

Executive Roundtable



Seven financial services executives presented their views in a roundtable discussion following the Tiburon CEO Summit XXI in San Francisco, October 13, 2011.

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Context

With crises in world markets permeating the news and market volatility becoming the norm, the need for professional financial advice has never been so strong. Yet, these are challenging times for financial advisors, who are not only trying to navigate the choppy markets but also maintain strong ties with their clients.

Today's investors are more informed and many are weary, even angry. The Internet age continues to bombard consumers with information—educational, as well as hyped noise—making today's investor very different than even five or 10 years ago. The Occupy Wall Street protests, sweeping the country at the time of this report, have fueled negative attitudes toward the financial industry in general.

How can advisors adjust to the evolving demands and needs of their current and future clients? What role will technology play in the decision-making process and client communications? What are the biggest challenges and opportunities facing financial advisors today and in the next one to three years?

Setting

Following the Tiburon CEO Summit XXI in San Francisco in October 2011, seven financial services executives presented their views in a roundtable discussion. The 60-minute conversation was a spirited debate. This paper presents just a few of their important insights and observations.

Publication Notes

A summary article based on excerpts from this paper were published in the December 2011 issue of *Financial Advisor* magazine (you can see that paper at www.FA-Mag.com.) The entire conversation, a corresponding Photo Essay and seven video interviews (one with each of the seven roundtable participants) are available as an “Online Extra” on www.FA-Mag.com.



Watch the seven video interviews:
www.FA-Mag.com

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Financial Advisor magazine (FA): The twenty-first Tiburon CEO Summit has just concluded. We are gathered in an executive boardroom to discuss key takeaways and to provide insights for financial advisors who will be reading this transcript, viewing the video interviews and considering their options as they move into the future, which may feel like a bit of a slippery slope right now. What insights would you like to share?

Key Observations

Gail Graham, EVP Marketing, Fidelity Institutional Wealth Services: For me, the first takeaway from participating at the Tiburon CEO Summit in San Francisco is around the need for innovation. Leaders are innovators who have an idea and the courage to speak about that idea, whether it's popular or not. I thought Pete Kight, Managing Director with ComVest Group, made a terrific comment about anticipating change, saying: "just because it hasn't happened yet doesn't mean it won't happen."

The innovation and courage of leadership is important. Ron Cordes, an executive at Genworth, talked about impact investing—really going out on a limb and talking emotionally about it. That was fabulous and shows true innovative thinking.

On the consumer side, the key takeaway is that we really have to listen. Consumers are telling us things are changing but there's some complacency in the industry. We need to be better about really listening to the behavioral changes that are going on in the customer base.



Gail Graham

Susan Theder, Chief Marketing Officer, Cetera Financial Group: I think that's because, when we looked around, especially in our Social Media breakout session, we saw that as the vast majority of the executives in the room were not engaged in social media and therefore believe that, like them, our advisors' clients also must not be engaged. But I think we're a bit blind to the reality that the majority of advisors' clients are on LinkedIn and/or Facebook, and although they may not currently be asking for communications in this way from their advisors, they will be more and more likely to in the future.

Behind the Curve

David Smith, Co-founder and group publisher of Financial Advisor and Private Wealth magazines: I think Pete Kight properly pointed out the financial services industry really is behind the curve in technology, in terms of consumer technology at least. There are all kinds of things that we're doing technologically to advance our industry, but in terms of our interface with the consumer, and serving the consumer, and meeting their needs at the same level that their needs are being met by other provider? Well, we are falling short. They have a certain level of expectation, so how do we in financial services deliver at that level?



David Smith

Graham: The Google comments from Pete, “if we don’t do it, Google will.” That was really compelling.

Dave Hubbard, president, Exemplar Financial Network / regional director, Financial Network Investment Corporation: As a person that runs a financial advisory organization, I think that the consumer has an expectation of what they want and how they want those services to be delivered. I mean the whole online presence is important. Facebook is setting a standard. Google is a setting standard. If we don’t give them something that looks and feels as easy to maneuver, then we’ll lose the clients to someone who will provide that standard.



Frank Trotter and Dave Hubbard

Frank Trotter, president, EverBank Direct: It is kind of a battle. You can extend or fight to retain the old life—the great markup of the old business models that has lasted for the better part of a century. Or you can realize that somebody—whether it’s a Google or somebody from the financial services industry who does it better—is going to come in and get it right. Can you still extend the business that you’re running or do you have to change to meet that challenge?

Smith: It goes way beyond account aggregation and just pulling it all together; determining how to bring your clients’ lives together so they can look at their holdings, their liabilities and their assets. I found it interesting that while it was intuitive that everyone would want a consolidated look at their financial lives, one consumer panelist (on the “Ask the Consumers” panel) said the ability to see it all in one place scared him, because if he can see it all in one place, then a hacker can see it in one place. That comment was very revealing and I hadn’t really thought of it that way until he pointed it out.

