probability of firing and a 0.033 higher probability of hiring a financial advisor during the Great Recession. Male respondents were found to have a 0.024 lower probability of hiring a financial advisor compared to females. For respondents who owned mutual funds, they had a 0.069 higher probability of hiring a financial advisor during the study period than those who did not own mutual funds. This is reasonable because those who buy mutual funds might be more familiar with diversification and understand the ground rules of investment, thus being more likely to seek the assistance of financial professionals.

Overall, the results indicate that, during the Great Recession, financial advisors provided value to their clients that went beyond managing money. The results of why individuals hire financial advisors suggest that people with more wealth and more knowledge are more likely to work with a financial advisor. This differs from the expectation that individuals who have financial issues are those that will hire a financial advisor. Arguably, this implies that financial services are still not widely available for individuals without a significant amount of wealth.

Sensitivity Analysis

Financial Advisors Offer Comprehensive Services

Arguably, it is critical for academics, practitioners, and consumers to understand the differences between a sales representative and a comprehensive financial advisor. Sales representative are persons whose primary job is to sell financial products. Such individuals often will present themselves as financial planners when in reality they are brokers. Comprehensive financial planners have a responsibility to act as a fiduciary while brokers are required to make suitable investment recommendations. Unfortunately, suitable recommendations might not always be in the best interest of clients. Oftentimes, those providing

TABLE 4. Marginal Effects of Probit Regression

	Retirement Planning		2009–2011	
	Fire	Hire	Fire	Hire
	Keep and Fire	Hire and Never	Keep and Fire	Hire and Never
Variable	***N* = 460**	***N* = 2,731**	***N* = 874**	***N* = 2,554**
Decrease of income ($1,000)	0.0033957	**−0.0022948****	−0.003399	**−0.0042273*****
	(0.0035184)	**(0.0011254)**	(0.0023169)	**(0.0010987)**
Decrease of net worth ($1,000)	−0.000582	0.00000366	0.0004344	**−0.000477*****
	(0.0003781)	(0.0001264)	(0.0003003)	**(0.0001395)**
Family income of 2007 ($1,000)	−0.0046213	**0.0027942*****	0.0000553	**0.0047041*****
	(0.0031122)	**(0.0010521)**	(0.0023537)	**(0.0010954)**
Family net worth of 2007 ($1,000)	−0.0001459	0.0000538	−0.0002887	0.0001865
	(0.0003651)	(0.0001405)	(0.0003068)	(0.0001369)
Homeownership	0.025	−0.007	0.013	**0.051****
	(0.055)	(0.015)	(0.047)	**(0.020)**
Own stock	−0.030	**0.031***	**−0.088****	−0.008
	(0.049)	**(0.017)**	**(0.041)**	(0.018)
Own mutual fund	−0.009	**0.046****	**−0.175*****	**0.049***
	(0.048)	**(0.021)**	**(0.042)**	**(0.026)**
Declared bankruptcy before	0.076	−0.016	−0.076	0.009
	(0.066)	(0.014)	(0.048)	(0.017)
Had job loss	0.011	0.006	0.036	**0.032***
	(0.063)	(0.016)	(0.052)	**(0.019)**
Inheritance	−0.041	−0.016	−0.027	−0.003
	(0.046)	(0.012)	(0.036)	(0.014)
Some college	0.027	0.010	−0.046	**0.052*****
	(0.058)	(0.014)	(0.044)	**(0.017)**
College	−0.051	**0.045****	**−0.120****	0.018
	(0.061)	**(0.022)**	**(0.047)**	(0.022)
Graduate school	**−0.117***	**0.047***	**−0.110****	**0.047***
	(0.061)	**(0.024)**	**(0.049)**	**(0.026)**
Intelligence score (IQ)	−0.0005093	0.0002567	−0.0009429	**0.0008251*****
	(0.0010057)	(0.0002532)	(0.0007965)	**(0.0002854)**
Race—Other	0.092	−0.001	0.060	−0.010
	(0.076)	(0.019)	(0.058)	(0.021)
Race—Black	**0.155****	0.019	0.030	0.029
	(0.068)	(0.016)	(0.049)	(0.019)
Race—Hispanic	−0.010	−0.015	0.082	0.010
	(0.079)	(0.016)	(0.061)	(0.021)
Gender—Male	−0.036	−0.012	0.012	−0.008
	(0.041)	(0.011)	(0.032)	(0.012)

