BUILDING YOUR PIECE OF THE FUTURE

What Financial Advice Will Look Like & How to Get There Ahead of the Crowd

By Scott MacKillop

START HERE - MAKE A PLAN

You have no need to fear the future, but you better be prepared for it.

Failure to adapt today to the changes engulfing our industry will cause your business to sink like a stone tomorrow. To avoid that sinking feeling, you need a plan.

Your plan should take into account the nature of the changes that are taking place and how they will affect your current business. It should also contain concrete steps you will take in response to those changes.

To help you formulate your plan, we offer the following thoughts on creating your personal roadmap to success in the future. It's our way of helping you stay afloat and even thrive as you work through the challenges that will confront all financial advisors in the coming years.

Most Valuable Software Tool According to Advisors

CRM	43%
Financial Planning	26%
Portfolio Management	20%
Trading/Rebalancing	6%
Investment Analytics	2%
Risk Tolerance	1%
Document Management	1%

Source: Bob Veras/Inside Information

FIRST STEP: UNDERSTANDING THE ROOT CAUSE

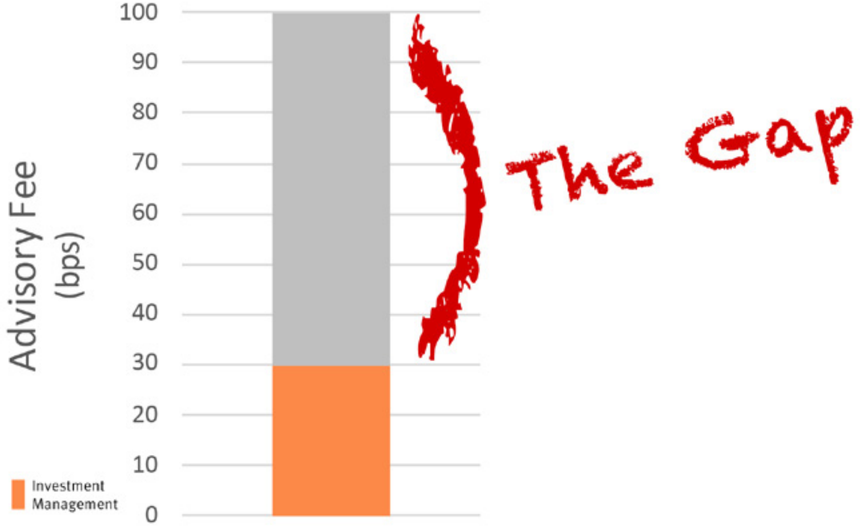
It's no secret. Technology is rapidly reshaping our industry. The change is happening so quickly it's hard to keep up. Every aspect of your business that can be automated will be automated.

In the future, you will sit in a tech-driven cockpit that will put the tools of your trade at your fingertips. Prospecting, proposal generation, and client onboarding will all be automated. So will developing financial plans and managing portfolios. You will have instant access to vast amounts of client information and will communicate virtually with clients at any time.

COCKPIT OF THE FUTURE

The cockpit will look different for every firm. There will be no one-size-fits-all answer. Its size and shape will be determined by the needs and preferences of each firm and its clients.

In the past, you could build a nice business offering investment management services for a 1% fee. Technology has changed all that.



The new technology will certainly change how you do your job. It will make you more efficient and give you capabilities you didn't have before.

But it will also change how and where you add value. Activities that formed the cornerstone of your value proposition will no longer do so in future-world.

Robos, model marketplaces, platforms, and online hybrid solutions now make investment management available for prices ranging from 35 basis points to free. You can no longer justify a 1% fee solely in return for investment management.

The same thing is happening to other services that have traditionally been cornerstones of an advisor's value proposition. Financial plans, portfolio rebalancing, and tax-loss harvesting have been automated and made available online at low cost. Are they of the same quality an advisor would provide? Not yet, but portfolios offered by robo-advisors also have limitations and their availability has affected the perceived value of investment management services.

