What will the advisor of the future need to survive and thrive through the years?

Thought Leader Roundtable

Eight thought leaders in the financial services profession presented their views in a roundtable discussion following the Financial Planning Association's National Conference in San Diego in September 2011.

Sponsored by Genworth Wealth Management

Context / Setting

Following the Financial Planning Association's (FPA) National Conference in San Diego in September 2011, eight thought leaders in the independent financial services profession presented their views in a roundtable discussion. The 60-minute conversation was a spirited debate. A frequent contributor to Financial Planning magazine and Financial-Planning.com, Marie Swift moderated the discussion.

This paper presents just a few of their important insights and observations. A series of AdvisorTV video interviews is available *at http://www.Financial-Planning.com /video*.

Inquiries About this Paper

Al Martin, Director of Media Relations, Impact Communications, Inc.

(800) 974-7753 | ImpactMediaManager@ImpactCommunications.org

Key Question Posed

What will the advisor of the future need to survive and thrive through the years?

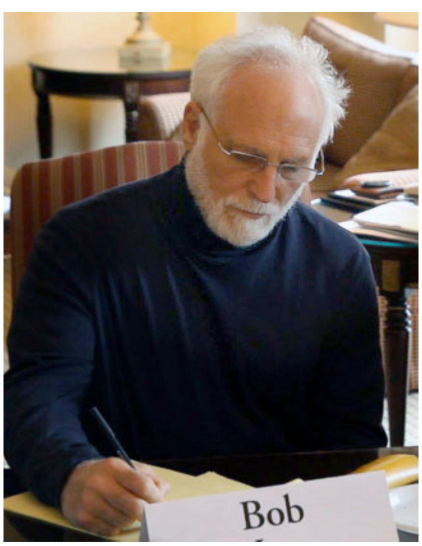
The Panel Replies

Bob Veres, editor and publisher, Inside Information: If you're going to have a conversation like this it might be helpful to start with noticing how far we've come. We can whimsically predict that the advisor of the future will use the investment pyramid to build portfolios and will mostly be selling limited partnerships on a commission basis and the partnerships will go kaput and there will be no way to tell what mutual fund performance is.

In the pre-internet age there had already been a tremendous amount of change in the planning profession. If you were to grab somebody fifteen years in the past and drop them into the middle of this conversation, I doubt they would even recognize the profession we live in today. So trying to look ahead to the next 15 years is kind of a complicated activity that we've started here.

I'm going to throw out some ideas, and I'll start with one that I'll just mention briefly, because we have a lot of people here that know a lot more than I do about practice management. I believe the advisor of the future is going to be working with a larger professional firm as opposed to a solo practice. The center of gravity right now is somewhat less professional in terms of management than I believe it will be going forward. I hope that will be one of the topics that you take up and run with.

Beyond that, I see two fairly significant changes coming at us hard and fast. If you look at the history of the profession, there have been times when the advisor knew a lot more than the average consumer about investing and how to build an investment portfolio. And there have been times like now, when that difference is pretty thin; when a consumer's perception of our investment value proposition is "I know as much about this as you do but it's more convenient to have you do it."



Bob Veres

The revision of modern portfolio theory that's going on right now, I think, is going to greatly expand that gap between what advisors know and what the average consumer knows. And I think that's going to greatly enhance the value of the advisory relationship, to the point where I think, certainly within the next 15 years, that it will be almost necessary to have a professional involved in the investment process.

Beyond that, the financial services universe, defined broadly, has experienced an ancient and persistent tug-of-war between the agency side of the business and the fiduciary side, which I call the professional side of the business. The professionals want to draw a bright line between them and the sales agents who are masquerading as professionals; they want to be able to say to the consuming public, we're here on this side of this clearly visible line, and the sales agents are over there, and we can all tell the difference.

Of course, the agency side of the profession doesn't want that line to be quite so clear; in fact, there is constant innovation in the marketing departments, looking for ways to blur that distinction. Today, it seems to me, we're at a maximum "blurring point" if you will, where the distinction is unclear to most consumers. I believe the profession is in the process of creating that next bright line, and the next 15 years will see a clearer distinction between the professional advisor and the marketing rep posing as a professional advisor.

The distinction will be a new level of clarity about the all-in costs of working with a fiduciary who is guarding the client's interest against a lot of fairly significant expenses, as opposed to the agents who are guarding the interests of the company they work for. You and I know that we can actually quantify those costs — we can actually quantify the distinction. I've gone through this process with somebody who has said, "Back when we worked with Merrill Lynch we would charge this and the fees would be that, and the all-in cost would be this, and the all-in cost now that we're working independently is this. The difference, for a $1 million portfolio, is roughly the cost of taking a nice trip to Europe each year.

Both of those trends are going to make the value proposition for professionals dramatically more compelling 15 years in the future than they are right now. Of course the complicated markets are adding their own incentives to have a professional investment advisor in your life. It's nice to have someone you can call when the markets do what they've been doing. So as we move into that next 15-year window, I think we're seeing kind of a perfect storm of benefit to the profession, or benefit to the value proposition for the profession.

Michael Kay, CFP®, president, Financial Focus LLC: I agree with what Bob said in terms of the idea of the rolling up of the profession and consolidation among solo practitioners and silo practices into larger organizations that are more professional, that have more diverse offerings, more expertise. We can use the accounting profession as a model. It went from the solo eyeshade accountant to the big four accounting firms; we can see where all this consolidation has taken that profession. I believe it's something that we're absolutely moving toward for all the right reasons.

I'm not quite sure that I agree with the concept of the widening of the gap of knowledge, especially on the investment side. Right now the biggest gap is created by the media; the public is being screamed at from every direction on a moment to moment basis. The value the planner brings to the table is an objective sorting of information to what is fact and what is fantasy, or what is perception. We're dealing with a finite universe of investments; but what we're really wrestling with is someone's risk tolerance, how they deal with their financial lives, how long they will need their nest egg to last, what their values are, and what's the right combination of investments that will presumably get them to where they want to go with a sense of security to try and keep a lot of the noise, or what we call investment pornography, out of their ear canals. Right now that is getting people all stirred up and crazed because the headlines and news reports that happen minute to minute are so dramatic. Everything is at this level of a ten and I think we can all agree that not everything in life is a ten. You know, some things are a six, and some things are a three, and some things are a one. But if we live at this high level of red alert constantly we need to be that voice of reason and that voice of grounding, both to our colleagues and our clients.


