Executive Roundtable

Trends That Matter in the Financial Services Industry Today

While at the FPA B.E. 2015 Conference in Boston, eight thought leaders provided insights on the executive "trends" presentation delivered by strategy consultant Matt Lynch at the FPA Major Firms Symposium

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While at the FPA National Conference in Boston on September 26, 2015, a tenured group of industry consultants gathered for a roundtable discussion. These executives included Marion Asnes, Idea Refinery; Bob Cogan, Strategy B4 Tactics; Julie Littlechild, If Not Now Research; Matt Lynch, Strategy and Resources; Marty Miller, Clear Path Consulting; Marie Swift, Impact Communications; Richard Scott Taylor, Innesskirk Global; Mitch Vigeveno, Turning Point, Inc.

Matt Lynch had delivered an executive "trends" presentation the day before at the FPA Major Firms Symposium. This group of subject matter experts had led corresponding discussion circles with the executives at the symposium. The purpose of this subsequent roundtable gathering was to debrief on the things the group heard from Major Firms executives and to augment those observations with their own insights.

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Eight individual video interviews (one with each of the roundtable participants) are available at **www.AdvisorsThinkTank.com**.

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Trends That Matter in the Financial Services Industry Today

Marie Swift (Swift): Yesterday, we as a consortium of consultants, had the opportunity to share our views as subject matter experts at the Major Firms Symposium hosted by the Financial Planning Association (FPA). First Matt Lynch, managing partner of Strategy and Resources, LLC talked about trends that matter in the financial services industry. Matt covered five key trends and set context for a group of participants, I think around 70 or 80 people that are leaders in firms that are either directly involved in providing financial advice or are involved in supporting businesses that provide financial advice. These are the intermediaries and supply chain that are impacted by industry trends. Really, to operate efficient businesses these firms have to be thinking ahead of the trends. They have to be responding to what they see in terms of changing consumer preference or other areas so they remain relevant to the advisors in the supply chain. Matt, would you like to add to what I've just said?

We've seen firms get marginalized and new intermediaries come into the space over the period of the last few years who are, in many ways, more responsive to advisor needs and perceived advisor changes so the advisors, in turn, can meet consumer and client needs.

Matt Lynch (Lynch): Thanks, Marie. Yes.
Yesterday I spoke from a perspective based on our research and our strategy consulting about the five major trends that leaders in the industry must be aware of in order to continue to be relevant and grow their businesses. We are going to talk quite a bit more about those five trends, as a group now. And we will be thinking about these trends in what we call the C-Context categories – the drivers of the trends. The drivers are elevating these trends to be the top five from our

perspective and based upon our interaction with our clients in our research throughout the industry.

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>
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THE THREE "C-DRIVERS"

There are three underlying drivers:

- Consumer preference
- Competitive threat
- Compliance and regulatory

The first underlying C-driver is consumer preference. Is the trend due to a generational thing that robos, digital advice and do-it-yourself (or aided do-it-yourself) options are becoming more relevant? Is it that consumers have changed in terms of the way they want to do business and that is driving margin change, product preference, or other things?

The second C is competitive threat. Is the trend really a new emerging disrupter that is coming into the same business offering similar services but maybe in a more efficient and effective way? We talk a lot about that in terms of channel preferences or advisors moving into other forms of business. Advisors moving from a wirehouse to the dually-registered model is an example of a competitive threat. Another competitive threat is the ability for advisors to do business directly through intermediaries versus through a broker/dealer or through another type of vendor.

The last C-driver is compliance and regulatory. Each of the five trends may be influenced or sourced, to one degree or another, through overzealous or overreaching regulations. So perhaps in context of the DOL launching this fiduciary standard and maybe conflicting with what SEC, FINRA or other regulatory bodies might be doing – that is an example of a regulatory catalyst impacting the financial services business.

THE TOP FIVE TRENDS

The top five trends that we talked about at the FPA Major Firms Symposium are:

- Regulation
- Succession
- Changing Advice Models
- New Marketing Methods
- Fee Compression

Today we are going to touch on each of those five trends. We want to take a look at the facts – what's really going on in the industry – and what we really see from our perspective. We also want to share what we learned yesterday in our interaction with these industry leaders in terms of what they see and what they are doing to address the challenges and opportunities. So for each of these areas, do they see it as a temporary distraction to their business that they have to push back and insulate themselves from? Or do they see it as more of a systemic or major trend in the industry that is actually a threat to their business which is going to require them to join those

folks that are providing these services – for instance, maybe to add a robo capability to a traditional legacy model in order to continue to be relevant?

Our discussions yesterday were fascinating. We all had the opportunity to sit at tables and interact with the executives at the Major Firms Symposium and hear them briefly share their ideas and their thoughts. The takeaways tell us that some firms are tuned in and maybe others are not.

TREND #1: REGULATION

Swift: When it comes to regulation, we have a respected industry expert in the room, Marion Asnes. Marion is passionate about some of the regulatory issues. So Marion, why don't we start with you and explore the regulatory issues that were talked about yesterday?

Marion Asnes (Asnes): Thank you, yes. We talked yesterday about the Department of Labor (DOL) and the possible emergence of a requirement for a fiduciary standard. Not just for 401(k)s, where you already have a fiduciary standard in place, but for anyone who is advising on a retirement account.

The people at my table at the Major Firms Symposium represented the largest firms. They were major broker/dealers and a major insurance company – and these people are highly resentful of having to adapt to this change. They felt very strongly that the push for fiduciary regulation was coming from the wrong place: it wasn't coming from the market and it wasn't coming from the consumer; it was a misguided government initiative. They didn't have much to say about what they were doing to prepare for change. Instead, what they were talking about, and I think it was a valid point, was that when you switch from a transaction mode to an advice mode, there is one way the consumer loses: the consumer can have all the advice in the world but may not execute on the advice. This is particularly true in the case of insurance – and not just the wildly overpriced variable annuities, as cynics might believe, but on very central things like life insurance. Fewer Americans now have life insurance and that includes young parents.

This is a really important caveat for fiduciary advocates like me to consider. Are people really getting the tools they need if they are not pushed to get them? If I didn't go to the doctor would I get a vaccination? You can think of it in that way. However, I do want to say, I have been organizing people and ideas for the fiduciary movement for a long time so I do have a counter to that, and that is when I do go to the doctor I know the doctor is telling me to get a vaccination because I need it and not because he has a sales quota to make so he can go on a cruise with his wife. That's meaningful.

In many cases our business has a very high price structure in order to create sales incentives that may or may not be appropriate. At the same time, you have a lot of Americans who are marginally, if at all, prepared for their retirement. This is the reality. There is the way the industry wants to think, then there's the reality: you have a lot of people who need better services at a more reasonable price than they are getting today. The government is looking at that, seeing

millions of people who are not prepared to retire, but who are going to retire. They don't want to see those people living in a box by the railroad tracks. They are going to be calling on everyone in the industry and outside of the industry to get them money.

Julie Littlechild (Littlechild): I think it’s important, when we think about regulatory shift, to look to the consumer and his or her views as well. When we look at regulation we can say quite clearly that this change is being driven by regulators and we clearly have to join them because there isn't a choice and because it’s right for clients. I agree with all that but what is interesting to me is if you look through the client's view there is so much assumption being made. They actually think their advisors are behaving in their best interest. There hasn't been a ground swell of consumer sentiment calling for a fiduciary standard. If they understood it they might do that, but it's coming from the industry. From that perspective I see it as very much regulatory driven.