Alex Potts, CEO, Loring Ward Group: What’s interesting is the amount of information that’s readily available now. Ten years ago there was no Google, which meant scraping through your ADV to find out important and detailed information about the advisory firm. Now, within seconds, you can go on to Google and find out all about an advisor. I can find out about financial instruments, I can read about what banks are doing, get reviews on banks, see if an advisory firm has any negative or positive press,



Alex Potts

consumer reviews on Yelp, etc. I can do all that probably in less than a minute. This (transparency) notion—that “sunshine is indeed the best disinfectant”—is really becoming true now.

These ideas just start snapping for me when we’re in meetings like this—sitting among peers and industry thought leaders. It gets all these ideas flowing, but then when you drive 30 minutes south to the Google campus and you walk around and you see how readily available ideas and information are, and what they’re doing to stimulate it, you realize there’s a big train coming.

Trust but Verify

Theder: I think the propensity for clients to give complete discretion may be waning and the next generation is going to be much more of a blend saying, “I want advice, guidance and validation and I’m willing to pay for it.” The full discretionary investor who says, “I don’t need to know what you’re doing, just do it for me, take care of it,” is changing. I think our advisors will need to adapt their model and provide a slightly different approach to accommodate the more and more informed consumer who doesn’t blindly trust.

Hubbard: I tell the advisors in my region that their future success hinges on the “trust but verify” model. They need to find people whose lives are so busy that they still want to delegate but, as things evolve due to technology and shifting mindsets, they are adapting and want to check on things anytime they want to.

Pat McClain, co-CEO, Hanson McClain Retirement Network: I don’t think the consumer knows what they want. At my financial advisory firm, we offer statements electronically to clients, but almost universally they still want the statements mailed to them. So even if they sign up for it, and we send out tremendous amounts of information via email, over half of my clients don’t open it. So they say they want it, but I don’t think they use it.



Pat McClain



Susan Theder

Theder: I think the question is: Who are your clients and who are your future clients? I think we’re fine today. What’s hitting all of us is what’s coming and we need to get ahead of it. But I totally agree. Think of the e-delivery activities—there isn’t wide adoption so actions really speak louder than words.

Client of the Future

McClain: I think it’s important to ask: What’s the client of the future look like? At the end of the day, they want someone to tell them how they should be doing it. Whether they take our advice or not doesn’t matter. They want it.

Graham: One concern I have about the investing public is: “Would you pay for performance?”—meaning better performance or payment options? There was one consumer panelist who talked about options trading. The question becomes: is there so much information available that there’s a danger zone that people are in where they are attracted to ideas or activities that some of



Dave Hubbard

them may not really be equipped for? There's such sophistication available that if we do move toward a more self-directed or validating model, how do we help the end investor do it with some wisdom?

Hubbard: One of the consumer panelists said that she wanted everything to be online. But then she consistently said she wanted to talk one-on-one with a person and have a relationship. So these technologies are just a verification tool, not necessarily replacing the relationship.

Graham: Most of our advisors don't use technology as a collaboration tool. But that's going to change because their consumers are going to drive them there.

During the life planning discussion, several of the consumer panelists spoke about their whole lives and that the money shouldn't be the primary thing driving the financial planning discussion. It wasn't really about performance anymore. I

wonder if it's the past decade that's changed people's views or if it's more than that; perhaps it is more that people are recognizing that financial planning and retirement planning are still really, really important.

But it is an interesting time. Even in the discussion around ETFs versus active management, I wondered, "How much is influenced by the fact that this last decade has been so difficult and instead of having confidence in the markets people really have no confidence anymore?"

Trotter: I think it's a curve. If people are self-directed now, they tend to become a little bit more of a validator over time. I think what Susan's trying to say is that at some point in time, people are going to say, "I think I've got it. I'm X age, so I'll let my advisor take care of it, now."

When we talk about providing statements, in the near future people will be out getting the information themselves. That information should not come as "Here's your balance. Here's your performance." Rather, the advisor or online system should ask, "Why do you have this in here?" See, if you've advised them along a certain pathway, you need to be aware that a third party is going to come in and say, "What's going on here?" It's going to be interesting to see who that third party is. It's a great player that could provide valuable information to the client and that could be a good thing. If it's just somebody who's schlepping a different kind of product, it could be a completely different outcome.

McClain: Regarding validation, we run four marketing campaigns a year to the general public. We do radio, print ads and direct mail. Our last campaign was called, "The Second Opinion" campaign. We created a tremendous amount of traffic, but the numbers that ultimately became clients never changed. It was people who were looking for validation. They were doing it themselves but wanted validation from us that they were doing the right thing or the wrong thing. Problem is, many of them just wanted free advice and didn't want us to actually manage the money for them.