Michael Kay

John Brackett, partner, BAR Financial LLC: I think the advisor of the future has two things they have to get their head around. One is that they must become the CFO for that family, trust or business they are working with, and acknowledge that they have a fiduciary responsibility for those entities. Quite frankly, it doesn't matter if they are selling on a commission basis, a fee basis, or hourly, there is a point where the client will cease their willingness to pay for advice unless there is value.

Secondly, we must acknowledge that we are the caretakers of this business. We have allowed regulators to assume that role and by doing so we have allowed our business, through regulation and practice, to be commoditized. When was the last time a potential client walked into one of our offices and said "Sell me the XYZ Variable Annuity?" That just doesn't happen. What they want from us is advice, and basically that is what we are selling and there are many appropriate ways for a client to pay for that service.

Look, right or wrong, I choose to drive a Lexus. Now I could drive a Hyundai and get to the same places I'm going in the same amount of time as it takes me in my Lexus; however, I choose to pay a significantly higher amount of money for my Lexus than I would for a Hyundai. I choose to do that because I appreciate the luxury and everything else about that car that led me down the path to that purchase. So if we are, in fact, caretakers of this business, who are we to say that one practice is more professional than another based simply on how the client pays for their service? If we allow that to happen, what we're really saying is there is only one choice, one firm, one way of doing business. And that is just not accurate.

I can also tell you this: I have had the pleasure of working with BAR Financial's over-400 advisors and there is neither one way nor one fee nor one approach to doing the right thing for our clients. When I consider our business and how we are approaching it, the most important thing to remember is that it is not a commodity. There are no cans of soup up on the shelf. There are relationships and our advisors are selling the advice that they have been educated to give. I don't believe it is my business how they get paid for it. I don't think I should step in and say, "You should not get paid that way; you should get paid this way."

John Brackett

My job at BAR Financial is to make sure we have the appropriate people associated with that firm in this business, and to eliminate those who take advantage of clients. We do that very well. Yesterday, when I was in the elevator during this conference, my son, who works with us, called. An advisor had stepped over the line and my direction to my son was "terminate that advisor." There was a woman in the elevator who overheard me and she said, "That easily?" And I said, "You bet." Because it's our business; it's our reputation; it's our industry. That's what we have to get our heads around.

Eric Cott, director of Financial Advisor Education, Options Industry Council: I want to add to what Bob had said regarding the education side. I came from a wealth management firm. I was with Mother Merrill for many years and also had the good fortune of being on the management side. I think from the question of how the advisor business is going to change in the future, I think education is going to be extremely important. I think the investor public has been scarred.

We need only go back to 2008. So for advisors who enter this business now, I think education is going to be very, very important.

I also think advisors should realize that they've never been more vulnerable; they've never been more vulnerable to losing clients to someone down the street. Because when you have all this action going on in Washington and overseas, and the incessant media coverage, advisors need to be aware that the investing public needs our profession — which is a great one to be in. One of the positive things that Merrill instilled in us is that it's the one profession in which you can make unlimited money with that altruistic motive of actually helping people and helping their families. So I think there's a lot of things that we can't know, but it's critical for us to understand that at times your clients might be smarter than you are and understand investments — you just want to be on the same side of the table as them.


Eric Cott and Michael Kim

Michael Kim, senior vice president, Genworth Financial: With regard to the value of advice that's being shared by the advisor, John, we couldn't agree more. Advice is by far the most important aspect of being the trusted advisor for the client. This is not necessarily limited to investment-oriented advice; in many cases, the trusted advisor is a steward of the clients' wealth and their goals. The trusted advisor exudes credibility and confidence, and they do not have to worry about articulating their "value proposition." Whereas, from a product point of view, there is a sense of commoditization and a need to differentiate one product from another. As we think about the successful advisor of the future, it's really the individuals, teams or firms that play the role of the trusted advisor, creating a unique experience for the client.

On another matter, to Michael Kay's point earlier, when we think about the accounting professions or maybe the legal professions, I think there's definitely a consolidation underway. Bigger firms are getting bigger and smaller firms may become part of bigger firms. This trend reflects the need for businesses to be more efficient and optimize shared resources. But on the other hand, the smaller firms will always continue to thrive due to their ability to offer a more intimate and personal experience for the clients. At Genworth Financial Wealth Management, we work closely with advisors to help them grow and scale, but never lose sight of the importance of creating personalized, intimate relationships with clients.

Dave Hubbard, president, Exemplar Financial Network: I'd like to focus on the future of the profession by looking at what happened in the past. I've been doing this for thirty years. I think one of the biggest things that caused our profession to develop was the advent of IRA accounts and 401(k)s and when we moved away from a defined benefit model and companies wanted to get rid of that huge cost, they started making these large sums available to their employees. In most people's lives, they never held a check in their hand for more than ten or twenty thousand dollars unless they were doing a real estate transaction or had a life insurance settlement or an inheritance. People sought out financial advisors, and we prospered by rolling over \$100,000, \$500,000, \$1 million, whatever it might be. Advisors got into corporations, provided various seminars and workshops to roll out this money and most of the large practices, if you look at the origins of their funds, came from that area. Or maybe it was someone selling a business. For hundreds of years nobody sold a business; they passed it down from generation to generation or the business died with the owner. And then we got into the era of selling businesses and cashing out. Or the farmer who'd sell his land to the developer so he'd have sums of money that he'd turn to somebody to manage. That's going away. I believe those sources of money are not going to be there in the future.

They're figuring out now, through legislation or regulation, the definition of fiduciary responsibilities of qualified plans, where the plan providers are finding a way to keep that money. They're not going to let it roll out or find some other vehicle to roll it over before it gets to the advisor. And the financial advisor of the future is going to have to find out how do they manage money. They're going to compete with the banks. The banks are going to get into this business in a big way; they feel like they missed it. My brother was president of a fifty billion dollar bank. One of the biggest things they looked at in the 1990s was how to capture all that wealth that was heading out the door to Wall Street when it was Main Street money. And the banks feel that Main Street money ought to be with the banks. So they're going to go out and buy the big money management firms and the big financial advisory firms and they're going to hire the MBAs, let's say the bankers in the financial advisory profession. It's going to be a radically different profession.