There is an important lesson here. Technology can make you more efficient, but it can also compress the perceived value of your services. If you continue to offer only the services you offer today, it will become increasingly difficult to maintain your current revenue stream as the perceived value of those services is compressed by technology.

Unfortunately, the new technology, itself, will not save you. You will need the new technology tools to compete in the future, but they will be table stakes. Everyone will have them. They will not set you apart from your competition. To differentiate your firm from others and to maintain your current revenue stream, your business will need to evolve.

NEXT STEP: GET YOUR BEARINGS

Dealing with change can be difficult, even agonizing. This is especially true when the change is caused by technology—a topic that mystifies most advisors. The good news is that the key driver of your success in the future will be your humanness, not your technology stack.

Ultimately, you will need to employ the new technologies to keep pace with your competition and efficiently provide the baseline services expected of a financial advisor. But you are not in a techno arms race with the direct-to-consumer robos or the big-box hybrid programs.

Your market is people who seek an ongoing relationship based on personal trust. Your success will depend on your ability to build strong relationships with these people and guide them through the complexities and uncertainties of creating a secure financial future. Technology can help, but the essence of your mission is to be viewed by your clients as a trusted expert and establish lasting personal connections with them.

There has always been a group of people who were essentially self-help investors, but needed a little guidance and structure to get started. Traditionally, these investors have been served by discount brokers, banks, mutual fund companies, and large custodians.

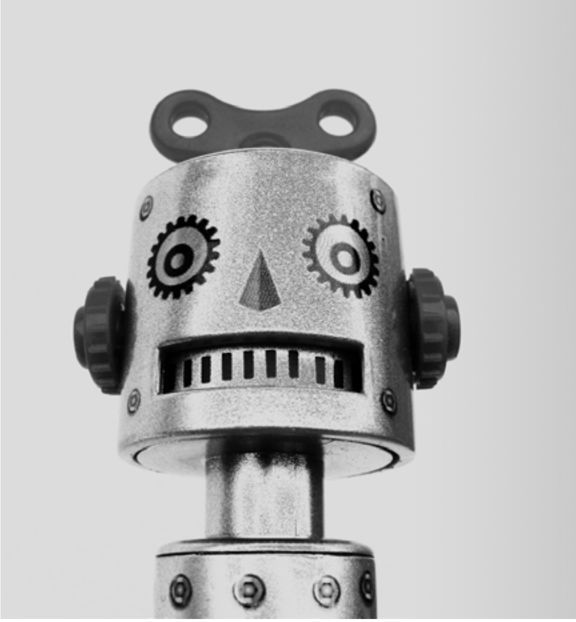
The advent of the robo-advisors has changed how this market is served. Firms like Wealthfront serve them directly through all-online offerings. Firms like Personal Capital serve them through hybrid offerings that combine online service with 800-number access to human support.

In response, the traditional players are adopting robo-technology to win these clients back and up their game in the upcoming battle to serve them. Schwab and Vanguard are two examples. Both have developed hybrid programs that now dwarf the pure robo-advisor offerings.

That is not your market. Don't be distracted by the firms that are competing for these clients and don't model your own firm after them. Yes, the growth of the Schwab and Vanguard hybrid programs is impressive, but largely they are cannibalizing their old self-help programs.

Take your time and be thoughtful about how and when to adopt the new technology. There is no need to buy every new tech-tool that hits the market. The fin-tech landscape is still in a state of rapid flux. Some of the best technology of the future has not even been invented yet.

Before you set about creating your own version of the cockpit of the future, though, you have an important question to answer. In a world where everything that can be automated is automated, how will you add value?