Mitch Vigeveno (Vigeveno): At our table we focused mostly on the changing advice model. But it does also have to do with the regulatory issue that we are talking about. The group at our table, which was also a group of major firm type people – large independent broker/dealers, insurance company representatives etc., felt like their customers were wanting to participate and collaborate more with their financial advisors than ever before. They weren't just saying, “Oh if that's what you think, that's what I'm going to do.” They wanted to follow their plan and monitor it. This may have been true more amongst the younger folks versus the people that were retired, I'm not sure, but they did feel there was a need for that. At the same time, they felt a lot of the regulatory developments that were taking place were affecting some of the ability of the staff at the firms they do business with to perform. It was costing the firms more money. They noted fee compression, increasing costs and more reporting requirements all acting as hindrances to some of the positives the consumers were aiming for.

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~ Mitch Vigeveno

Bob Cogan (Cogan): At my table, the concern was that if there wasn't a choice of how advisors got paid the smaller clients would not pay a fee and so they would wind up calling one of the manufacturers that is "no load" and getting phone advice which is investment advice but not financial planning advice. We talked a lot about how you can provide financial planning advice – and meet the younger clients” needs in the coming new reality.

Asnes: I want to say three things. One is that I think it’s a misapprehension that fiduciary requires a fee-only relationship. Two is that it’s a misapprehension that a fee has to be on assets. A fee can be on advice. And three, I’d like to point out that the AARP is starting to get involved in this fight. I was at a public meeting two weeks ago in New York that had been called by the AARP and who was there? The Chief Investment Strategist of the New York City pension plan advocating for fiduciary standard for the 401(k) savings of the 170 thousand cops, sanitation workers and teachers whose pensions he invests. This is going to be a more populist campaign.

Marty Miller (Miller): I found Marion’s comment very interesting. She said that when a doctor tells her to get a vaccination, it’s because she needs it and not because he has a sales quota to

make so he can go on a cruise with his wife. Her comment speaks to trust and perception. I know many advisors who have intentionally created independence for their own firm to avoid conflicts of interest and create the best possible value for their clients. That being said, it’s easy to see our industry’s history of creating products that require distribution via sales people. While there are some whose actions don’t serve clients as well, there is a lot of great work being done by the majority of financial advisors and ideally our industry, more so than regulators, would find solutions that propel us through this transition and to the right outcomes.

Lynch: One of the takeaways for me with respect to the regulatory issues is that whether it’s consumer driven or purely regulatory overreach or a combination of the two. There are advocates on both sides of the argument that are coming out with positions some of which are not completely fact based, some of which are perhaps sensationalizing various elements of earlier versions of the DOL fiduciary standard proposal. Others are taking a more balanced view. It occurs to me what the consumer might take away from this, particularly when we see the media coverage move from outside the industry trade press. So whether it’s the *Wall Street Journal*, *The New York Times* or *Fox News* covering it, in talking about what our industry is debating the message to Main Street may not be so flattering. So “industry” people are debating whether we should do things in the best interest of our client. That's the headline we may see. The industry looks overly self-serving. Again, it’s been self-inflicted wounds that have plagued this industry for fifty years. Some are relying on eighty-year-old legislation to point in this direction and say we are permitted to do this. The fact the industry is permitted to do something doesn't mean it necessarily meets with what our current or future customers believe should be the standard.

When you really look at it today, if we take just the basic surface issues and we look at how people are paid, I think that’s a factor, but more directly it is about the lack of transparency and understanding about compensation. This is where I see a fundamental disconnect in part of the argument, the notion that there have to be winners and losers that come out of whatever the new regulatory change needs. Properly implemented, with industry support through innovation, there should be winners – consumer, advisor, and the firms that provide product and services to both. My view is that firms that are inflexible that are trying to adhere to a century old model are at the greatest risk of extinction.

So moving forward, ideally the industry gets together and solves this through innovation and through embracing it from the advisors’ perspective because they are the closest to the consumer. They have the most to lose if they get it wrong. If an advisor gets it wrong they are out of business and they are going to go do something else. The large institution gets it wrong, they re-tool and they perhaps simply pursue a different distribution channel.

So we should be following advisor behavior, what the changes are in their business models and a lot of the firms we serve allow the institutions that support advisors, provide services to advisors, they are the ones that I think need to step up and make sure there is innovative tools. Give advisors the freedom to be fiduciaries if they choose to go down that path.

The fear of disclosure to me is one of the oddest things that have surfaced here because if your business model won't stand up to the full light of day, if full disclosure to a client may cause them not to want to do business with you, then maybe it's time for a change in the business or maybe you need to find a new career path.

Richard Scott Taylor (Taylor): The discussions at my table not only focused on the DOL regulation, but also raised the more critical question of classification – employee versus independent contractor. In light of the DOL's decision to weigh in on fiduciary responsibility, our discussions saw this reclassification of employment status as being more far reaching with the firms at our table. Not only does this go to the root of current business models, it also goes to the perception our clients have regarding fiduciary responsibility. As a consumer, dealing with an independent contractor versus an employee of an entity, goes to affecting the perception of where fiduciary responsibility and loyalty lie.

Compensation matrix reactions to DOL actions were also discussed. Redefining the classification of status affects compensation structures, in that further burdens are placed upon firms with a redefining as employee versus independent contractor. Questions relating to the payment of these ancillary costs are now raised in light of movement to adopt fee for knowledge versus fee for product models. As an attorney, fee for knowledge is a tradition; however, as an independent contractor financial planner, fee for product has been traditional, with fee for knowledge being a recent push.

It was very interesting to see that this classification was my table's main issue because until the classification has been made, fiduciary responsibility and other downstream impacts will remain a tomorrow problem.

It was interesting to see that the nebulous areas DOL dictate did not illicit the same levels of concern regarding consumers and RIAs; rather, they were concerned about the fact that there was no one offering clarity on this issue of classification, which they saw as a core issue. They were utilizing PACs, pursuing political options to address DOL actions in the pursuit of clarity, however we're not seeing these murky waters clearing.

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Cogan: I think there are people who are holding onto an old tradition. Our group included manufacturers who had a distribution arm and also retail employees. They make most of their profit on manufacturing. They may earn some profit on distribution but distribution and retail is a conduit to the real profit – manufacturing. In a perfect world, all functions would be separate with each determining their own price in the manufacturing, distribution, and retail cycle. We, the financial planners should set price based on consumer demand, perceived value and transparency.

Asnes: One thing that has created this mess was the distribution industry's adoption of the word "advisor." An insurance agent is very clearly a salesperson and is there to sell you insurance. One day that insurance agent became your financial advisor. Why? What value do they really bring? They are still selling. The industry created this problem for itself. I don't want advice from a salesperson unless it's going to be "darling, you shouldn't wear that color." This is a consumer issue and I guess because my background is both consumer and industry, I feel strongly about this.

TREND #2: SUCCESSION

Swift: Let's move on to succession, which is obviously a hot topic. This gets into the aging advisory population, changing advice models, new marketing methods and fee compression. All the data that is out there shows the aging advisor or aging rep population and the lack of a new pipeline to replace those that are likely to be retiring or leaving the business over time. The various models, the legacy, career insurance system models that have all but gone away. There are just a handful of firms that are still in that business as far as developing brand new folks but there are young people coming out of schools – Texas Tech and Virginia Tech and other schools – with degrees in personal financial planning that are coming right into the business and they have other options that didn't exist thirty years ago related to the career path. Matt, would you provide some initial comments?