David Hubbard

So I think about that because I have six children. I have two of my kids in business with me now and I think about what the future is going to be like for them and how do we create success for them. I think where we're going to thrive is not by money management, which will be commoditized but it's going to be the life planning decisions, when you start to talk to people about what they want for themselves and their future beyond money, because money is just a means to an end. That's number one.

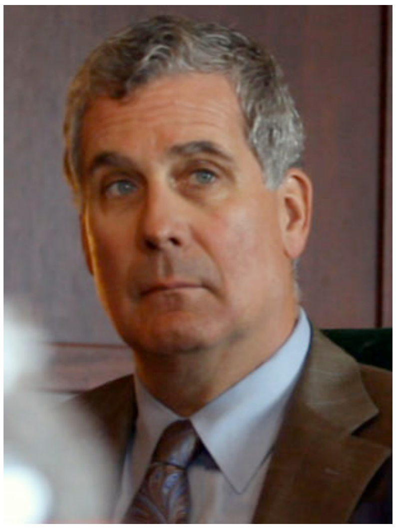
Number two, it's the decision making. People get information off the Internet. I agree with whoever said there's too much information available. You can spend a Saturday getting the same information it took people years to acquire. So it's not the knowledge, it's the ability to make decisions. Most people cannot make good decisions. They make decisions with their stomach instead of their head. They let the talking heads on TV guide their decisions. I think the future of our profession is more centered around psychology and leadership and motivating people to take action, protecting them from others, protecting them from the wolves, but getting to them to make a decision.

As an example, I work with a lot of accountants. We would say that accountants are good professionals: knowledgeable people with the CPA credential. I've worked with them for almost thirty years now, and the first time I visit with a group of accountants I have them take a little survey. I say, "When you met with your clients last tax season and you gave advice to those people, was it good advice? Yes or No?"

"Yes," all of them are saying, "absolutely it's good advice."

"Would your clients have been helped out by taking that advice?" And they all say "Yeah." "So what percent of your clients are going to implement that advice?" And they come back with 10 percent, 15 percent, I've never had anybody tell me over 25 percent of their advice gets implemented. And so I say, you charged your client to give them advice that they didn't use and how did you help them? And so I think that's where that profession falls down and I think our future is finding a way to help the advisor of the future become a good implementer.

Cameron Thornton, CFP®, partner, Navigator Legacy Partners: The amount of time that an advisor spends bringing a new client on board is generally six to ten hours. There are very specific fact finding processes that advisors go through to gather information. I suggest there's a potential for change here that can have a profound impact on that client relationship and with the next generation, which is important to try to capture. In a workshop I did not too long ago, an advisor told me that he figured out that he spends about ten hours on the intake process. So I asked him what might have been different if he would have spent a few of those hours asking questions that focused on discovering in the client's own words what really matters for them. I have found that if you can spend a few hours recording a guided discovery interview, where you ask the client open-ended, intuitive questions and help them explore what really matters to them, that it can have a profound impact on them, and on the advisor-client relationship.


Cameron Thornton

The advisor cements a unique, deep relationship with the client. All of a sudden you understand their values, and you've helped them access that treasure chest of memories and the life lessons they have accumulated. People want to share their stories. Many grandchildren look at their grandparents and think, "well they've always been wealthy." The grandchildren don't understand the struggles, the hard work they had to put in along the way. People who are business owners have had times when they struggled to make payroll. It's going on right now around us, just as an example. So I think that through actively engaging people in a conversation, whether you call it reflective listening, guided discovery, whatever it is — you can begin to position yourself in a completely different way.

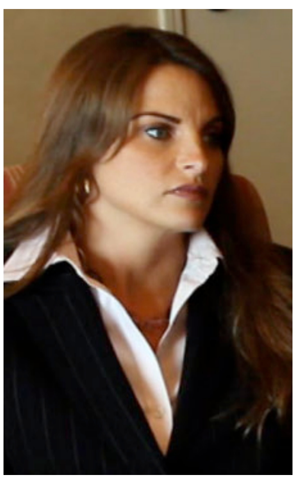
The second thing I'd like to share is this concept that we've already talked about of sole practitioners being in their own silo — the financial advisor, the life underwriter, the attorney, the accountant, the trust officer, the planned giving professional…everybody tends to have their own silo. If you ask them, "Do you collaborate?" they will sit and tell you, "oh yes, I collaborate." I don't think very many people even understand the definition of collaboration. They think that by picking up the phone and making a couple of phone calls, or exchanging an email or two that they've in fact collaborated. Real collaboration is a process of engaging in "what ifs." It means really trying to look at multiple scenarios for the client and allowing people the opportunity to be heard and to share in an environment where it's all being laid out and people aren't feeling challenged by a peer. Real collaboration helps clients in ways that we've not even tapped into.

When is the last time a financial advisor brought the client and the client's advisors all together at the same time and laid out a common agenda and addressed it from the client's perspective? One of the challenges is that clients don't even know that they can expect that. If clients knew what they could potentially expect — and if we were to start to tell them what they could expect from their team of professional advisors — think of how that would change the whole business environment. Right now we define what it is that the client is going to receive from the engagement process. We can define as we move forward what the future of our industry looks like. I'm absolutely of the mindset that we can come up with some really tremendous ideas and start to show people how truly, through collaboration, we can help them reach goals way beyond what anyone has ever imagined.

Stephanie Bogan, CEO, Quantuvis Consulting, Inc.: To Cameron's point, it's interesting about collaboration. I started my career in a multi-disciplinary practice that worked with the estate planning, the insurance, the accountant, the investments, etc. Now when we work with our advisor-clients, we actually have them create a client advisory board for their top clients, not in the traditional sense, but we have the financial advisor do an annual meeting with the accountant, the attorney, the insurance agent, whoever's a stakeholder in that client's financial life and define a process for how they invite them and participate with an agenda and clients absolutely love it. They're creating a financial board of directors and the nice thing is that the professionals end up having to come because if it's your top client, then it's probably theirs too, so by creating an invitation there's a gravity to that event and it just becomes really powerful.