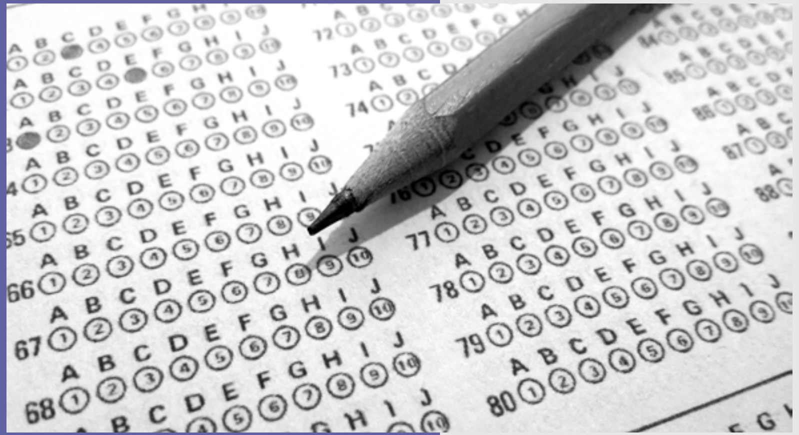


Once everything that can be automated is automated, what will advisors do? Is there a place for them, or will the robots take over?

NEXT STEP: DEFINE YOUR VERSION OF THE FIRM OF THE FUTURE

Roll the tape forward a few years. The traditional cornerstones of your value proposition like investment management, portfolio rebalancing, tax loss harvesting, and financial planning are all highly automated and widely available online. Because of this, their perceived value in the eyes of your clients has been compressed. Now what? How do you attract and keep clients while maintaining current levels of revenue and profitability?

Use your humanness to set yourself apart, build trust, and establish a lasting bond with your clients. Hopefully, you can come up many ideas of your own about how to accomplish this. In the meantime, here are some thoughts to help get your creative juices flowing.



CLIENT PROFILING

Most firms do a miserable job of client profiling. This isn't necessarily their fault. Most advisors are not trained psychologists and most tools for client profiling lack a firm scientific foundation.

This creates a number of opportunities for the wise advisor.

Advisors who develop a scientific process for matching clients to the appropriate portfolio can improve the likelihood that clients will reach their financial goals.

1: Differentiation

Improving your capabilities in the area of client profiling provides a concrete basis for differentiating your firm from others.

2: Client Focus

A comprehensive client profiling process puts the focus on clients and makes them, rather than their portfolios, the center of attention. This makes the process more personal and enhances the client's experience.

3: Client Retention

Research shows that individuals have a wide range of behavioral characteristics. Understanding a client's behavioral make-up allows advisors to create portfolios that clients are more likely to stick with long-term.

4: Add Value Over Time

A client's behavioral profile is not static. It can change through the years. Thus, client profiling should be an iterative process that requires ongoing involvement and monitoring by an advisor.

5: Profiling is Uniquely Human

Client profiling is an activity that is hard to fully automate because behavioral profiling is not an exact science. The profiling process can identify behavioral characteristics and flag issues that need attention. But there is no automated tool that can give a precise answer about how a client's assets should be invested. Only through collaboration between client and advisor can an appropriate course be determined.

Advisors who develop a scientific process for profiling their clients and resolving any issues identified in that process can improve client outcomes and deliver value on a continuing basis. There are tools available, including some cool new ones, that can help you make understanding your clients' behavioral characteristic a focus of your business.

Differences are multi-dimensional. Clients differ in their willingness to assume risk. They differ in their reactions to losses. They differ in their perceptions of where risk lies. They differ in their abilities to tolerate uncertainty.

CLIENT EDUCATION

Successful advisors of the future will be educators. They will inform and prepare clients to behave as successful investors. Firms that learn to fill the role of behavioral coach in a systematic, process-driven way can add loads of value.

Here's why. There are two things that need to happen for a client to reach their financial goals. First, the client needs a good portfolio designed to maximize the chance of hitting those goals. Second, the client needs to stay in place long enough for that portfolio to do its work.

Matching a client with the right portfolio through behavioral profiling is a good first step in making sure the client will stay in place, but that is not the entire answer. If you have a client who needs to be very aggressive in order to reach their goals, but is very risk averse, you have a problem. Knowing that the client is risk averse does not solve the problem.

You have to bridge the gap between their need to take risk and their inherent aversion to risk. That's where client education or behavioral coaching comes into play.