Lynch: Yes, thanks. When we think about succession, in our research projects, we think about both the aging advisor population and the percentage of their advisor population under the age of 46 and over the age of 65. When you look at this data it's a disturbing trend. It means we might miss an entire generation of clients or advisors because there has just been this pause in this development of new professional financial advisors. So there is a challenge for those that want to get out of the business and find somebody to take over their business; for the advisor who seeks a liquidity event it may be to turn their practice into a business so they actually have something to transfer. There are a variety of exit options available to aging advisors who lack an internal successor, some new emerging intermediaries. There are the consolidators, the aggregators some of which bring capital. Some bring capital and business support to help you make those changes so you can actually transition your business. Some come with matchmaking assistance where they can find that next generation of advisors.

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When I had an opportunity to visit with a lot of these folks at Texas Tech a number of years ago – people who had selected the personal financial planning degree – and I asked them, "how

many of you want to get into business, join a wirehouse, join a broker/dealer call your friends and family and build a practice?" Not one hand went up. "How many want to take risks and be an entrepreneur and start your own firm at some point?" A couple of hands went up in a group of about sixty people. What they wanted to do was take their knowledge, their skills they learned in school and apply it in a safe environment. They weren't interested initially in rainmaking, the sales role. They clearly saw themselves providing financial advice. All of them seeing this as an avocation, in addition to an opportunity for a career.

So the question to everybody in a major firm was how does that match up to what you do with regard to the products and services and support you offer? Will that be attractive to the next generation? So beyond succession will you actually be able to track the next generation of advisors? I think we should explore that. Mitch, you've done a fair amount of work in succession, as have many others around the table. Finding talent and linking that to the succession issues is an interesting place to start.

Vigeveno: Part of the problem we have today started a number of years ago. In the old days many career insurance companies and wirehouses were training thousands of advisors in their training programs. Over time, the cost of bringing a new person into the business became greater and greater. All the firms came under a certain amount of cost compression because of bad markets or competition and said they couldn't afford to do this in the same numbers as they used to. That was the beginning of the decrease in new advisors getting into the business.

Also, if you look at the curriculums of most CFP and financial planning curriculums, they don't teach sales. They don't teach business development. They teach the technical side of the business; they teach people how to pass the CFP exam. And so the young advisors come out of these programs technically well qualified but not sales-qualified.

While there is a new breed of advisor that is coming out of these programs, and the older advisors, in fact, need these new people, they often want an advisor who can come to their firm and bring in new business. They need and want a new rainmaker. They know their firm isn't going to survive if they don't have somebody with those skills. But the new person is coming in and saying, "Well, I'm not really good in sales. I'm really an analyst" or "I'm really a financial planner and I want to crunch numbers and meet with clients." So there is a real conflict between the type of advisor the older advisors need to bring into their firms and what is available out there in the market.

There are really two groups. First, you have the RIA side, which I think is largely trying to build a professional practice. They are trying to build a team within their office. They are trying to build a firm, an entity that, in turn, will support their clients. Then you have the commission side of the business that is trying to convert more into the fee side. They are still coming from an "eat what you kill mentality" and the idea of paying someone a lot of money to come into their firm if they are not bringing in new business is not really an appealing business proposition. I think you have a real conflict there. We've been working in the succession space and we've taking a different approach. We've not been trying to find brand new advisors; we've been finding advisors who've been out there a while, who have an existing business and who have some

leadership qualities and can come into a firm and ultimately take over. Most financial advisors, if you ask their preference, would rather have an internal successor than put their business on the auction block.

As you can see there is a myriad of factors at work out there. I don't think having a succession plan means selling your business in any sense of the word. I think many advisors are going to the fiduciary model that we were just talking about but they are not creating a plan; they are not protecting their clients, they are not serving their clients' best interests, and they are not protecting their employees, many of whom have been with them for a long time and deserve some type of loyalty. Finally, they are not protecting their families because the equity value of their practice is going to go down the tubes in a relatively short period of time. I think there is a huge need to create continuity plans and then move to a more comprehensive succession plan going forward.

Cogan: Mitch I agree with you, but I also believe the regulators will soon require a succession plan like they require contingency plans. I do think the advisor of 2017 will look significantly different than the advisors that pioneered this industry. What worked then is not going to work now. Clearly, the advisor is no longer a salesman. And if they attempt to be a salesman consumer behavior, as it is changing, will drive you into being product salesman not a financial planner. Helping older advisors understand this huge consumer behavior change is a significant part of my work. We are not attractive to enough young people because we do not appeal to their values. In addition, as a group, we do not invest enough in the future of our industry. The current storm over fiduciary issues will be resolved. Media coverage is certainly not encouraging young people to consider our industry. Finally, I believe, it's all of our responsibility to become involved in internships.

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~ Bob Cogan

Taylor: I would agree with you. I think fundamentally you're refining a business perspective. When you entered the market you were salespeople. You were hunters, and farmers – as defined by your personal style and firm requirements. As pointed out, that is no longer the case. You don't have that luxury. I believe the focus is taking a group and trying to refine or introduce a new way of thinking. One of the challenges involves addressing what tools do you put in their hands; whether self-directed or assisted, the focus being to develop an awareness of "what is in it for them" a.k.a. the value add of the proposed change. Not having a successor in your firm certainly is one of the biggest fears of a financial planner. Whether subconscious or overt. You have successfully created an entity, investing your blood, sweat, and tears, and now the question is whether you are going to have influence in who takes on your mantel when you are gone, or are you going to watch it drift away and pursue its own course. It's going to be a very interesting proposition to see the decision made on this topic and how its implementation is pursued.

Littlechild: I wanted to pick up on your point on fear because I agree that it should be their biggest fear; I'm just not convinced it is. When we talk to advisors we see the numbers. A third of them have a formal succession plan. That number doesn't seem to change much based on age. I do think that's part of the problem. Mitch, you mentioned it being the right thing for the client

as well. I have to wonder if we've done a good enough job at helping advisors see the risks. They want to die with their boots on, they think that's OK. And it's not okay for your team, your clients, your family and legacy. Just for a little context, some quick data points I'd like to share. We asked clients, "To the best of your knowledge, does your advisor have a succession plan in place?" 57% said, "I don't know," 34% said "yes" and 9 % said "no." Basically we find that only 17% of clients have been proactively approached by their advisors to talk about their succession plan. So there is a good chunk of those that feel they know they have a succession plan but they had to ask. This to me, and I like to look through the client's perspective, it's got to be important to them and they've got to recognize this as important. Maybe nobody has been asking the tough questions about this.

Vigeveno: I think part of the problem is that a lot of advisors look at succession as the sunset of their career and there is a fear about that. There is a fear of separating themselves from the clients that they've had relationships with for many years. They go on cruises, play golf, go out to dinner; they do all those things so they are not so quick to walk away from those relationships. Unfortunately, I think there is a real negative connotation to succession when, in fact, if it's properly discussed, succession can be a real opportunity to grow the business by bringing new ideas into company, new relationships into the company, bringing in new markets and doing some things that are really exciting. If the person is going to leave the business eventually, which he is, succession planning is a real opportunity to do it with a bang rather than a whimper. So when we talk to people about succession we try and paint that picture. This is a chance to have a couple of really great years before you do slow down.

Lynch: Building on that comment from Mitch that succession isn't necessarily about your exit in the business, we see firms transforming to more of a team-based model. Surveys that we've done suggest that about 70% of advisors indicate that they are part of a team or want to be part of a team. They are already part of a team-based practice or they are looking for that opportunity which then allows for a greater likelihood of smooth internal succession if you have a team of partners that share clients.