From a practice management perspective I really look at what we're dealing with as having two sides. There's the internal focus, in terms of how advisors manage their practices, and the external focus in terms of how they market and sell their services. The reality is that if I have a million dollars and I'm in an advisor's town, how will I know that advisor is there. There are plenty of clients in need of help, and there's a lot advisors can do to control getting in front of clients versus spending their time pointing fingers at the other guy. When I listen and distill down everything you all have said, it's precisely what we address with our advisor clients and it really comes down to four basic fundamentals.

One is education. As a profession, we have done a woeful job of educating the client community of who we are and what we do and how we do it, and how that adds value. We expect them to understand all this conversation about fiduciaries and SROs and what they see on TV and recognize the difference between what some will label "good advisors" and "not good advisors" — and the reality is that regardless of disclosures, or transparency, or regulation, we sometimes forget that there are "good" and "not good" advisors on both side of the fence, no matter what steps are ultimately enacted. And, to some degree, that will always be the case. I prefer to focus on what we can control, which is how to educate potential clients about what their choices are so they're armed with the information they need to make good choices about who's going to guide them into their future. I'm just a fan of focusing on the solution instead of the problem.



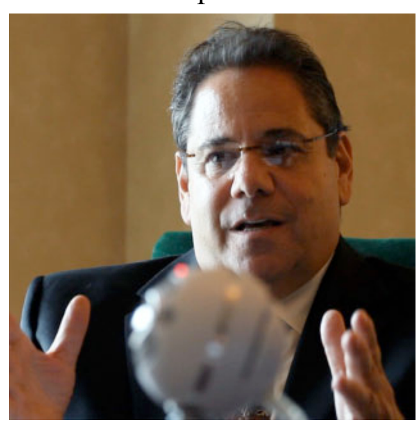
Stephanie Bogan

The second is how do we engage those clients so that they get the value that we provide, going back to Bob's comment about the value proposition, and we're not talking about investments or insurance — we're talking about getting the outcome that they want for their financial future, right? It's always a qualitative outcome that they're looking for.

And the third component is what is the expectation that we are setting for those clients? If we're going to sell products or performance, we can expect clients to focus on those as the primary measures of success. Many advisors have good client relationships, show up to meetings, dispense advice as needed, and hope that the outcome is good. But there exists the potential to set, and reset, expectations relative to what clients and advisors can control, things like how they plan, what they save, what goals they set, how they spend, and so on.

And the last one is what is the experience we wrap in from a client's perspective —defining a high quality, predictable, proactive experience from the moment a prospect calls on an advisor, to establishing what the relationship looks like, and how we service those clients to best lead to a positive financial future. And those are all the things that make advisors so good at what they do. But what we see from the practice management side is that there's no organized, disciplined way to bring those four fundamentals to bear and that's why I think that the business of the business is so critical because you can be a great caring, competent advisor, but if you can't bring order and organization and discipline to that process then you stand no chance of competing with firms that do — whether they be good independent firms that are scaling or the big firms. If you're a sole practitioner and you just get up each day with the best of intentions you can have a good practice. But the ability to really engage clients and to have a tremendous impact on their life is so much more than that. And that's why we are seeing more consolidation. I think you're going to see camps because advisors are very independent by nature and some advisors find that even the concept of moving into a firm model is selling out in some sense. Right or wrong, that view exists. You will see people who are creating networks and building ensembles and we've got multiple clients right now who are looking to franchise across the country. And then you've got people who are going to want to continue to do it the way they've always done it. And that's okay too. But I really believe the ability to have a business that's very satisfying and very successful and very sellable is about how you deliver those four fundamentals to the client in a way that can be deployed with discipline, so that at the end of the day you can build an enterprise that adds value to every party in the equation but still does it with the care of a mom and pop. I think if we can bring that together we can do some really powerful things.

Michael Kay: So many rich comments around this table. With regard to the concept of intimacy — it is incumbent upon us to build practices that provide a personal, intimate relationship all within a well-defined organizational structure that is disciplined, well organized and has a well thought-out business trajectory. Part of that charge is creating a pathway for growth. Who are the next stakeholders? Who's coming up from the graduates of the financial planning programs with a degree in financial planning? Where's their trajectory to becoming the owners of tomorrow? How do we train them? How do we give them the time and energy that they deserve and they need so that they can take this career and make it into a profession? You can require x number of continuing ed credits, and that's wonderful and that's a start, but it isn't enough because I think internally, as business owners and practitioners, we are responsible for providing those experiences and that pathway for learning and growth within our own enterprises. We must look at what we do now as the launching pad for the next generation that takes what we do, what we hand them, and makes it something else. I think if we are truly honest caretakers, we are going to do that with some forward thinking and not be so afraid of change — not be of the mindset that "oh my, I can't try something new because I might fail." And we have to empower, not only our clients to ask good questions, but we have to empower our staff and our colleagues to challenge themselves to move forward.


Michael Kay

My final point is on this idea of objective sorting. Clients are overwhelmed. They come to the table and their life is complicated — things are falling off their proverbial plates. Whether it's their careers, their immediate and extended families, their money, their life goals and dreams, there's — so much there, and I think it's incumbent upon us to help them gain clarity about what is most important, what's really most in line with their values. Our approach of using a Financial Life Planning model that joins the qualitative and the quantitative allows us to help our clients identify, articulate and plan toward their values with a heightened level of clarity. That is a practice model that needs to continue to grow and develop for the benefit of our staff and our clients. This enables us to put the less important issues on the side so that we can focus on the things that are most important to our clients.