Graham: That's what makes our Fidelity retail business model valid. There are a lot of people like that. Guidance—not advice. Validation. Tools to do-it-themselves. They want to achieve success on their own.

Hubbard: Someone needs to figure out an online validation system.

Advisor of the Future

Theoder: I think you hit on it. It doesn't eliminate the advisor at the end of the day. People want to get information when, how, and in the manner that they want, but they also want that personal connection. So it is the way in which advisors will communicate that will change and it is the way they need to support their relationships. At the end of the day, everybody wants a person they trust. When the consumer panel was talking about why they chose their advisor and why they stay, it was because they liked them. It was all about 'like.'

Hubbard: It was all about 'like' and the additional value-add services.

Theoder: And you don't get to the value-add services without first the "like".

Investment Commoditization

Potts: The notion of investing is getting so commoditized. Anybody can walk into a bank or a custodian and start an account to invest or go online and invest. They do it recreationally or professionally. But I think the real value is coming from the advisor who is actually doing something with that information. My financial needs are going to be dramatically different than my neighbors' and each of us may have a whole bunch of different qualities that don't even relate to the investments. The investments may be a potential cure for something. Maybe I want to save for kid's college or something else entirely.

McClain: But investments are only tools. You never go to your mechanic and say, "show me your tools." You just want the thing to work. So when clients have asked me, "What are you going to invest in?" I say, "That's irrelevant. These are my tools. I need to make sure I have the right tools for your situation." Then the conversation actually moves away from the investments.



Alex Potts and Gail Graham

But for an investment advisor in the field, if someone is coming to us for validation, we have a difficult time monetizing.

Graham: We're working with the advisors to help them think this through. I do think collaboration and online engagement with clients is going to be a reality even in the RIA market. It's hard, but that's part of the opportunity for creative vendors and suppliers to help advisors figure that out.

McClain: How would you monetize the "do-it-yourself" person, though?

Theoder: Charge by the hour.

Graham: Because they're willing to pay.

Hubbard: The clients aren't driving the formation of the investments. It's the advisors, because the advisors are trying to find solutions for the clients' problems. The clients, right now, want a certain amount of return. Yesterday I was at the standing-room-only alternative investments session. But the amount of attention on alternatives, whether they're a product or a strategy or a fund, there was no agreement on that. The advisors are saying, "Hey we need something other than these traditional funds in an asset allocation portfolio."

Trotter: Maybe it's a little bit to your point, but even going back to the consumer panels when the market was low—double digit, no problem—nobody talked about return. It was about relationships, services, so on. But I do think there's one difference, not everyone wants a relationship with an advisors, but I think many people will. There are a variety of divisions in the market. Some people don't care as long as they get valid advice from people who know what they're talking about. Some people have to talk to an individual advisor and you see those markets parse apart on that issue.



Frank Trotter

Theder: We talk about technology as being a threat and almost everybody said, “I was scared by what Pete Kight said.” But I actually think threats are opportunities as well. Think about Google Wallet. Our advisors struggle with knowing everything about their clients' financial situations without having to ask for all of their statements. I think the information and technology is going to be so readily available to advisors that they will actually have a better handle on it. It's like account aggregation made easier. So there may be ways that we can leverage it to help them be the more holistic financial planners for their clients.

Graham: Or help them understand that data is so valuable. But back to pricing—I don't think that collaboration, which is what I call it, means that people aren't willing to pay a fee. I think they are willing to pay a fee, but the way they want to do business is collaboration. I spoke to two of the consumer panelists about this concept. They said that they want to pay the fee so that there's an acknowledged exchange of value between themselves and the advisor. But they want to participate. And it doesn't mean they're doing it to save money, it's just that that's what's going to make them confident. There was also a comment made about trust. The panelist said, “I don't want to go to a small advisor because they could blow up.”

We need to think about that for the RIA industry, because there is concern about the longevity of firms and the institutional quality of firms. That's why I think protecting the reputation of the firm is so important. Those blow-ups destroy trust within the industry.

Potts: That's where Fidelity comes in, right?

Theder: And the independent broker/dealers.

Potts: Yes, absolutely. You allow independent fee-based advisors to hit way above their weight.

Graham: Our brand helps them. Our processes and our culture of risk management really help them to do what they're doing for end investors. But I still think it's interesting, that if you take a set of four or five consumers, there are still going to be those people who want to work with the big brands on a direct basis and other people for whom independence is incredibly important.