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Think about the three primary advisor models, the silo, the solo, and the ensemble. The solo, out there on your own, running your own shop, not having any other professionals in your firm, having staff that supports you (professional staff) but maybe not another advisor, that's roughly about 30% of the advisor population based on these surveys. The models where you have a shared expense structure is the silo. Finally, where an advisor is actually in an economic partnership or shared top lines, shared business, that's the ensemble model. The ensemble model aligns well with consumer preference where they like to do business with a team rather than individuals. But it also builds in this financial security and transition that when I'm ready to retire we might have a plan where I can transfer my practice to you. I know there is continuity, I know those people I have relationships with are going to be well taken care of. It's not something you do just at the sunset of your career.

In terms of successful succession five years is light speed. Figuring out what you're going to do, who's going to take over the practice, getting agreement on evaluation. Putting the deal together and transferring relationships and getting paid, it's five years if you're among the few who get it done right the first time. And we know from all our experiences, a very high percentage of advisors don't get it right the first time, very often because it's not what they do every day. Hence, our team is often engaged to help advisors realize the full value of their life's work.

Asnes: I've been working with a firm that is going through this process. One of the things that really changed the game for them was to separate the liquidity event from complete retirement, because the retiring principal is only 78 and she is not ready. God bless her, she is a dynamo, and still a big part of the energy of that business. We suggested that she sell to her successors—who are already in the business—take the note, and go under contract as a consultant on two specific areas where they still need her. That was a way to bring forward the idea that you can have the liquidity event that powers your future and acknowledges what you've built, but you don't have to ride off into the sunset at the same time. It means you've now crowned your achievement in building a business.

Cogan: If you talked to senior advisors this way, many of them would just throw up their hands and say, "This is just too much work! I'd rather meet with my clients." Mitch and I have experienced it. You have to take them step-by-step. Succession planning – it's not riding off into the sunset. It's a growth strategy; you are fulfilling your fiduciary responsibility to your clients. Take one small step at a time. Proper planning takes years not months. Financial planners just do not view it as a long term strategy.

Miller: It often goes back to the type of industry they entered. They were representatives in a distribution system, but you need the mindset of a business owner to be concerned about succession. I see a move in the right direction, but they definitely need an infusion of ideas and help to navigate through this process. No two situations are the same, and there is no blueprint to follow. As Matt, Julie and others have said, succession is critically important for the clients and everyone involved. The human side of the equation is so profound, and I strongly agree that being able to separate the sale or buy-out – the financials – from the behavior and longevity of their role, can be a very healthy approach. It softens the 'all or nothing' emotion that many advisors aren't ready for, and creates other options that tap into things they are actually excited about.

The other issue of successors having different ideas about how to move the business forward is something we definitely want to help our industry embrace, because what got everybody to where they are will not necessarily take them into the future. I just feel compelled to also add that having a plan for continuity in the event of the unexpected is a very big issue. I find that most advisors don't have anything in place even though they will say this topic keeps them awake at night.

TREND #3: CHANGING ADVICE MODELS

Swift: Let's move on to the third trend that matters: changing advice models.

Lynch: There are a number of factors that we talked about at the Major Firms Symposium. One is this shift in terms of moving to retainer-based pricing or other types of pricing models. We see firms that started in the high-net-worth space, now we see that trend coming down market. We see the emergence of different types of fee structures. Some people might say, well that's a response to the threat from robos. Others say it's a move towards greater transparency. The cynic might say reps aren't getting paid enough because we're moving to low-cost investment vehicles and trying to figure out a way to capture another piece of a shrinking pie. Whatever the driver is, there is a shift in fee models or compensation models and a fair amount of innovation out there.

If we ignore the regulatory limits, not suggesting firms do this, but if we were to start new and not have to adhere to them and could reinvent the way products are manufactured and distributed, it wouldn't look anything like the way it does today. Not if we were going to be efficient and actually create better models. I see firms that are taking that approach, saying maybe there is a different way for us to go to market. We saw it in some of the model portfolio engines that were out there. We saw it in managed ETFs. We see it from an investment philosophy in terms of smart beta, somewhere between active and passive. Asset based pricing is experiencing compression. So we see that and talked about that with the low cost ETFs.

The movement towards passive indexing versus active and how that trend impacts the advisor compensation models. The movement towards Rep as Portfolio Manager model and what is driving that behavior. Ultimately, one of the other factors influencing all of the above is certainly demographics. In part, it's the generational shift, and it's the growing population of women that are in positions to make financial decisions. We are working with a number of firms that are exploring entirely new models, so we anticipate change.

Littlechild: I think you are right. The general consensus is that the model has to change. When it comes to financial planning, for many the charging model is simply outdated. You've got an objective (like planning) that is completely out of line with the way we are charging for it (based on assets). We need to be able to bring those together. Demographics may shift that, it's hard to know. Focusing on and engaging women is just good business sense. There may or may not be a different preference for how they are paying, we don't know that, but it makes complete sense to focus on that.

> *When it comes to financial planning, for many the charging model is simply outdated. You've got an objective (like planning) that is completely out of line with the way we are charging for it (based on assets). We need to be able to bring those together.*
>
> *~ Julie Littlechild*

I do think this notion of how do we get paid for what we are actually doing seems to be taking hold. If our goal is to help you build a plan and then get paid by assets, we are going to be limited in what I deliver because I'm not being paid for it. We see this in the Canadian market a lot. The FPA is coming out with a new study around some of the trends around financial planning and there is a good majority of advisors that are not charging effectively for the planning portion of what they

are doing. And by their own admission, they are saying that limits the quality of what they can do. So I think that's going to be a huge issue.

Swift: One of the speakers at the Major Firms Symposium was talking about giving away financial planning as a value-add. To me, that's a big mistake. It diminishes the perception of value. We have to mitigate some of that market misperception now. Because when firms are giving away something for lead gen purposes, it's really not a plan. It's an investment projection that's being called a plan.

Lynch: I'm not sure who to attribute this quote to. I want to say it was Deena Katz. When she started in the business, she talked about how she used to give away a plan and charge for the product. And now we give away the product and have to figure out how to charge for our intellectual capital with a plan. That's maybe a twenty-year old quote. This is not a new challenge for the industry.

I think part of it is we get caught up in the regulatory labels. We get caught up in the constraints that exist out there that really don't allow innovative advisors to work the way they'd really like to work. If I'm going to get paid I have to have a certain amount of assets and we keep score based on assets under management. Or Gross Dealer Concession in the broker/dealer world. We reward sales excellence instead of planning excellence. That's really backwards in terms of what we should be creating as a value for the client. That is the way the business is constructed today. The challenge for a lot of our clients is okay well if that's the reality of the world we live in, how do we, in terms of these changing advice models, how do we continue to be relevant in that context?

Vigeveno: I used to have a planning practice and we did charge fees – this was years ago. We learned a few things. The *good* clients that you and I do business with are willing to pay fees. They don't want anything for nothing. They want to get a good job done and are willing to pay for it and they don't want to be sold a bunch of products to justify the plan that was created. I think secondly, planning is a process. You can't keep doing it year after year after year for nothing. You have to charge a fee and get paid for the effort that's going into it to keep it relevant and current. I think a lot of advisors haven't charged for plans because they are not proud of the product or the service they are delivering. If they're confident that they are delivering a quality plan and have the ability to do that and the knowledge and technical expertise to do that, they are going to be adamant about charging for it because the fee is a fraction of the value that was created for the client. Paying for advice is a good thing.

Cogan: It's a complex issues because it's being pushed by fee commoditization, regulation, more knowledgeable consumers and industry disruptors. The people at my table, who were manufactures and distributors, talked about embracing some of these disruptors and incorporating it into the planning process. We all agreed that's a great idea. We discussed new, changing methods for advising 30 year-olds and their families. We envisioned methods like group financial planning and faith-based financial planning, which is not tied to tithing but it's tied to a better life. You see some organizations, like larger hospital groups, now providing financial planning at the lower levels

because it reduces absenteeism. I don't think we focus enough on that. There are other ways to provide planning efficiently. We just need to think about the benefits to society in a slightly different fashion. How will an employer, social service agency or other institution benefit from their constituency having a better financial life?