Dave Hubbard: As a Regional Director for Financial Network Investment Corporation, I've got about 200 advisors under my wing; most that are in independent practices, 40 in accounting firms (anywhere from two- or three-person accounting firms to one that has almost 100 employees); I've got people in a dozen banks and credit unions, and some large insurance firms. But the common focus is that everyone in our organization wants to provide a financial planning, wealth management type of model, not just an investment model. Regardless of what we say here at the table, if you look at history, certain things repeat themselves. At the end of the day when any business matures, people figure out when to move into that space and make it extremely efficient and extremely profitable. In terms of practice management, they're going to figure out how to service a market and make a commodity out of certain parts of it and we can't fight it. We're just going to have to embrace the change. There are just certain things that are going to happen; you can't stop the Internet even if you wanted to; you can't stop a lot of the trends that are going on in business. But the financial advisors that we have in this business now are aging. I don't see those younger people that are coming in that are the ones that want to be independent, strike out on their own, do their own thing. The people who come into this business are going to work for the institutions. They're less entrepreneurial. They don't want to go out and build a business from scratch. They want to go buy a business.


Dave Hubbard and Stephanie Bogan

About twenty years ago I read a book called "The E-Myth" by Dr. Michael Gerber, which really caused me to think about my business differently in that you need to have systems and processes and methodologies that are repeatable. You need to figure out what your highest investment of time is in the organization and you need to realize that you can't go it alone, you need to eliminate the things you're not good at or delegate the things that you can, or maybe partner with somebody else. That's why in our organization with 200 advisors we have over 2,500 professional relationships where I believe they're truly collaborating — advisors are working jointly on a case where they're bringing in the specialist and they have the meeting at the table. I know it's 2,500 because we've had to figure out how to manage the revenue sharing.

Another challenge is how do you have this collaborative focused Life Planning model where you're sitting around spending hours and hours with highly paid professionals that want to earn a good buck and still allow the average person on the street to get the service because it's the average person on the street that needs us — the multi-millionaire doesn't need us, they can afford to make a lot of mistakes.

If you want to have a retirement income of $50,000 a year, ask ten financial professionals what you'll need. You're going to need twenty or twenty-five times that amount, whatever. You're going to need to accumulate a million … two million … three million dollars. Those people can't make mistakes. Right? They need our help, but they can't afford to get started with us. So how does the future of our profession and the future advisor take care of the people who need us most?

Michael Kim: David, I think you're raising some incredibly valid issues. We at Genworth support over 6,000 financial advisors, and the successful advisor can effectively handle the $10,000 client to $10 million client. Yes, the $10 million client can afford to have the "client board of directors" and really spend that time talking through the issues. But the $10,000 client does not have this luxury, and frankly, neither does the advisor. The advisor has to figure out how to effectively and efficiently service clients of different sizes and needs. It's really those advisors that recognize their strengths and weaknesses, they know what they're good at and they also know when they need to collaborate, to Cameron's point, with other professionals. And it's really sort of changing the mindset of an advisor to a CEO. Those successful advisors of the future will look at their business through the lens of a CEO, recognizing what their strengths are and really being able to make that critical, strategic decision whether to outsource or delegate, and effectively partner with other professionals. That's the trend that we're seeing with our advisors — those advisors that are really operating as a CEO of their business and choosing to outsource, choosing to delegate, choosing to partner with other firms to bring that sense of intimacy that we talked about earlier. The successful advisor on the Genworth Wealth Management platform helps even the $10,000 client have that client-board-of-directors experience.


Michael Kim

Bob Veres: I think the most important skill over this transitional 15-year period is an openness to change. If you're not open to change, if you're not ready for the ground to move under you and ready to make a lot of necessary adjustments, you're probably going to be behind the curve and might even be an endangered species.

I see a lot of nodding of heads around the table, so we're all in agreement on this.

I polled the readers of my newsletter and asked them what the most important issues of the future were. One of the persistent themes was: how do we prepare the next generation to take over from us, and the issue of career paths. The meta issue is that the opportunity now for the younger advisor is very different from the opportunity that the people in this room faced. The people in this room — and many of the founding advisors in the profession — got into this business when it was a pure, wide-open West. The West was un-colonized. They moved in and they invented ways to make a living.

But for the next generation of advisors coming into the profession, this professional space is not a wide-open West any more. Their opportunity is fundamentally different, and they're going to have a lot of new things to figure out. Are they going to buy existing practices? Are they prepared for the rainmaker to leave? Can they step in and do the chores you want to give up?

The "departing generation," so to speak, worries about how to prepare the next generation. But I think in large part it's up to them to figure out what that challenge is and to help us understand the challenges that they're facing. I don't think that dialog has happened yet.

A quick story to illustrate the ever-dysfunctional dynamics between generations: When I was in high school, every year the seniors would look at the freshmen and say, "they're never going to be as good as we were," and every year the freshmen would get older and start to fulfill whatever promise was not expected of them and finally they would meet or exceed that senior class that had looked down on them. It's the same thing with generations, but much slower. Each generation looks at the younger and sees a bunch of slackers. And eventually that younger generation becomes us, and inevitably they do generally a better job than we did. In the next 15 years, I think we can expect that of them just because that seems to be the way it always has happened.

And the third issue, which is really more troubling to me, is serving the middle-income consumer. Doctors serve everybody; we don't. As a profession I think we could, especially with the tools that are becoming available to us — this social media thing I think is the ultimate leveraging technology and somebody sooner or later is going to come up with a really neat way to provide financial planning advice over the next iteration of Facebook. There are good viable business models now, but I think somewhere in the next 15 years, there's going to be an even better business model where you can do full-service life planning for somebody, but it will be through the communications technology that the younger generation understands intuitively. Maybe the killer social/communications technology hasn't been invented yet, but once it is, it's going to change everything. Then all of a sudden we're all going to scramble to figure out how to incorporate that into our practices.

John Brackett: As I sit and listen to the marvelous things that have been said today, I am reminded of the old saying, "The older I get the better I was." I don't care whether it's business or sports. It's really interesting where this conversation is going. It's not about the money; it's about the money. I don't care how successful you get. I don't care if it's this business or any other business — if you have a few bucks in your pocket you tend to become philanthropic especially with other people's money. With all these wonderful ideas that have been suggested today on how things should be, there was no discussion on how we are going to get there. And who's going to pay for it? If we had a young person sitting here today who's just starting out and listening to all of us, they would be thinking how am I ever going to get to that place? Who's paying for me to get there?