You can teach a client how to behave like a successful long-term investor. Just as soldiers and athletes can be taught to do the right thing in chaotic situations, so, too, can investors. Telling them to stay the course once the bottom drops out of the market is not enough. You need to spend time preparing them for the inevitable bumps they will encounter.

Again, the good news is that client education is an area where humans are valuable. Advisors can bring clarity, answer questions, see when a client is not understanding. Advisors turn client education into a human interaction. So, this is another area they can deliver ongoing value, while establishing themselves as trusted, client-focused experts.

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CLIENT EXPERIENCE

Enhancing the client experience involves moving from thinking about the client's destination to thinking about creating an outstanding client journey.

When we think about the destination, we think about how to get clients from where they are today to where they need to be. They become problems to solve. We identify their goals and time horizon. We calculate what they have today and what they will need in the future. Then we prescribe a plan to get them there. How they feel along the way is not our focus.

Creating an excellent client journey means recognizing that there are many ways our clients can get to their respective destinations.

It means moving from thinking about "my offering" to thinking about personalization based on client preferences. By co-creating the journey with the client, you gain a competitive advantage and create a unique and satisfying client experience.

Think about every aspect of how you serve your clients. How can you make improvements that reflect the needs and preferences of your clients? How can you give them flexibility and choice? We often think about how we can use technology to make our businesses more efficient. Think, instead, about how to use it to make life easier for your clients.

COMMUNICATION

The availability of so many channels of communication—e-mail, texts, phone, social media, etc.—should make communication easier and better. The opposite seems to be true. There is more noise than ever before. Clear, responsive interactions between people are harder than ever to maintain. Here are some ideas for dealing with this issue.

Channels

Use what your clients use. With so many different options available for communicating you need to work extra hard to make sure the messages you are sending are actually reaching their intended recipients. You also need to make sure that you are regularly monitoring the channels that clients might use to reach out to you. Find out how your clients want to interact with you and make sure they have that option.

Format

Alter how you communicate. The format for effective communication has changed. Attention spans have shortened. People have less time. Shorten all communications. Use videos. Use online meeting services rather than forcing clients to come to your office. Communicate using the formats that are most appealing to your clients and create alternatives.

Responsiveness

Be responsive. Study after study has shown that one of the main reasons for client dissatisfaction is lack of responsiveness from their advisor. If you want to stand out favorably with your clients or prospects, respond to them quickly and personally when they reach out. It doesn't matter how busy you are, just do it. Show them they matter. This is the simplest and most effective way to enhance the client experience and cement long-term client relationships.

Accessibility

Create the sense you are always standing by. Historically, the investment world has been driven by a calendar quarter system. You'd meet quarterly with clients and produce performance reports on a quarterly basis.

Now we live in a 24/7 world. Clients want access to you and to information on a more frequent basis. It doesn't mean they want more meetings—far from it. But they want to feel your presence. Use your website, social media, your blog, and other communication tools to expand your reach.

WEBSITE

Your website is like your face used to be. You used to get clients by meeting them in person. You'd meet them at a seminar or maybe they'd visit you in your office for an introductory meeting. They'd look you in the face and talk to you.

Now, their first encounter with you is likely to be your website. They'll make judgments about you based on your site, like they did when they met you in person. But you'll never get a chance to meet them face-to-face if they don't like your website.

Most advisor websites are very similar. Similar words, similar imagery. Lots of facts. Very little personality. No way for a prospect to get a feeling for who you are and what you stand for.

Give prospects some basis for differentiating you from the other firms they're going to check out. And give them a reason to like you. Be genuine. Clients are looking for an emotional connection. They want to feel something. They want to be part of something.

Don't focus so much on what you do. Focus more on who you are. Unless your offering is very unique, it is hard to explain to a prospect how your services differ from those of other advisors. It is much easier to differentiate yourself based on your unique personality and experiences. Step out of the sea of sameness and into the light that emphasizes your individuality.