Littlechild: One of the places we can look for innovation is to look at those that are working with Millennials. Bob you mentioned younger people. When we talk to advisors and ask, are you working with Millennials and target the groups that are and say how are you pricing? All of a sudden you are seeing this creativity around pricing. There are a group of advisors out there who are actively going after this and figuring it out because they have to. They have no choice. It's a great group to watch.

Traditionally, financial planning is part of a high-net-worth service model and what you are planning for is to be rich, to stay rich, to live rich, ideally to get richer and then to pass those riches down to your family or whatever else you want to endow. Now you are looking a Millennials. They are not necessarily planning for the rich life and therefore, you have room to invent.

~ Marion Asnes

Asnes: One of the questions that needs to be asked is what are you planning for? Traditionally, financial planning is part of a high-net-worth service model and what you are planning for is to be rich, to stay rich, to live rich, ideally to get richer and then to pass those riches down to your family or whatever else you want to endow. Now you are looking a Millennials. They are not necessarily planning for the rich life and therefore, you have room to invent. You can plan to help people pay off their college loans, buy a house, live decently. If you are reducing absenteeism through financial planning you're keeping people from having their phone cut off or car repossessed, right? Suddenly, you are opening the field wide and you are able to completely reinvent this service. Now, what is it worth?

TREND #4: NEW MARKETING METHODS

Swift: So let's talk about new marketing methods, which is one of the top trends we believe are impacting the advice business. When we think about new marketing methods we think and include social media in that, right?

Lynch: Yes. In our surveys that we've done over the past few years, three years of survey data within the broker/dealer community, 40% of firms would permit the use of social media from a compliance standpoint. Do you allow the use of social media? Now that's up to 95%. We don't know who the other 5% are, we wonder if they are still in the business. But nevertheless, 95% allow social media. What's interesting is we asked a follow up question. How many of you have resources in place to support the marketing efforts of the advisors that include social media? That's about 65% now. We go to about 40% permitting the advisor to do that to now almost 2/3 saying we are not only permitting it we are going to encourage it, we are going to help with it. Whether it is LinkedIn, Facebook, or Twitter, whatever it might be in getting the marketing message out.

Part of what is driving it is that the train has left the station. Advisors are going to use that because that's what consumers respond to as do the Millennials. So we are either going to be part

of it or on the outside looking in. The peer-to-peer, the direct consumer, the consumer-to-consumer marketing. We see that in other aspects of financial services; Lending club and other areas where it doesn't include the traditional manufacturers or the traditional distribution organizations. So if you are not keeping up with what the next generation wants and the use of social media as one of the marketing tools, well, you might be on the outside looking in. Marie, you are considered a top marketing consultant in the financial services industry. What are some of the best ways to be part of that and engage and support in new marketing methods?

Swift: At my firm, we talk a lot to our clients about the "PESO Model." The P stands for Paid, the E stands for Earned, the S for Shared and the O for Owned. Shared is where social media comes in. That is where the trust comes in, just like you talked about Julie. Because people trust people like them more than they trust an expert or a government official or a company executive. So these are the waters these advisors and firms that support these advisors have to be in.

> *Many of the firms we're working with are looking at the innovative ways to be compensated and it's not on assets under management – it's retainer or subscription. It's hourly, a flat fee, or a combination of all of that. When you have a different business model to talk about, that that becomes a new marketing method.*
>
> *~ Marie Swift*

In this digital realm where everybody is looking you up online, your online presence is more important than ever. If you are ignoring that, and not allowing some interactivity in this shared space – which is really a way for people to say "I support this message, this cause, this person" and "I want to share it with people who are important to me" – if you are not allowing that shared component in this overarching digital environment, the market may judge you as irrelevant or inferior. Simple and online is the way consumers expect to interact today.

How do firms and advisors put things on their websites that are super simple, that support the financial planning process as a way to engage visitors as a marketing tool? It must be easy. It must be collaborative. It must be digital. It must get people interacting with the advisor or the firm in a meaningful way. And that ties back into the advice models we've been talking about today. Many of the firms we're working with are looking at the innovative ways to be compensated and it's not on assets under management – it's retainer or subscription. It's hourly, a flat fee, or a combination of all of that. I think that right there, when you have a different business model to talk about, that that becomes a new marketing method.

> *Technology is a great advantage for our industry. It can lower costs, increase efficiency and accuracy, and be impactful with marketing and communication. Advisors who aren't very comfortable with technology need to invest in people who are and give them a green light.*
>
> *~ Marty Miller*

Miller: I think technology is a great advantage for our industry. It can lower costs, increase efficiency and accuracy, and be impactful with marketing and communication. Advisors who aren't very comfortable with technology need to invest in people who are and give them a green light. It's a mistake to think that only younger clients care if your firm utilizes technology well. I agree with Marie that it is generational. People in all generations are adapting to technology at light speed, and for firms that don't keep up, they are already sending a message that will soon raise

questions and cause concern in the mind of existing clients and new prospective clients. Just to put an exclamation point on this, much of the communication between my 86 year-old mom and me is via text message on her smartphone. Five years ago I would not have imagined that!

Taylor: What I've seen is that technology and the sharing of technology, provides the opportunity to foster relationship bonds between people. When you are looking at the Millennials, solely, I fear you are missing an opportunity to develop strong bonds with older generations, who may not as easily assimilate new technology. The investment of time to sit down and go through the process, and foster understanding, provides the opportunity to create relationships where they don't look to anyone else for answers, because you have invested in them. That relationship I think is critical. My mother and father are classic examples of this process. They will not deal with another advisor – despite repeated opportunities – because of their relationship with the person who took the time to develop a familial relationship.

It was interesting at my table there was little concern regarding the drive to promote digital marketing and product to those born in the digital age. Rather, they were asking the questions: "What about the digital orphans? The people that aren't comfortable with digital. What are we going to be doing to be marketing for them?" Our firm panelists recognized that these "digital orphans" control much of the financial disbursements NOW – well before the Millennials, who currently seem to be the focus, are in a position to matter. It was a real concern for them. Focus and concern was raised regarding what is being done to market to these "orphans"? What is being done to show we are on the cutting edge for a wide spectrum for the investment client?

Cogan: In some of the work we've done with more established clients, we asked them how they want to communicate with their advisor on specific events. It's amazing how many people do not want to talk to the advisor directly on routine items; they want to communicate at 8:00 at night. It's, "I want to communicate with you when and how I chose." We've done a couple of studies with different advisors and it comes out the same. "I'll tell you when and how I want to hear from you." I have a lot of friends who are retired and in this retired generation and they are all Internet savvy however, many advisors just assume they do not use email or do online research. I think, as an industry, we need to think about what's the next step? We tend to put communications in writing, thanks to regulators. However, we know most people prefer visual communication in 20-second slots. I believe we need to reevaluate our client communications and change some of our legacy assumptions.

We tend to put communications in writing, thanks to regulators. However, we know most people prefer visual communication in 20-second slots. I believe we need to reevaluate our client communications and change some of our legacy assumptions.

~ Bob Cogan

Littlechild: One is how we communicate but the other is what we are communicating in the role of thought leader. Advisors have been doing this for years. They want to be seen as thought leaders by emailing articles or writing for industry journals. Increasingly, certainly the data suggests, they recognize if they want to differentiate themselves, they need to take leadership very seriously. If you do that, social media becomes the most natural way to get the word out there.