Business Model Choices

McClain: At the end of the day, the advisors are part of a retail distribution chain. They can say whatever they want, but many of them don't believe that. So they don't act in the same manner as a retail distribution, which is the look, the feel, the brand, the touch. They just don't do it and I think that's a mistake for the advisors. I think that the blowup of the big firms has been great for

the independent advisors. At Hanson McClain, we ran full-page ads during the meltdown that read, “Who’s bailed out your advisor?” or “Who’s bailed out your broker this week?” Then we changed our tagline to “Independent and Proud of It.” It attracted the high net worth client. We took them right in from the wirehouse.

Theder: The stats are showing that independents and the fee-based advisors are the growing segment of the market. It is because of their independence enables them to operate outside of the many tarnished brands in the industry. But they still want the strength and stability of a custodian or independent broker/dealer behind them. It’s the combination that I think is so powerful.

McClain: If the firm isn’t building its brand locally, then they need that. It’s not going to hurt to have both.

Potts: As an independent advisor or a fiduciary, you are putting your clients’ best interests first. An independent small advisor would never custody their own assets in their own corporate bank account. That just wouldn’t be right. It wouldn’t be in the best interest of the client. So there’s a real need to have a stronger presence behind you that has the financial wherewithal to bail you out if something marginal happens.

Theder: Our most popular brochure is what we call “The Right Connections” which explains to the consumer how the advisor connects back to the home office of our broker/dealer and our clearing firm.

Hubbard: As an individual advisor, if you don’t have the right tools, not just product—the right computer systems, the right back-office—all of that priced reasonable at a point that will compete—then those individual advisors are going to go where they can to get those services.



Dave Hubbard, David Smith
and Susan Theder

Graham: That’s what the custodians are really investing in. That’s how we’re competing; with the combination of tools and technology and then practice management as well as strategic partnerships. We’re literally going in and helping firms in areas such as marketing. We help them think through things like how to use social media and what is the best way to communicate with their client in order to grow their businesses. It is the tactical technology and also the soft side of advice that help them in this changing market. That’s where the value-added is.

Trend to Independence

Hubbard: So you’re attracting another kind of advisor with your movement out. Were you as surprised as I was when Chip Roame said during his opening keynote speech that 90% of the reps that left wirehouses were getting fired? And that the firms that left themselves only 70% went with another wirehouse?

Graham: I’ve done a lot of research and I don’t know that “fired” is the right word. No, I wasn’t surprised at all. But I’ll also say that if you did the analysis based on assets, you’ll see that the volume of advisors who are switching are smaller advisors. The assets, though, are with the larger advisors and teams. What I found encouraging for our custodial business, is Chip’s comment that “the real stuff was yet to come” and that is the higher end. The wirehouse advisors are

looking for “landing pads” as he calls it, which is not only the independents and aggregators, but even the custodians, getting ready for that kind of practice. In other words, they are preparing to replace the capabilities they’ve come to expect from the wirehouses.

Hubbard: Good point. We’re bringing people on. We can bring them on to a sort of a “halfway house” model. I tell the advisor, “Hey transition over the weekend. We’ll set you up in a shop. I’ll rent your office for you. I’ll put the technology in. I’ll give you all your tools. I’ll train your people. I’ll hire all your staff. I’ll provide the benefits. I’ll do it all, but you will still own your business and I’ll just get paid a fee for providing you with this service model. This is an excellent model for the advisor to be independent, but not be alone.

McClain: If you’re at a wirehouse now, unless you have institutional points, I don’t understand why you would ever stay there.



Gail Graham

Graham: I spent Monday with one of the largest breakaways on the West Coast that broke away a few years ago. They had a big business to move. They did move on a Friday afternoon, but it was three billion dollars and a lot to think through.

McClain: I left an independent broker/dealer to start my own broker/dealer and it’s just a small shop. We don’t have any reps, other than own that are on salary, that work in the firm. We moved a billion dollars and it was very cumbersome.

Hubbard: It was a nightmare for you and you were already set up in your own office your own business. Imagine leaving a wirehouse and you have to recreate your whole business.

Theder: It’s a very compelling value proposition for the consumer though.

Graham: That’s a great point. What I’m finding interesting, especially for the larger teams, is that their own clients are starting to ask them to move to independence. We call that the “breakaway investor.” I’ve heard of one breakaway in Washington D.C. who had his clients come to him and say, “If you want to break away, we’ll capitalize you to breakaway.”

Smith: It takes consumer education for the client to be able to go to an advisor and even suggest that they breakaway, right? So that may actually be a marketing opportunity—go direct to the client and educate them about the benefits of independence for the client.