John Brackett and Marie Swift

We must not only think as CFOs for our clients, but for our own businesses. We are required to train and mentor the next wave of advisors. Some of us are single practitioners. Dave said he has a few hundred advisors. I, too, have a few hundred advisors. When we provide the training, teaching, mentoring and recruiting for these young people, our margins shrink drastically. Again: it's not about the money; it's about the money. Whether you are fee-based only or you work in a brokerage firm, the demand for service continues to increase. With payouts approaching 98 percent, how are these firms going to sustain that business? How are they going to provide any value whatsoever? We have squeezed the margins and squeezed them and squeezed them.

I look at this business much like I look at my family. My children are successful today because my wonderful wife encouraged their education at the best schools available to them. The net effect of this is they are all college educated and they all have jobs. There were certainly other avenues they could have gone down. Compare that to our medical services. Who's to say that a sole practitioner is more professional than a team of doctors at an HMO such as Kaiser? Our industry is just like our schools and our medical profession: it's about the training, the education, and the watchful eye of those charged with protecting those professions. If we focus on that and how it should be done, we will have a continued stream of new, excited advisors.

This is my first FPA national conference, and I was so pleased when I looked out at the audience and they weren't all gray-haired and bald. One of the young people from the attending universities actually helped me put the app on my phone that provided the schedule for this conference. I was struggling and that young man did it instantly. Imagine what they can teach us about tools that can help us. But we have to find a way to pay to get them into this business.

Cameron Thornton: I think each of us, internally, have made promises to ourselves. We've sat down and had one of those moments of deep reflection where we've really gotten serious about something that we want to make sure occurs in our life. That's a true statement for just about everyone I've ever met, but they don't necessarily share that unless they've been given the opportunity. People want to be heard.

I'm a father of three. You probably have children of your own or grandchildren or nieces or nephews. Do you ever remember watching a child learn how to ride a bike? The struggle to get them up on training wheels, and running along beside them making sure they don't fall off, and if they do fall off you're there to help pick them up and put them back on that bike. Well many people, many professionals and people of significant means and wealth often reflect back on their opportunity of parenting and they see something that they feel they've missed. They're so busy at building the business, so busy at doing whatever, that there's this gap, there's this void that they have. And there's no do-over in life.

Marie Swift and
Cameron Thornton

So in my work with The Heritage Institute, family unity tends to be a very important factor that people want to focus on. What we do is help families do some portion of a do-over through pre-inheritance experiences. By that I mean you create processes, or steps, for family members to do while the parents are still alive, in the background, so they can sit and observe and mentor the kids as time goes by. It doesn't really matter how large the sum of money is that is at stake. Have you ever seen a family member or person receive $50,000 and then they blew it? I mean, it was gone. And you know that probably wasn't the outcome the person who worked so hard to create it had in mind. So it's as applicable to somebody in this middle-market that we're talking about as it is on the high-end.

One of the real challenges is that wealth seldom stays in a family over three generations. Earlier we were talking about our profession and about the second generation. In businesses, there is a 97 percent chance that by the time the third generation rolls around, that original family business is gone — it's kaput. We're faced with that same factor in our profession right now. But we're this second generation. I talked earlier today about the importance of engaging the second generation if you want to work with a family instead of going out looking for additional assets to manage. My point here is that we are that second generation and if we can be engaged in a way that is intellectually correct, we have the opportunity to help families avoid becoming ruined by whatever amount of money they are going to be receiving — this concept that we call 'affluenza.'

Eric Cott: The first thing I want to do is thank all of you because I represent about 330,000 advisors and my role is strictly one of education. I go back to Bob's point about not being fearful of new ideas and being open to change. I represent for advisors the opportunity to work with their clients and use options and the interesting thing is that we don't charge for our programs and your clients are coming out in droves. We just hosted a program with the New York Stock Exchange.

We had 260 individuals come to learn about options and the only thing we gave them was free education. So being open to new ideas and not being fearful is important.

Where do we see the profession in the next decade? Is it going to be 330,000 or is it going to be a shrinking profession? Cameron, you talked about that and David you have your family working with you. I think about that legacy of passing on a practice to the next generation. But the next generation, Generation Y, wants things immediately. They don't want to wait and they don't know what it's like — the sweat of getting a practice and maybe falling on your face a couple of times and having the client reject you and maybe making a mistake. So I think that the hope is that the profession grows exponentially and, again, there are a lot of opportunities for individuals to go into this and help people.

Eric Cott

With regard to social media, I think it may offer an opportunity for that smaller client, but all of you know better than I that that personal approach, especially in the last 36 months, is critical for retaining clients as well as for expanding your businesses. Because I think the advisors who aren't out there on a consistent basis, in front of their clients, are finding that their competitors are presenting new ideas.

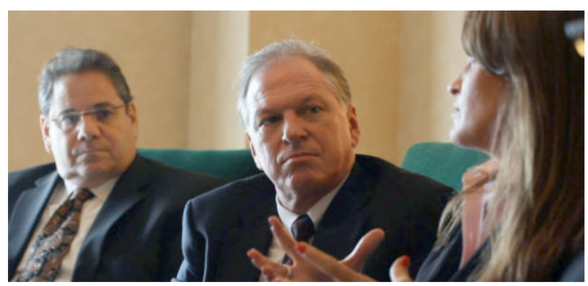
And the last point is relative to the banks maybe being the next model. Having worked for an investment firm that got merged into a big bank and looking at all the cutbacks they're going through, I think the RIA model, the independent model is really the wave of the future. I think there will be the big behemoths but I don't think there's ever been a history of successful banks and successful investment firms coming together. Banks have always wanted that revenue source. I think the big banks are going to have a hard time doing that. I don't think they can offer the services across all channels, but I could very well be wrong.

Stephanie Bogan: I really think there are two issues that are bifurcated, but are somehow interwoven with each other and they are the issues of the practice versus the conversation around the profession. I think the biggest issue from a professional perspective, aside from things like fiduciary, is what the next generation of financial advisors is going to look like — will it be recovering from an ineffective generational transition or will it be building upon the hard work and success of today's advisors. In most professions, you have a pyramid where you have the highest volume of people at the bottom with the least amount of experience and as you get older and wiser there are fewer and fewer of you. And in our profession it's absolutely turned on its end; it's an upside-down pyramid where all the people have all the wisdom at the top and there are fewer people as you work your way down the pyramid. Clients aren't the only ones aging, so are advisors. If the average age is 60 (depends on which study you read), in ten years the average age will be 70, and regardless of what advisors say about working until they leave this earth, there is an inevitable slowdown and transition, and in some cases it will be sudden — more than I believe advisors anticipate.