Miller: I think this is definitely an issue to embrace. What I see is that a fair amount of advisors, let's say 50 and older, are a little more hesitant to invest in these types of things because they

think it is for the Millennials. They think Millennials are not their clients but future generation clients so they don't feel the need to seize this opportunity. My point is they do because everybody wants to interact that way to some varying degree.

Swift: The death of the rainmaker goes back to the succession problem. If these firms do not put together a systematic marketing plan that is current, that is digital, that crosses the generations, that collaborates, that focuses on the process of a financial planning process, then they will be in a disadvantaged position. The firms that are supporting the advisors need to provide those tools and make it super simple and super cheap. Advisors are stressed for time and they don't want to give up the marketing budget they really should be devoting to this.

Asnes: If I can emphasize one word Marie said it would be the word meaningful. Sometimes people love the idea of thought leadership a little too much. One thing to encourage all our clients to think about is, what am I communicating? Is this meaningful? Is this valuable? It might take 5 extra minutes to do that. But it's the difference between having your stuff routinely deleted and having it actually read and shared by your clients.

Cogan: It also gets back to the client segmentation. For many clients meaningful communications is not limited to just their financial plan; it's what's meaningful in their life. Having a conversation about their grandkids can have more significance then a 3% portfolio change. How do you segment your clients so you provide meaningful communications on an ongoing basis. Technology makes this possible. We just have to adapt it to our needs

Swift: I want to touch on one more thing. At my table we talked about data analytics and data mining, and it goes to your point Bob. There are many good tools where the advisor can be empowered to see who needs their help and to provide communication in a meaningful way. More firms need to be helping to reduce the cost of that to get the economy in scale and get that good data mining intelligence into the hands of the advisors and to teach them how to use it smart. Technology can be an enabler of this great communication.

Lynch: One of the firms we did some work with had brought in 20 advisors and asked them how do you use social media? How does it work in your business or practice? And we found there were three or four common ways they were using social media. They looked at what have you tried before? What are you planning to do in the future? What they found is that the reps were continually reinventing the wheel. So to Marie's point, there is expertise available on the topic, if you are going to do it and don't have time to try things. There are things you can do – go out and get support, get advice, get consulting to help put together a plan to turn your social media efforts into a marketing engine or client relationship engine. Whatever you want it to do there are folks out there that are knowledgeable that can help you to do that. Just setting up a Twitter account or blogging, putting something out that isn't meaningful. You become part of the noise versus doing something that is intentional and purposeful that supports your business and mission.

You have to be clear on strategy first. What is it that you're trying to accomplish? And then how are you going to keep score? So if I put in place a new marketing plan or new way of getting the word out, I have to be able to measure it at some point and determine whether it's having the impact I wanted it to have. How do you know what you are doing is effective? We know advisors are creative and the firms that support and recognize that creativity can also be a double edge sword, we know advisors that tend to go down this path of trying to fix things they have no expertise in.

A number of years ago we worked with an advisor who was at the top level of production, let's say doing a million a year consistently for 10 straight years, and his production dropped to about $200,000 for a period of six months. We thought maybe it was a health issue. Maybe something else happened. Fast forward, what we found out is that he spent three to four months looking for an imaging and document storage system for his office. He went to the local university and took classes on it. He went to talk to the top firms in the industry asking them how it worked. At the conclusion of his studies, he paid about two times retail and made the wrong decision. Because it's not in his skillset, right? Firms that support advisors need to help them make good decisions.

TREND #5: FEE COMPRESSION

Swift: Let's shift to fee compression. This is certainly a driver, for most people in the industry, as they are for-profit businesses. There is a desire to make money. But, Matt, you say there's at least one too many intermediaries in the financial services supply chain.

Lynch: Yes, that's right. When that happens, and then you overlay innovation and technology, one of the natural things that occurs is that somebody gets pushed out of the supply chain. There is going to be fee compression, but what our clients want to know is who in the supply chain will feel the most pain? The bottom line is, whatever the driver – fee compression will impact your business.

There are fewer dollars in motion to support the infrastructure and industry, and ultimately it should impact the cost to the consumer. When we think about fee compression we think about maybe it's driven by the change in product preference or investment style preference. Maybe it's due to robo advisors.

As I mentioned yesterday, it seems every conference, particularly advisor conferences, has a requirement – I think it's in our agreement – that as a sponsor they have to mention robos. Everybody is talking about robos. What does it mean? Well when we talk about robos many people think that's a competitive threat. Or maybe that's a generational thing or a consumer preference. I think everybody agrees that one of the outcomes of the emergence of the digital advice model is that there will be an impact on price. It's greater transparency whether you see someone saying I can get an ongoing plan for $19/month or unlimited trades. But this is not new. This has been around

Everybody is talking about robos. When we talk about robos many people think that's a competitive threat. Or maybe that's a generational thing or a consumer preference. I think everybody agrees though that one of the outcomes of the emergence of the digital advice model is that there will be an impact on price.

~ Matt Lynch

for thirty or forty years since Schwab came out with a telephone based trading model. Or E-Trade or others, right? There are other factors that are impacting the fee compression.

Consumer preference, part of it is transparency; part of it might be what reps are doing in response to this so the growth of the Rep as Portfolio Manager model. We know that within that model there are certain reps that are CFA types that actually might have a better model. Our research however suggest for others, investment performance among advisors who move to that is just below self-directed. Meaning that advisors in that category might be doing it for reasons other than what might be best for the client. Maybe that's what's best for them. They get to participate in the manufacturing margin. And not to knock them, but if you were part of the supply chain and you are trying to provide asset management it may mean you will be capturing less of the fee.

We talked about the lower cost as well as the race to the bottom in terms of ETFs and some other products. We also had a discussion among the group about the nature of robos. It was some interesting side comments which was one of the individuals said, "Well if all you're doing is figuring out what a client needs in terms of portfolio allocation, there is an algorithm, we as the robos can figure that out, you are not really adding value. So we figure out and tell the clients what they need." My observation in what the robos might be missing in the human element is when we go back and think about the sales and distribution models clients don't generally act on what they need, they act on what they want. They act on what they are willing to buy. Sales people and financial services present solutions that they believe are within the context of what's possible. What is that client likely to buy? I might know they need this allocation, maybe they need several million dollars worth of life insurance but the reality is they may not be ready for that. They may not be willing to buy that. We reward sales people over decades in the industry that figure out how to get the client to take action. What are they willing to buy? Arguably, the client's better off taking action than not even if part of their needs are fulfilled.

I think where the robos are missing part of the opportunity is they are approaching it as a mathematical equation.

When robos come up a lot of people in the industry express concern about, well it's a lower cost model. But does it answer all the questions? Does it provide all the services? And if not, can we prevent the fee compression by actually focusing on the human element and delivering the value that causes consumers to take action.

Taylor: Coming down to the conference on the plane it was very interesting, I was sitting next to a Millennial and a more seasoned investor – older than myself. On the display on the Air Canada flight was a marketing pitch for a robo firm. Immediately following the pitch, the Millennial said, "Fantastic. This is how I want to conduct my investments. I have been meaning to do this" and started writing down the details of the advertised firm. The seasoned investor looked over and said, "You know, I'll never use that." And thus began a half an hour attempt by the Millennial to convince this gentleman about the benefits that were inherent in a robo. The gentleman patiently took it all in and finally said, "When you get to my age, I want the personal

touch. It doesn't matter what else you want to put out there, I will use it as a tool but it will never replace the personal touch."