Graham: I think we should help people be educated about all their options because independence isn’t for everybody. The independent advisor model is great; it’s a wonderful value proposition, and it’s what I seek to serve every day. But some clients really like their wealth management service that they get from a bank. Or they really want the Merrill Lynch logo on their statements—their grandfather had it and they want it, too. So I think it’s a choice just like anything else in the market place. In the RIA space, it’s a matter of making sure that the RIAs are doing the best job that they can do, that they have all the right tools, and that we educate on the fiduciary standard and what that means. Because I think that is at the center of their value. Yet we’re still not going to get 100 percent of investors to choose that option.

The Fiduciary Standard

Potts: Right. The fiduciary standard is the right thing for the client and it's a huge competitive advantage for those advisors who aren't encumbered with suitability standards. If I'm competing with an advisor who's just going to sell based on suitability and I advise based on the fiduciary standard, then I should win every single time. I think what's neat is that the marketplace is starting to recognize it—the fact that the word “fiduciary” is even in people's vocabulary.



Susan Theder

Theder: I don't think it's so black and white. We all know that doing the best thing for your clients is what it's all about and the word fiduciary embodies that. But to say that only those who are fee-based are operating in the best interest of clients is not accurate. Those advisors who affiliate with a broker-dealer can not only provide fee-based advice but can also provide a more holistic financial planning approach that includes products that are not well suited to fee-based accounts such as fixed income or insurance based products—both of which can play a vital role in a clients' portfolio. Especially in this environment when so many are facing a savings gap for retirement, we all know that insurance plays a key role in solving for that gap and if you really want to give all of the best options to your clients, don't you want the full supermarket? There are times when a commissionable product is the right choice for the client. So we think the dually registered is a great model.

Smith: There was a struggle back in the days when NAPFA was gaining a lot of prominence. As a publishing company, my firm struggled because we just report on the issues. We're not trying to influence it one direction or another. But I was always taken by the fact that NAPFA promoted that fee-only was the only way to go. I always sat there and thought, “This notion fails to recognize that there are other needs which a strictly fee-only advisor might not be able to meet.”

Hubbard: It goes back to having the right tools. It's like the mechanic who says, “I only have a few tools. Maybe I should have the whole Snap-On tool chest.”

Trotter: It's kind of interesting because some products could never be put under the fiduciary banner—variable annuities and a number of things.

Theder: Unless they change the product completely.

Trotter: Which may happen and that would be a great thing. I think you just simply disclose that these cannot meet the fiduciary standard.

Graham: The subject insurance is a whole other debate, and important to consumers.

Potts: It's actually interesting though. So the guy on the consumer panel, who's trading options, is buying insurance and he's doing it on his own free will. So there's a behavioral issue. Not just an issue, there's a behavioral preference there that, I think, very often an advisor has to take into consideration for their client for the right investment or financial solution. If somebody says, “I want my income guaranteed and I want it done by the best insurance company in the world,” I

think, as a fiduciary, you might not like the answer. However, it might be the absolutely right thing for the client.

Hubbard: If there were fiduciaries in the auto industry everybody would be driving a Hyundai. We wouldn't let our client drive a Lexus.

Graham: We were talking about the fact that the consumer drives everything. But consumers are not all the same. There are some common threads among consumers, but I think choice is inevitable and that's why all the different channels end up prospering.

McClain: So out of the \$1.3 billion that we manage, we have a \$150 - \$160 million in variable annuities with GMIB (guaranteed minimum income benefit). We took everything in trails so there's no surrender charge. The problem we have with that is it's not the cheapest option so the regulators come in and say, "Well this is a long-term investment. You should have severed your surrender charge on this because it was less expensive to the client."

Challenges and Opportunities

Theder: The biggest challenge and opportunity for advisors going forward might be one-in-the-same. I think it's the technology advancements that we all, as an industry, are dealing with. From an advisor-to-client perspective, it is the need to evolve their communication methods to incorporate the new technologies; but also the technologies will empower the advisor to work more efficiently and benefit from things such as an ever-growing number of communication channels, more sophisticated house-holding and account aggregation tools as well as additional access points to previously-more-difficult-to-obtain data.

Smith: In the past, it seems one challenge was the evolution of the financial advisory business from a kind of a cookie-cutter, one-size-fits-all financial planning model, into holistic, customized client-centered planning model. But the variable was the client and his or her needs. There were all sorts of assumptions, based on decades of information, and the Ibbotson Chart that you could count on. It seems to me now, for an advisor, you still have the challenge of being holistic and looking at all the different needs of the client. But there seems to be so much uncertainty in so many areas—politically, socially and economically—that you have to factor in long-term planning for a client. Does that conversation come up? I'm personally frightened for my own children and their financial future.