When we address this with our advisor clients who are looking at that transition phase, the issue is how many of the advisors behind them who are there to take over, really exhibit the care, the confidence, the commitment, and the capability to actually take over the practice in a way that the Founder feels good about? The number can quickly go from not enough, to "oh my goodness, who will take over for me?" Then ask how many of that small pool of advisors who meet the criteria live in your neck of the woods or would be willing to move? And I suspect we will see a relatively small pool of talent to draw from in terms of transitioning the practice. So I think we will see smaller advisors consolidate or join other firms, and mid-size to larger firms rolling in smaller advisors and merging with or buying up smaller and mid-sized practices. These firms will become more enterprise-like and, very potentially, will be positioned to capture the lion's share of the business, because they'll be marketing or buying the clients of the advisors that are aging. If you look at industry stats now, a majority of assets reside with a small percentage of top firms. Perhaps ironically, this marries what we see in advisor's client bases, which is that the majority of the clients account for a significant portion of the revenue, and the higher volume of smaller clients account for a relatively small portion of the revenue stream.

Add to that the challenge that advisors have to successfully do three things to continue in the professions — the things that the big firms used to do: train, transfer, and transition. We don't really do a great job of training. We don't do a great job of transferring responsibility. Literally I have heard conversations around, "Why did you buy a copy machine, you're just a junior partner?" At what point are they actually going to be allowed to make a decision? And then how do we truly have an effective plan for transitioning the practice? The challenge is, if we don't have a clear plan for that I think the next generation will be recovering and rebuilding instead of building on the hard work and success of today's advisors — which is what one hopes for our profession. We have to fill that gap at the practice level in order to make sure that there are enough successful practices regardless of their form in order to continue the good work of the profession. I think that as a profession we have done a less than adequate job of that. Our clients don't love training and mentoring because of the issue of the generation gap and the different perspectives and it's a really hard thing to wrangle. We've worked with three or four firms in the last few months where we've done the career ladders and the comp plans and the partnership paths and it is literally a game changer. I had a client come up to me today and she said, "We've gotten this done and the dynamic has changed. It's amazing the impact this has had. The conversation and the firm are so different as a result."

It's not about the documentation; it's about the dynamic and the dialog that's created around it. We have to solve for that gap. If we can't train, transfer, and transition then it doesn't matter under what umbrella we're operating or whether we're a silo or a member of a network. If we don't have the next generation to follow us and we can't transition that legacy to the profession, I think we're going to struggle.



Michael Kay, Dave Hubbard
and Stephanie Bogan

Michael Kay: As the owner of an independent RIA and financial planning firm, we've tried to address this issue of training and transition by hiring young, new professionals and having them take the role of associate planners, paying them a salary for three years, and their job during those three years is to help us collect the quantitative data, to scribe meetings and to observe and then to debrief after the meeting. What did you see? What did you not notice? What were the dynamics? And help them see through our eyes. And by working with our seven full-time senior advisors, by having them experience this with different advisors, they're getting to see different methodologies, although we use the same platform.

So if we're going to take care of our future generations, our clients' children, we need to have younger advisors. My daughter's friends who are just newly married are going to relate better to someone in their late 20s or early 30s than they are to me. So it is incumbent upon me to bring in the twenty-something who's just out of school, who's going to train by watching and learning to then take over that next generation who are the inheritors — my client's inheritors. They're there to also serve less complex clients who might not have the sophisticated needs but they have enough experience to help them. I think we're trying to look at things from the standpoint of serving our objectives and our passion by helping clients, but also knowing that we need to elevate our game. We need to bring in more people, we need to have them take over responsibilities and we need to make sure we are a multi-generational firm that not only handles the parents and the grandparents, but the children as well, and the grandchildren, so that they stay in-house. We know their story, we know their history, and it is just a continuing track to run on. And I think that if the profession would take a look at a similar philosophy of, " I must write the check to bring these young people in and have them learn and have them experience," we're then going to kind of seed the field of the next generation, the inheritors of what we do. And I think that's our responsibility, to pass that torch.

Bob Veres: There is one omission that I think we should at least touch on. We haven't talked about the fiduciary standard, which is really a rallying cry for something bigger. I think when you talk about fiduciary, you are really talking about the profession versus the industry. Over the next 15 years, I see the two becoming increasingly antagonistic.

Of course, what scares me is that the industry is much better financed and much stronger politically than the profession. That's a danger that the profession is going to have to figure out how to cope with if it's going to survive.

I used to say that the profession is a burr under their saddle. Now I think we might be a poison burr. And that becomes a more immediate issue. If the industry is ever motivated to put their full resources toward killing the profession, then I think the profession is visibly endangered. That is fundamentally what is behind all of this talk about regulation and standards and whether or not these standards should be the law of the land or not. The underlying issue is that it is really a fight for survival between two business models. Each of the two feels the other is endangering it.

John Brackett, Marie Swift, Cameron Thornton and Bob Veres

Cameron Thornton: Bob, to your point, over the last 29 years that I've had my practice, I've had to reinvent myself just about every four or five years. If I'm not laying out train track and standing out in front of the changes that are coming along, I would have been out of business a long time ago. I think that's just the natural progression that's part of any industry. Without a doubt, those issues that you toss out, they're absolutely real, they're going to get dealt with. They will get dealt with as we've discussed today.

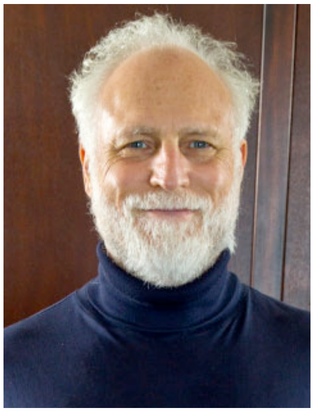
Bob Veres: You have so much more faith than I do. I'm taking inspiration from you.