Asnes: I have two Millennial children and we go through this all the time, with every service imaginable. I will be grumbling, "why do I have to use this @#% website;" I just want to talk to a person and get this resolved. My kids will say, "What's wrong with you? Why would you want to waste your time talking to a person when all you have to do is this?" Ping...and they've solved it. They will say, "Why do I have to wait on the phone and talk to a person?" There are various definitions of good service.

Taylor: It's good service but it's also that sense of problem solving that I believe is lost when I place myself in the hands of purely technology. The perception that if I get an advisor on the phone I will work through to an answer that is specific to my situation, not some "off-the-shelf" option. Websites are classic examples where frustration levels mount to the point where breaking the laptop becomes a real option to solving problems because solutions cannot be arrived at. Not because they don't exist, but rather because the expert system employed by the website provides a preordained path to resolution; one which may or may not be in line with my situation. Placing people in a box is not always the proper way of providing great service – one solution for everyone does not work. People feel they don't fit into a niche – their question is much more robust. Or even, that they do not know what their question is! They may need to work things through. They are bringing their challenge and desires to the advisor so he or she can provide ADVICE. And hence we get back to the discussion on the role of advisors and the movement to adopt a fee for knowledge/advice model.

Placing people in a box is not always the proper way of providing great service – one solution for everyone does not work. People feel they don't fit into a niche – their question is much more robust. Or even, that they do not know what their question is!

~ Richard Scott Taylor

Swift: You said an important word, Scott: personality. I'm not convinced this is a gender thing or a generational thing. In my mind, it's not about Millennials. My son and I will use tools the same way. We will think about relationships and service providers the same way. I think it's really a personality thing. I think it's an upbringing thing. And yes, my son may be a little more tech savvy than I am, but he's teaching me. To your point earlier Scott, advisors can bring value to their clients by helping those who are not feeling comfortable in a particular technology environment or with a tool or device. For instance, host an event at the Apple store to teach them how to use an iPad. That goes a long way and I don't think it's generational.

Cogan: I'd like to go back to the fee compression. Regardless of what your position is on the introduction of web-based disturbers, they are bringing AUM fees down. The reason the fee is coming down, as you said, is that "it's basic business." AUM fees are becoming commodity.

Taylor: Is the fee going to be reduced permanently? Or, will we see the opportunity develop where the new fee model develops new markets based on the providing of, and implementation of advice - professional financial coaching?

Cogan: Exactly. So traditionally AUM fees were what you were getting paid on, however, we were doing all these other things. Now, what we are getting paid on is getting commoditized, we are going to shift to getting paid for all the other things we do.

Lynch: I don't recall who published it but there was an article - one of the most thorough ones to date, but I don't think it was complete. They showed a 10-year trend in terms of the total cost of ownership for clients to get advice and they compared different companies. They were really just looking at the platform fee. If we look at the total cost of the consumer relationship and there is various data out there but I think there is a lot of data that would support the idea that it's a multiple of the advice or platform fee, when we consider all the other factors.

If we think about that, what we are seeing so far with respect to fee compression is financial geography. I think it's the same total expense just shifting, squeezing a balloon between different providers in the supply chain. What's next, and going back to Bob's comment where the digital tools and robos are impacting it, this is taking it to an elevating of the era of consumerism and financial services where consumers are going to be better informed.

Robos are elevating the discussion and then the total cost of ownership for the client is going to go down. For our clients, for the institutions that are in the supply chain for advisors, you have to be thinking as that happens, where am I going to be in the supply chain? Am I going to be on the outside looking in? Am I going to be the one giving up the most in terms of the fee reduction? If the average total cost for ownership including underlying products goes down by 30-50% where would I be at the end of that process. What is my economic model going to look like 10 years from now? 20 years from now? It's beyond the argument between shifting the fee between manufacturing distributions, the end advisor, the different channels, the W2 versus independent model. Ultimately, if there are fewer dollars in motion you can solve for some of that threat through operational efficiency, through eliminating redundancies, through partnering with vendors that can actually lower your costs if you're a smaller firm.

> *Robos are elevating the discussion. The total cost of ownership for the client is going to go down. Advisors and institutions that are in the supply chain for advisors have to be thinking as that happens, where am I going to be in the supply chain?*
>
> *~ Matt Lynch*

However, at some point there is a cross over, a breakthrough, where you've got to figure out how to remain part of the relevant chain. So you can still carve out a fee that still supports a decent return on your investment or return capital. I think those firms that are trying to figure out how to be part of that for the future are the ones we'll look at and say those are the disrupters. At the very least we will say those are the survivors. If you are living on 20 or 30 basis points of that supply chain and that gets cut down to five? Bigger is not a strategy. If you're at a billion dollar of assets then you'll just have to say, we'll just have to get to a $100 billion. I don't think that works.

The firms we are working with are thinking about this in context of the long-term. We're assisting them in a thoughtful way and doing some sensitivity analysis based upon a range of outcomes. Regardless of the outcome, we are going to see better-informed consumers. That's going to happen. It's just a matter of how fast it happens and what consumer preferences and different generations lead to.

What I wouldn't want to be doing is sitting back with a legacy or dated fee-based or fee structure and even with the large firms and betting that's going to hold up over the next five years.

Vigeveno: There are firms that are building new models right now. They have them ready to deliver advice virtually. I don't mean through a machine, but through a call center. Here, instead of having a young CFP on the phone, they have an MBA/JD in there who they are paying $150, $175, $200K a year and who is dispensing advice to a lot of people without necessarily meeting with them personally. That's another way to bring the advice to people at a lower per hit cost than meeting in an office that has wood paneling.

Asnes: People have been talking about the commodification of investment advice since optimizing software came out. So this is not a new problem. Optimizing software was behind the curtain and the advisor was in front talking to the client, though, so there wasn't the same competitive pressure. Now the robo is in front of the curtain; it's right there talking to you, Mr. and Mrs. Consumer, about what it can do for you for next to nothing. What is your value? If you are fighting a robo over who can pick better investments, are you kidding? That is not a fight you can win. Not with the price discrepancy.

> *If you are truly in the advice business, you should be looking at the fiduciary issue as your big, ribbon-wrapped present.*
>
> *~ Marion Asnes*

So if you are truly in the advice business, I think you should be looking at the fiduciary issue as your big, ribbon-wrapped present. If you can really say, yes, I'm using a tool just like that robo to help you get and maintain the best possible portfolio—but I'm really giving you deeply thought-out, personalized advice that is going to make your life work better over the long term, because we have your goals in line with what you're doing. Then you have something to sell.

Lynch: And that was one of the ways we framed the discussion yesterday at Major Firms. Can I beat them or can I join them? Clearly, you are not going to beat the robos in that game or add that to part of your value proposition. Then you are not fighting them but leveraging their capabilities for the benefit of your client and benefit of the firm.

BIGGEST TAKE-AWAYS

Swift: In closing, let's go around the table. I'd like to hear from each of you one big take-away or closing message.

> *You don't want to be the buggy whip when your clients are driving Teslas.*
>
> *~ Marion Asnes*

Asnes: Embrace the future; don't fight it. Over the long term you'll be more successful and your business will be more valuable. That means enduring the short-term pain of learning what technology can offer you, what new regulations will require of you, what new clients will need from you—and hiring people who can help. Remember, every industry has gone through the kinds of disruption that financial advisors face today. You don't want to be in the buggy whip business when your clients are driving Teslas.

Vigeveno: The financial services industry, like most industries, is currently in a state of extreme change. My guess is that it will remain that way going forward with all the changes in our demographics, customer needs, and outside influences. If, as an industry, we can focus on the needs and desires of our customers FIRST, and create services and products to meet those needs in a way that is in their best interests, with a true fiduciary spirit, we will continue to thrive.