David Smith and Susan Theder

Graham: What we're finding with advisors is that scenario modeling is more and more important. It brings back the value of the independent advisor because that advisor isn't just using a tool with one set of assumptions and spitting out a plan. They're customizing the assumptions. They're working with their clients to say, "Emotionally, how do you feel about these assumptions?" What it's doing is investing more time in planning—and of course we know that's not

how we get paid in the industry—but I think that’s an opportunity for advisors to differentiate themselves, to truly customize. I speak mostly to those who work with high net worth individuals, whose account sizes warrant that kind of investment. I talked to an advisor just last week who said they’re averaging six scenarios per client before they get to the final plan.

Hubbard: You’ve got financial scenarios, and then you have lifestyle scenarios, too. We started life coaching a couple of years ago. We handle our clients’ taxes, accounting and insurance. We try to do the whole thing. But it comes down to determining what the client is scared of and what they want for themselves and their family. It’s having those conversations that go beyond the money. The money is just a means to an end — is it going to be there so you can do all of these other items? Just like the one gentleman said today, that “it’s not about hitting it out the park, it’s about managing the risks so you’ll do the right job.” When you get down to it, it is very customized; and not just for the wealthy. Because if you have ten million dollars and you make a five million dollar mistake, you still got five million dollars and you’re still going to live very well. But if you are that mass affluent person who’s going to accumulate between a half million and two million dollars, you can’t afford to make a mistake. Time needs to be spent with a professional financial planner to prevent and minimize those mistakes.

Mass Affluent Underserved

Graham: That’s a great point. The mass affluent, as a market, is underserved and a big opportunity. Helping advisors figure out how to serve the mass affluent is another growth opportunity.

McClain: In fact, that’s all we at Hanson McClain do. Out of the firms’ 1300 clients I don’t think we have ten that have over five million dollars. But the biggest headwind for the average American is not their investment it’s their debt — it’s the leverage that they never thought was bad until it became bad.

Trotter: I just have a follow-up on David’s comment. Bill Sharp in his presentation used the comment that “wins don’t feel as good as misses hurt.” We all think volatility is two-sided equation; up and down, the same mathematically. But that’s not how the client thinks. One individual on the consumer panel said, “My goal is not to lose any money every year, but I try to make some money every year.” That’s simplistic and I don’t think you can continue making that argument. He’s not really using an advisor, he’s not an “advisor client.” He’s using a trading service somewhere; whether it’s at Fidelity or Scottrade or interactive brokers. He’s just doing it on his own. So that is a preference; he is more a trading and insurance guy.

Smith: Paul Steiger, who is currently editorial director for ProPublica and formerly managing director for the Wall Street Journal, during his presentation yesterday said he’s worried about the future of our economy and the future of our society. So my question is: In addition to being concerned with lifestyle and financial planning, do we need to be concerned about the things we don’t know, such as societal and political upheaval that we might not be ready for? Maybe you just can’t plan for it financially.



Pat McClain

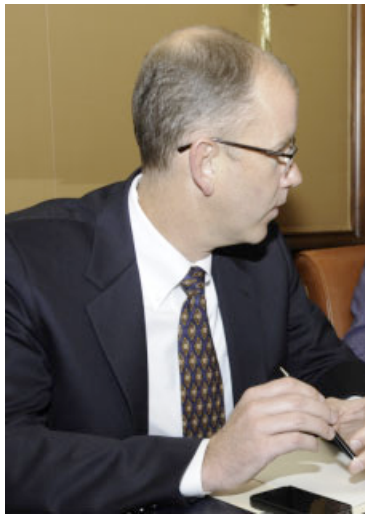
Hubbard: We talk to our clients about that. We can't control what goes on in Washington or Wall Street, so let's focus on things we can control. We can help them control their debt, so they don't have that problem. We really become the gatekeepers to insulate our clients from the problems. I think as financial advisors if we embrace that then we can force change on the industry.

Immobilized by Fear

Graham: I think change is hard when a person is immobilized by fear. During my interviews with the consumers before the panel this morning, two shared that they have been immobilized. The first had been at Bear Stearns, which went under, and that immobilized him. He was a very successful person but that was scary. Then there was the woman who is a single parent of a young child; she just went through a divorce and has a lot of liquidity. She is a very smart woman, but really wants a trusted advisor in addition to all the tools available to her online, because she's scared. So that emotional component is central to serving clients and understanding them.

Trotter: It's the job of the advisor to filter all those important things that need to happen—to help the client feel good about the decisions you agree to make. I wanted to ask the consumers, "What's your goal in life? You're x years old, what are you trying to do?"

Graham: Well, the two older gentlemen actually have retirement plans and are either in retirement or are facing retirement. The younger people, in their forties, I believe are part of the paralyzed generation. Those younger are probably even more paralyzed in terms of a lost decade, uncertain political future, careers that may need to change due to declining economic opportunities, young children at home.