Eric Cott: Along Cameron's line, I do think you sort of have to reinvent yourself, but then I would agree with Bob. I think there's a problem in that the people in Washington and the individuals who are looking over the financial advisory business, they don't understand the business. I think they're looking to impose regulations some of which might be appropriate, but others not. I think there are some good voices in Washington from this industry. I think we need more of them and, as a concerted industry that is going to thrive, there need to be individuals like ourselves really speaking out.

John Brackett: For me, there's a big elephant in the room that we haven't addressed. It's called legacy. I think everything we've said is very important, but where are our individual businesses ultimately going to end up? We at BAR Financial are three partners, and we have five younger associates. A good leader knows when it's time to step aside and allow the next generation of leaders to take over. We have failed in this industry to provide legacy planning for our advisors. We do it every day for our clients; now we need to make sure we do it for ourselves.

-- More --

About the Participants



Bob Veres
Editor/Publisher, *Inside Information*
BobVeres.com

Bob Veres, a veteran commentator, speaker and consultant in the financial services industry, is the editor and publisher of *Inside Information*, an interactive subscription-based information service for financial planning professionals. Currently working on his next book, Veres has been named one of the most influential people in the financial planning profession by *Investment Advisor* magazine and by *Financial Planning* magazine, and was granted the Lifetime achievement award for service to the profession by NAPFA and the Heart of Financial Planning Distinguished Service Award from the FPA.

Michael Kay, CFP®
President, Financial Focus, LLC
President of the Advisory Board, Money Quotient
Financial-Focus.net

Michael Kay, a tenured wealth manager and former CPA who now specializes in Financial Life Planning, is author of "The Business of Life: An 'Inside-Out' Approach to Building a More Successful Financial Planning Practice." As owner of an SEC Registered Investment Advisory firm, Kay serves on the Loring Ward Advisory Board, has taught CFP courses at NYU, and is president of the Money Quotient Advisory Board.

John Brackett
Partner, BAR Financial, LLC
Regional Director, Financial Network Investment Corporation
BARFinancial.net

John Brackett joined Financial Network, one of the nation's largest IBDs, in 1983. As Director of one of its largest regions, he supervises and mentors nearly 500 registered representatives. His firm, BAR Financial, acts like a mini-broker/dealer under a big broker/dealer umbrella. Currently Chair of the Financial Network Advisory Board, he is also a member of the Cetera Field Advisory Council.

Eric Cott
Principal/Owner, ESC Consulting LLC
Director of Financial Advisor Education, the Options Industry Council
Advisor.OptionsEducation.org

As a representative for The Options Industry Council, Eric Cott helps advisors and their firms to use options more effectively. He is responsible for participating in panel discussions, presenting advisor-oriented educational seminars, and developing options curriculum and content for the OIC Advisor web site.

Michael Kim
Senior Vice President, Genworth Financial Wealth Management, Inc.
Genworthwealth.com

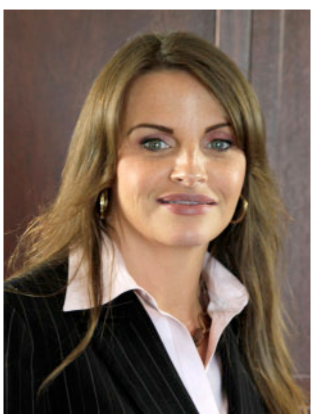
Responsible for business and channel development, Michael Kim has over 20 years of experience working with financial advisors in various capacities. Prior to joining Genworth, he was a Senior Vice President at Fidelity Investments, working in the areas of relationship management and sales management. He started his professional career as a CPA with Coopers & Lybrand, LLC, providing audit and consulting services to investment advisors, broker/dealers and mutual fund companies.

Dave Hubbard
President, Exemplar Financial Network
Regional Director, Financial Network Investment Corporation
ExemplarFNAdvisor.com

Dave Hubbard is the President of Exemplar Financial Network, an independent financial services firm located in the Chicago area. Also wearing a Regional Director hat for Financial Network Investment Corp., he assists over 150 advisors build their practice and better serve their clients. Additionally, he works with banks, accounting firms and insurance agencies to successfully provide financial planning and investment advisory services to their clients. He currently serves on the FNIC Board of Directors and is a member of their Regional Director Advisory Council.

Cameron M. Thornton, CFP®, MBA
Partner, Navigator Legacy Partners
NavigatorLegacyPartnersLLC.com

Cameron Thornton is a Partner at Navigator Legacy Partners, a firm that works with families, individuals, non-profit organizations and allied professional to help them achieve what matters most for themselves and their families now, and for generations to follow. As a member of The Heritage Institute, he is torchbearer for other financial professionals who want develop deeper, more meaningful connections with their clients and work at a higher level. He is co-author of "What Matters Most — A Novel," along with The Heritage Institute Founder Rodney C. Zeeb (December 2011).



Stephanie Bogan
CEO, Quantuvis Consulting, Inc.
Quantuvis.com

Stephanie Bogan is the CEO of Quantuvis Consulting, Inc., a national financial services consulting firm and subsidiary of Genworth Financial, Inc. She specializes in assisting advisors and institutions in the areas of business planning and performance, business development, human capital, operations and succession/transition planning. She is also a national speaker, thought leader and writer for *Financial Planning* magazine.

Marie Swift
CEO, Impact Communications, Inc.
ImpactCommunications.org

Marie Swift is a nationally recognized consultant who has for over twenty years worked exclusively with some of the industry's top financial institutions, training organizations, investment advisory and financial planning firms. A top rated speaker at dozens of industry events, Marie is dedicated to elevating the conversation in the industry. Marie is also a prolific writer and contributes to many of the industry's leading publications, including Financial Planning magazine. A thought leader for thought leaders, she is known for bringing some of the industry's best and brightest voices together for dialog and debate. Her Thought Leader Round Table series is just one example how Marie generates interesting conversations with movers and shakers in the financial services industry.

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Questions about this transcript may be directed to Al Martin, Director of Media Relations:
(800) 974-7753 / ImpactMediaManager@ImpactCommunications.org