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BE A BLOGGER

Companies that increase blogging from 3-5 times a month to 6-8 times a month almost double their leads. Companies that blog only 1-2 times a month generate 70% more leads than those that don't blog at all. (Hubspot, 2012)

BY THE NUMBERS

89% of consumers research products using search engines. (PR Newswire, 2014)

Nearly 2/3 mass affluent consumers take action after using social media to discover and consider financial products and services. (The DigitalFA, 2014)

About 90% of mass affluent consumers use social media. Of that 90 percent, 44% engage with financial institutions on social media. (LinkedIn, 2013)

Inbound marketing costs 62% less per lead than traditional outbound marketing. (Groove Digital Marketing, 2013)

PRODUCTS

Today we live in a world full of product silos. Some are based on philosophy. Some result from regulatory constraints. Some flow from technology. Some are simply based on ignorance.

These barriers are breaking down since they do not serve the best interests of clients. When academics of the stature of Wade Phau and advisors of the caliber of Harold Evensky endorse the use of annuities and reverse mortgages, you know the world is changing.

We will eventually live in a silo-less world because clients need access to a broad range of financial products. Firms that recognize this will be rewarded.

FEES

We are at the beginning of a fee revolution that is being driven by two forces:

Automation

Automation is bringing down the perceived value of many advisory services. Other forces, like the rise of passive investing and the regulatory focus on fiduciary standards, have put additional downward pressure on fees. To date, there has been more talk about fee compression than actual compression. But change is coming.

This pressure can be combated, but only by rethinking the traditional advisor value proposition. Advisors will need to add services with higher perceived value and reinvent the total client experience to increase overall satisfaction and engagement. You must create an offering and an experience that is clearly superior to online offerings in the eyes of the client.

Alternatives

Many advisors have adopted, or are considering, alternatives to the traditional percentage of AUM fee structure, including flat fees, hourly fees, and retainers.

There is no such thing as the perfect fee schedule—every fee structure has its strengths and weaknesses. But alternative fee structures can appeal to clients because of their logic, simplicity, and transparency.

There is a general misconception that adopting an alternative fee approach means making less money. This is a fallacy. Most advisors who adopt alternative fee approaches do so to become more competitive, attract more clients, and make a better living. Their goal is to win more business by better tailoring their offering to the needs of their clients.

Study and consider alternative fee structures so you will understand their pros and cons. You may be surprised to find there is a part of your practice where they make sense.

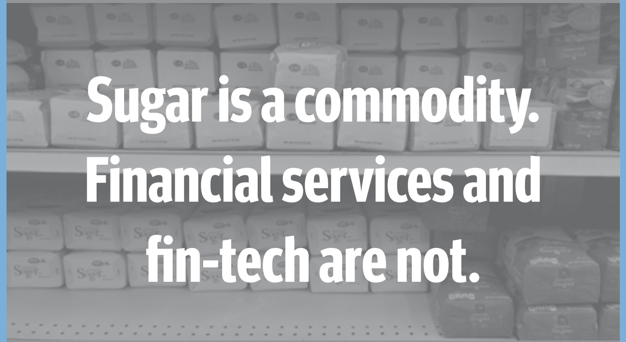
WARNING:
Low Price Does Not Equal Commoditization

As we have automated more of the services traditionally associated with the advisory business, we have seen the pricing around some of those services compress. As this happens, many people have referred to the "commoditization" of these services.

This is a misguided and dangerous idea. A commodity is something that is interchangeable, like a bag of sugar on the grocery store shelf. Financial services are rarely interchangeable.

Quality, service, and pricing vary quite a bit. Due diligence is still important. There can be a wide range of outcomes and experiences depending on which service provider you select.