Alex Potts

Potts: I actually have a contrary view. I'm actually extremely optimistic. Whenever you feel this risk, that probably means your expected return is higher. We talk about the lost decade, but that is completely home-biased. We talk about risk and return being related—Columbia was the number one country in the world for the last ten years at 189 percent rate of return, but you talk about turmoil with the cartels and all of that ten years ago. which was just a disaster. So I look at it and say, "You know what? We are a global economy; we can adapt." I think helping clients understand that "we can adapt" is absolutely vital.

Long-term Success

Hubbard: Clients see that, but it's about how they feel. Our job is to help manage their emotions. Manage what they're doing and they won't want to try to hit it out of the park. They want to reduce the downside. When I got into the business 30 years ago, it was all about buy-and-hold. Most financial advisors just pointed to the mountain chart and told clients, "We've been through bad times before. We'll go through bad times again. Just stay in there." Clients don't want to



Frank Trotter and Dave Hubbard

hear that anymore. They are looking for the financial advisor to be proactive. Not just to call them, but to call them when there's a concern. So, our advisors were on the phone in July after watching the politicians, in Washington, fail to resolve the debt problems and talked to our clients, "How do you feel? There could be a problem. Maybe there will be a train wreck. Maybe there won't. Do you want to be safe or are you ok with riding out the storm?" Most clients want to be safe. So what we have to do is find out how they can be safe, but still participate in the long-term success—and I think long-term success is going to be there.

Potts: The mighty hold-and-hope doesn't work anymore.

McClain: Of course there's a disconnect. Ask one of your clients for the population of Greece. Or they go on strike in Greece, but no one here notices.

Potts: We've conducted fourteen seminars to about 400 advisors and, by far, the most successful topic has been the discovery process with individual clients. Just getting to understand that the one variable we can't control are the markets. We cannot control that so...

Hubbard: But you can't ignore it. When you remove the political events and just look at the prices, the earnings, the amount of cash on the sidelines, the growing demographics which is in our favor, the new democracies around the world, and China which will need to solve social problems in order to continue participating in the capitalistic world; all those headwinds are going to turn into winds in our favor at some point. So we need to keep our clients in the game.

Smith: So to paraphrase, maybe the best way to deal with the unexpected future is simply to have your house in order and if you're in the best possible shape that you can be in you may not be able to control what happens externally but you're best positioned to deal with it.



David Smith

Complex Problems

Graham: And you're not alone. For those that want an advisor and want that personal connection, I think it touches some deep human need to feel like you're not alone. You know that someone's taking you through the thought process, helped you build a plan, and they are going to be there when you're feeling unsure.

Trotter: So one of the challenges going forward is to determine how to maintain that while at the same time developing something that looks like mass personalization. For most advisors, there are eight, ten, twenty models that somehow everybody fits into. The first ten people that call are really open to wealth management groups. They welcome and love your advice. But how many are a hard exposure? Zero. So the advisor starts over again. But it's listening to that personalization issue and still building something that is manageable in process.

Graham: Scalable and personable.

Hubbard: I'm passionate about this: "control what you can control," which we started doing years ago. I have a number of clients that have lost their jobs—in their thirty's, forty's, fifty's, and older. But none of them are being foreclosed on because we advised them, "Wait Mr. Client. Maybe you shouldn't rush to pay off your house because the bank doesn't care whether you have

\$200,000 or \$20,000 in debt. If you're in foreclosure, you're in foreclosure. So maybe you ought to save the extra money in a side fund in order to pay it off in fifteen years. If you experience a job loss then that's the money you can use toward the mortgage payments." It comes down to the advice and strategies opposed to just listening to the banker or the mortgage broker.

Potts: I think advisors now are solving more complex problems than they ever have and creating more social value in the end for individual investors. We are able to bring investments, yes, but along with all these other toolsets to the end client. It's not just a performance chasing game anymore and I think that's really important in the end. The more individuals that start to understand that performance can't be controlled, the better we will be. I mean you can engineer your volatility down, but there is no riskless performance that's going to bring what the markets bring without risk. It just isn't going to happen.

Graham: I think it's both a challenge and an opportunity for advisors to try to figure out how to communicate with their clients differently using tools and technology, social media and other forms of marketing, to grow their practices. I think it's a challenge because it requires changes in behavior. I think it's an opportunity that allows them to scale their practices, grow them potentially beyond the regions in which they live. And while I think it's hard for us to imagine today, ten years from now we'll look back and we'll see this incredible evolution just as look back ten years. Look at the cell phone from ten years ago; it seems so antiquated. I think it's an evolution that will surprise us as it continues to move forward.