(*Continued*)

TABLE 4. Marginal Effects of Probit Regression *(Continued)*

	Retirement Planning		2009–2011	
	Fire	Hire	Fire	Hire
	Keep and Fire	Hire and Never	Keep and Fire	Hire and Never
Variable	***N* = 460**	***N* = 2,731**	***N* = 874**	***N* = 2,554**
Risk averse level—Strong	0.015	0.003	−0.013	0.012
	(0.066)	(0.017)	(0.049)	(0.019)
Risk averse level—Moderate	−0.054	0.006	−0.051	−0.005
	(0.053)	(0.015)	(0.042)	(0.017)
Risk averse level—Weak	0.043	0.001	0.014	0.003
	(0.053)	(0.013)	(0.042)	(0.015)
Region—North	−0.031	**0.043****	0.035	**0.056****
	(0.065)	**(0.022)**	(0.052)	**(0.022)**
Region—South	0.031	0.027	0.032	0.014
	(0.065)	(0.019)	(0.050)	(0.019)
Region—West	0.025	**0.057****	0.005	0.015
	(0.074)	**(0.025)**	(0.057)	(0.022)
Age	−0.293	−0.143	−0.197	0.086
	(0.039)	(0.099)	(0.358)	(0.129)
Age squared	0.003	0.002	0.002	−0.001
	(0.004)	(0.001)	(0.003)	(0.001)
Marital status—Married	0.024	−0.001	0.002	0.003
	(0.047)	(0.012)	(0.038)	(0.013)
Pseudo R^2	10.66%	5.88%	7.97%	10.20%

*$p < .05$. **$p < .01$. ***$p < .001$.

comprehensive financial planning advice are expected to have a secondary education in addition to a financial planning designation and take a holistic approach to plan for clients' needs and goals when managing money for the long term. Martin and Finke (2012) argue that a proxy question in the NLSY can be used to identify whether clients are working with a comprehensive financial planner. That question asks respondents if their financial advisors helped them to "*calculate the retirement income needs*?" This section of the analysis follows Martin and Finke (2012) and focuses on respondents who worked with comprehensive financial advisors. Respondents who worked with a financial advisor in 2007 and calculated retirement income needs but did not work with an advisor in 2009 are grouped as "Fire." Respondents who worked with a financial advisor and calculated their retirement income needs in both years 2007 and 2009 as are grouped as "Keep." Those who did not work with an advisor in year 2007 but indicated working with an advisor in year 2009 and calculated their retirement income needs are the group "Hire"; respondents who did not work with an advisor in either 2007 or 2009 are the group of "Never." The findings are very similar to the first analysis as shown in column 1 and column 2 in Table 4. The decreases in income and wealth are not the main reasons why individuals fired financial advisors during the Great Recession. Correspondingly, increases in income and higher family income levels led to a higher probability of hiring a new financial advisor during the Great Recession. The findings on educational attainment, regional differences, and stock and mutual funds ownerships are similar to previous results. The results indicate that the main conclusion from the preceding section is robust when analyzing the relationship between clients and comprehensive financial planning advisors during the Great Recession.

TABLE 5. Additional Analysis

Variable	Decrease of Net worth Analysis ($)	Multinominal Logit Analysis (Never = Reference Group)		
		Fire	Hire	Keep
Keep	0.878			
Fire	1.732			
Hire	1.398			
Decrease of income ($1,000)	1.029***	**0.966***	**0.963***	**0.968***
Decrease of net worth ($1,000)		1.001	1.001	1.001
Family income of 2007 ($1,000)	−1.702***	**1.044***	**1.039***	**1.061***
Family net worth of 2007 ($1,000)	0.555***	**1.003***	1.002	**1.004***
Homeownership	1.988	1.187	0.872	**1.373****
Own stock	−13.131***	0.953	1.177	1.163
Own mutual fund	−2.133	**2.132***	**1.711***	**2.677***
Declared bankruptcy before	1.934	**1.405***	0.854	0.99
Had job loss	−1.493	1.28	0.966	1.102
Inheritance	−1.264	0.933	0.89	1.068
Some college	1.834	**1.381***	1.142	**1.554***
College	1.390	1.658	**1.549****	**2.485***
Graduate school	1.429	1.101	**1.478****	**2.423***
Intelligence score (IQ)	−0.035	**1.006***	**1.006****	1.003
Race—Other	−1.204	0.88	0.859	0.849
Race—Black	2.877	**1.809***	**1.36***	0.855
Race—Hispanic	3.750*	0.502	0.756	**0.706***
Gender—Male	−4.522***	1.07	**0.819***	0.937
Risk averse level—Strong	−0.001	0.87	0.887	1.069
Risk averse level—Moderate	−0.675	1.104	1.131	**1.429****
Risk averse level—Weak	−0.289	0.945	0.866	0.99
Region—North	2.275	1.009	**1.376***	**1.565****
Region—South	1.194	0.824	1.246	1.165
Region—West	−1.353	1.271	**1.629****	1.228
Age	1.856	0.456	0.217	2.153
Age squared	−0.022	1.009	1.017	0.992
Marital status—Married	4.751***	1.082	0.976	0.897