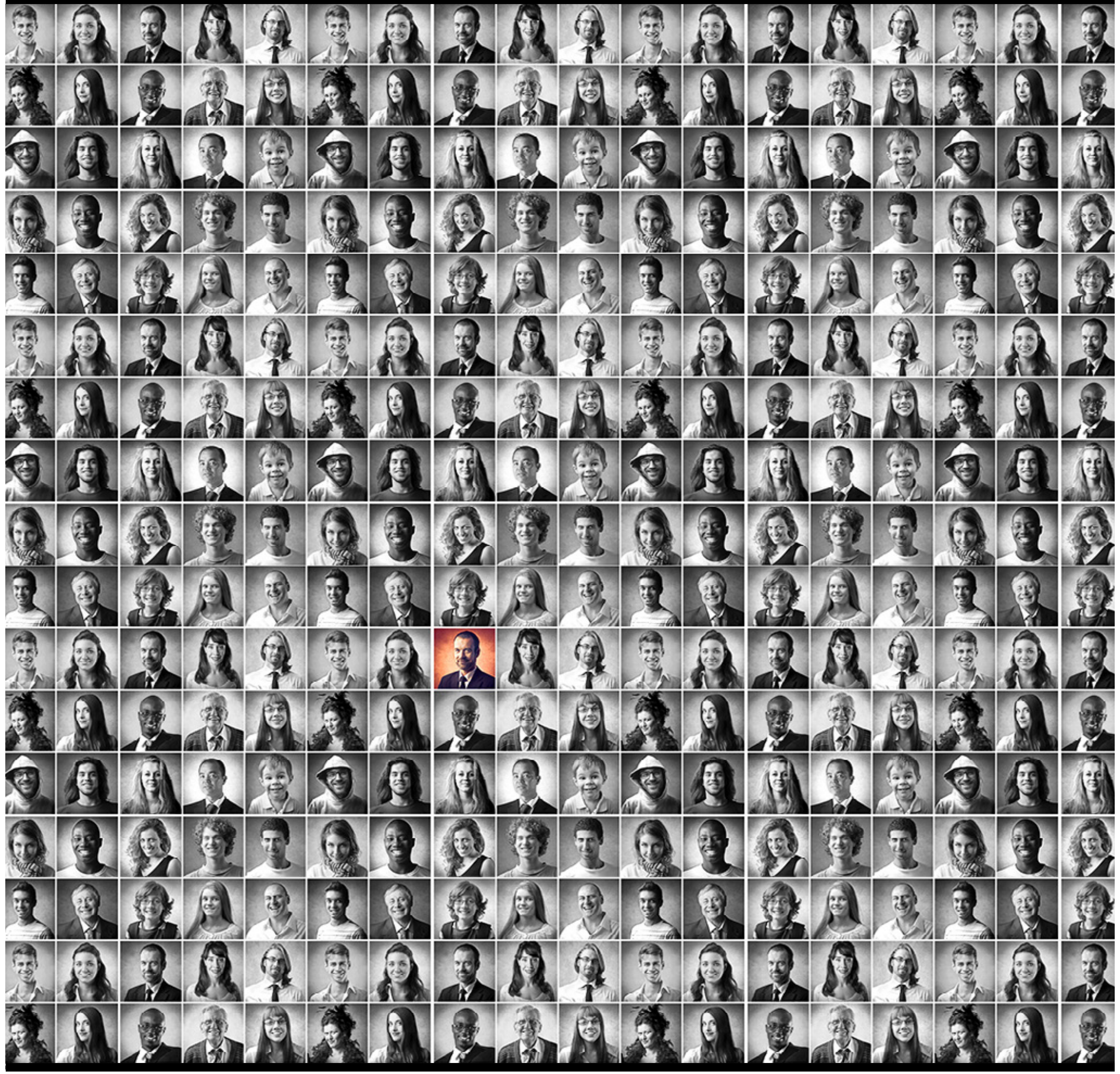
As you build your version of the firm of the future, don't fall into the trap of focusing solely on price or believing that the potential components of your cockpit offered by different service providers are interchangeable.



FOCUS ON YOUR HUMANNESS

As the future unfolds, the key is to remember that the essence of the relationship between an advisor and a client is a deeply personal one. Build your offering on that basic truth.

Don't let all the changes in technology, products, and fees distract or depress you. Take your time and be thoughtful. If you stay focused on satisfying your clients and meeting them where they are, you will have a wonderfully successful business no matter what the future may bring.



"You better start swimmin' or you'll sink like a stone, for the times they are a changin'."
– Bob Dylan

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