Smith: A big challenge, but an opportunity, is the reconciliation of a need for real time with a real person. I guess it's the same conflict that you talk about between high tech and high touch: real time / real person. When a client checks their statements and has a question, are they going to want to talk with their advisor and have a real person at three in the morning? That would be an interesting challenge, but I think that reconciliation is something that also creates an opportunity.

Regulatory Challenges

McClain: I think the biggest challenge in the next few years for advisors is the regulatory environment. The regulators don't know what they want so we can't manage to their expectations because they're too far out there. I think the biggest opportunity is actually the shrinking pool of people who are offering personal investment advice, both from the wirehouses and in the independent world, and the fact that not a lot of people are entering this business and that there are a lot of people leaving this business (retiring). I think that for the good operators, there's nothing but opportunity out there.

Hubbard: I believe that there is a huge opportunity with the aging baby boomer crowd and the aging of the elderly. That is "where the money is" and they are in a state of confusion, fear and they want advice. So, for the advisor, there is tremendous opportunity.

I think there are also many threats. A major threat to the independent financial advisor will be the ability to stay small and independent, but still be able to compete for clients with the larger firms. Most will be faced with selling, merging or partnering with a firm like Exemplar. Partnering may be the best of both worlds. All of the mundane responsibilities can



Dave Hubbard

be outsourced for a relatively low cost and then the advisors can spend their time on revenue producing activities. The challenge for the future will be to remain independent, but not alone.

Behavioral Aspects

Trotter: I think advisors should really be thinking about how their lives will change. Some advisors will maintain that personal relationship privately forever. I think that's a great thing; if they do a great job with the client, they should be able to do that. But you should also be prepared for the client to open up their life to other entities and other tools. Those other tools will start providing significant amounts of advice into the relationship that they had previously held by themselves. So when a client goes into an aggregation engine and begins to receive advice, they're going to be questioning—and that's a great thing if you're doing the right thing, and you can explain it. You can educate your client. But it's also an opportunity for the outside, so it's a threat.



Frank Trotter

I look at it very optimistically. David asked what happens when someone calls at three in the morning? We've run an online direct banking business for twelve years and people call us at three in the morning and they want to know about this that and the other. Sometimes these questions are very sophisticated. We service that. I don't know if that's what we're going to do on the wealth management side but there's got to be some kind of methodology for someone to interactively come up with at least a basic answer and then they can call in the morning and handle things more personally. So I think there's real opportunity and a little bit of threat if you try to stick your head in a hole and pretend it doesn't exist.

Potts: From my perspective, I think the challenge ties in closely with the opportunity. The advisors need to move past just the investment solution. The more they understand the relationship and manage the behavioral aspect of the client, the more it gives them an opportunity to succeed in the relationship and to establish the trust. Inherently by having that trust, they will act as a fiduciary for that client; they will always be acting in the best interest of the client. Those who aren't in that marketplace or who aren't behaving that way will have a real difficult time competing with those who are. I think that will bring both the challenges and the opportunities. If you're doing things right, the regulation should hopefully not be that big of a deal.

-- More --

Round Table Participants



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Gail Graham is the Executive Vice President of Marketing for Fidelity Institutional Wealth Services, which focuses on the fast-growing RIA and breakaway broker segments. She is responsible for all marketing programs, as well as the sales support function and inside sales.



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Dave Hubbard is the President of Exemplar Financial Network, an independent financial services firm located in the Chicago area. Also, as Regional Director for Financial Network Investment Corp., he assists over 150 advisors to build their practices and better serve their clients. Additionally, he works with numerous banks, accounting firms and insurance agencies to successfully provide financial planning and investment advisory services to their clients. In past years, he served on the FNIC Board of Directors and has been a member of their Regional Director Advisory Council.



Pat McClain

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Pat McClain is a Senior Partner of Hanson McClain Advisors, which has over \$1.3 billion in client assets under advisement. The firm has become well known for helping employees of the telecommunications and utilities industries transition successfully into retirement. Through the Hanson McClain Retirement Network, he and partner Scott Hanson provide marketing, operations and administrative advice to advisors across the country.



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Alex Potts is the President and CEO of Loring Ward, a leading provider of investment strategies and business development support for independent financial advisors. He is also President and CEO of the SA Funds—Investment Trust.



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David Smith is a founding partner of Charter Financial Publishing Network (CFPN), publishers, marketers, and distributors of information for the financial services industry. He is co-founder and publisher of *Financial Advisor* and *Private Wealth* magazines and other CFPN publications. Mr. Smith was previously senior vice president of Dow Jones Financial Publishing Corp., serving as publisher of *Dow Jones Investment Advisor* magazine.



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Susan Theder is the Chief Marketing Officer for Cetera Financial Group. She is responsible for overseeing all aspects of marketing and communications in addition to helping guide the firm's strategic planning and execution as a member of its executive team.



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