Embrace the true fiduciary spirit.

~ Mitch Vigeveno

Miller: For me, there were three big takeaways. The first is that the term robo-advisor is more correctly stated as robo-advisor-technology. This technology will be a healthy contribution to our industry and we should embrace it. The second is that the current degree of change occurring in multiple facets of our industry requires advisors to stay very aware. This is the type of era where complacency could hurt your future. And finally, even in the midst of rapid change, the excellent work that is done by many financial advisors still relies on their client centered leadership and the integrity and quality of their people and daily operations.

Complacency could hurt your future.

~ Marty Miller

Taylor: It is very clear that the financial services industry will continue to change and evolve. The struggle with managing change is very real and at times a "make it or break it" event. Companies need to ensure that they manage the value of the people who work for the company and those that they serve. Organizational Culture has to be a major focus to accomplish that task, whether the company is in a growth mode via merger or acquisition, transition to new business model, or any other change intervention. Regulations will continue to evolve, especially since government entities outside the industry are now stepping in to create yet another set of regulations – a trend which will likely increase over time.

Focus on the value of your people and company culture.

~ Scott Taylor

We have seen many companies attempt to merge entities without thought as to how the people integrate, leading to the loss of valuable talent and dissension or apathy among those who remain. Careful planning, involvement and fostering an engaged, proactive and productive culture change the likelihood of success dramatically. Utilizing benchmarking techniques and implementation interventions targeted to address identified gaps are fundamental in creating sustainable competitive advantages.

Littlechild: We talked about so many fascinating issues today and I think Matt provided some great context for each when he asked if we should try to 'beat them or join them' on each. As I think about that the phrase that comes to mind – which I'm stealing from Star Trek – is 'resistance is futile.' We spend so much time arguing and hoping that our businesses won't be impacted by these trends, but they will. It strikes me that the firms that will win are those who accept that these trends are creating very real changes in the way we do business and start getting ahead of them rather than trying to argue that they won't have an impact.

Face the challenges head on – resistance is futile.

~ Julie Littlechild

Let's face the change head on, acknowledge that fees are being compressed, that robos are here to stay, that Millennials are part of our future and social media isn't a passing trend. Every conversation was important and every trend was real so when I think about the winners and losers, I think the winners will be those who assume that business will not continue as usual and respond accordingly. So my big take-away was less about any one issue and more about how we need to encourage advisors to look forward with an open mind and focus on innovation.

Adopt a team-based, systematic marketing plan.

~ Marie Swift

Swift: One of the things we need to talk about more in the financial advisory realm is the death of the Rainmaker. A single charismatic Rainmaker or dynamic duo may have worked in the past but it is not going to work eternally. Firms that build a team of people around them, that adopt a systematic marketing plan and embrace the digital environment where their online presence "goes before them" to build their credibility will be the ones to thrive. The major firms and supporting entities can help by delivering interactive, collaborative tools that hinge on the financial planning process. That is the way to engage people beyond just investment advice, beyond just technology, beyond robo and competitive threats.

Embrace the pain of change. Use to your advantage.

~ Bob Cogan

Cogan: My primary take-away is that we must embrace the changing consumer and regulatory environment and learn how to leverage these changes to better serve our clients.

Don't sit on the sidelines waiting for clarity.

~ Matt Lynch

Lynch: I think the key takeaway for anyone in a position of leadership is that this is not the time for sitting on the sidelines waiting for clarity. This is a time to consider strategic alternatives against the context of industry trends that will impact your business.

-- MORE --

Roundtable Participants

Marion Asnes
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Marion Asnes is the founder and president of Idea Refinery, a strategic marketing and communications consultancy based in Westchester, NY. Idea Refinery's list of present and past clients includes Envestnet, InvestmentNews, Live Oak Bank, Broadridge, TIAA-CREF and other financial organizations. Early in her career she was a Senior Editor at *Money* magazine, and later became Editor in Chief of *Financial Planning* magazine. Prior to founding Idea Refinery, Marion was Managing Director / Chief Marketing Officer of Envestnet, Inc., an asset management and financial technology firm. She is a Founding Board Member of the Institute for the Fiduciary Standard.

Bob Cogan
Managing Principal, Strategy B4 Tactics
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Bob Cogan is the managing principal of Strategy B4 Tactics, a financial services consulting firm. Bob has over four decades in the financial industry and currently specializes in transition and succession planning, converting strategic plans into goals, and consulting and coaching to help clients achieve those goals. Bob started his career as a financial advisor, becoming an associate branch manager before advancing to Vice President of Marketing, then CEO and Vice Chairman of Capital Analysts Inc., an independent broker/dealer and Registered Investment Advisory firm. He served as chairman of the B/D division of the IAFP (the predecessor of the Financial Planning Association) and is a founding board member of the Financial Services Institute. He also served two terms on the NASD (predecessor of FINRA) insurance and independent distribution committee.

Julie Littlechild
Founder, If Not Now Research
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Julie Littlechild has worked with and studied top producing financial advisors for more than twenty years. She was the creator of the Client Audit client feedback program and is a recognized expert on client engagement and growth. Julie sat on the national board of the Financial Planning Association from 2010 – 2013, was twice identified as one of the 25 Most Influential People in Financial Planning by *Investment Advisor* magazine and won the Influencer Award in practice management from *Financial Planning* magazine. She works in the US, UK and Canada and holds an MBA from the University of Toronto.

Matt Lynch
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Matt Lynch is the Managing Partner of Strategy and Resources, LLC, a financial services consulting firm. Matt's professional background includes progressive senior leadership roles as President and CEO of an independent broker/dealer and RIA, Capital Analysts Incorporated, CFO of Lincoln Financial Advisors, and field management roles with New York Life. His consulting credentials include Moss Adams, LLP, where he was a Director of the business consulting group and widely recognized for his industry expertise in succession planning, M&A, and financial services distribution strategies.

Marty Miller
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Marty Miller founded Clear Path Consulting in 2004 to provide practice management coaching to successful financial advisors across the nation. She works with a select group of clients, helping them develop a vision for their firm and build their teams. Compensation planning, operations and succession planning are other areas of expertise. Before starting Clear Path Consulting, Marty was Regional CEO for Lincoln Financial Advisors in Orange County, California.

Marie Swift
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Marie Swift is a nationally recognized consultant who, for over twenty years, has worked exclusively with some of the industry's top financial institutions, training organizations, investment advisors, and financial technology firms. A top rated speaker at dozens of industry events, Marie is dedicated to elevating the conversation in the industry. She also contributes to many of the industry's leading publications. 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 series is just one example how Marie generates interesting conversations with movers and shakers in the financial services industry.

Richard Scott Taylor, J.D.
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Richard Scott Taylor is a licensed US attorney who has been providing business consulting services to senior executives and private equity entrepreneurs for over twenty years. Leveraging his legal, business management, sales and entrepreneurial acumen, Scott's workshops and team development programs provide a practical based environment structured to empower attendees to identify ways to promote synergy and sustainable behavior change.

Mitch Vigeveno
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Mitch Vigeveno is the founder of Turning Point, Inc. and has more than 25 years of experience in the financial services industry, both on the insurance and securities sides of the business. Prior to founding Turning Point, Inc. he was vice president of branch development for a division of Raymond James Financial. Mitch has been active as an officer, director, and member of the Tampa Bay Chapter of the Financial Planning Association (FPA) since 1984. Mitch has completed executive search assignments for virtually every kind of a executive position in the broker/dealer and Registered Investment Advisor arena. In recent years, Mitch has helped senior advisors find younger partners and associates to take over their practices as they exit.

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