*$p < .05$. **$p < .01$. ***$p < .001$.

Nonrecession Period

The last two columns of Table 4 show why respondents fired or hired financial advisors over the years 2009 and 2011, the period right after the Great Recession. During this "nonrecessionary" period the current level of net worth and decreases in net worth are not the main reason why individuals fire their advisors; consistent with findings for the Great Recession. More households were hiring financial advisors during this period, especially those respondents with higher income and net worth and those who experienced an increase in income. Respondents who were better educated, owned a home, and participated in the market were more likely to hire financial advisors.

Limitations

While this study addresses an essential question in the daily practice of financial advisors, it can be extended with private data. One major limitation of the study is the inability distinguish among the different types of financial advice clients receive from their advisor. We are also unable to examine individual investment portfolios across time. While individuals experience a decline in wealth during recessionary periods, this fall is temporary provided the losses do not become realized. However, many clients might be unaware of this. Hence, it would be interesting to analyze the effectiveness of the different tools advisors use to communicate with their clients during recessionary periods.

Implications for Practitioners

This study examines changes in the client–advisor relationship during the Great Recession. Empirical analysis reveals the demographic, financial, and psychological characteristics that explain the firing and hiring of financial advisors during the Great Recession. The results have important implications for financial advisors to handle relationships with their clients during market downturns better.

Similar to Cummings and James (2014), we found that both qualitative and quantitative factors impact the decision to fire or hire a financial advisor. Hence, experiencing a decline in wealth during the Great Recession was not the main reasons why clients fired their advisors. These results are fascinating from a practice standpoint, as we would expect clients to determine the faith of their advisor–client relationship based on portfolio performance. While individuals could enter into an advisor–client relationship for purely financial matters, developing a good rapport is integral to the sustainability of the relationship. The value that a financial advisor brings to a relationship will often go beyond managing financial wealth and providing insurance. Clients will often lean on their financial advisor for expertise and guidance in areas such as taxes, estate planning, education planning, debt management, and so on. Furthermore, financial advisors can educate their clients by providing meaningful economic updates which are essential during down markets. Financial advisors are often the voice of reason for their clients. They prevent clients from making irrational financial decisions and hold them accountable during the implementation phase of the financial planning process.

During the Great Recession, those who experienced an income increase at the personal or family level were significantly more likely to hire a financial advisor. With the evolution of the financial services industry and the rise of financial technology companies, financial advisors must identify prospective clients and educate such individuals on the value of their services. Financial advisors will be able to grow their client base by identifying potential clients who have experienced an increase in income whether it is through a promotion or a new job.

It is understandable why financial advisors might have a fear of losing clients during a recessionary period. After all, many advisors are responsible for managing their clients' portfolio. Our results show that clients do not fire their financial advisor because they experience a decline in net worth during recessionary periods. However, demographics and psychological characteristics of clients have a greater impact on the advisor–client relationship. By understanding how demographics and psychological characteristics impact the advisor–client relationship, the financial advisor will have the ability to identify those clients who are more likely to end their engagement during periods of high market volatility. Once identified, an advisor should take steps to build their client's trust and confidence in the relationship. By providing educational resources such as educational seminars, reading material, and having more meetings. Prior suggest that when advisors increase the frequency of communication with clients and provide educational content, they can build trust (Cheng, Browning, & Gibson, 2017).

Although the complete story about why people fired their financial advisors during the Great Recession cannot be

examined, this article offers a few explanations. Losing money was not the main reason. However, client characteristics such as intelligence, gender, current income, and net worth are relevant factors that played a role in the decision to hire or fire a financial advisor during the Great Recession.

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