

***The Future of Advice:
The Not So Rare Secrets to Building Great
Businesses***

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Tiburon Strategic Advisors***

Financial Advisory (Planning) Firms Have a Bright Future

There are multiple key driving factors we have discussed today which could be considered a threat to financial advisory businesses. Yet, we see a bright future for firms which are providing comprehensive financial planning services to the emerging affluent and HNW market segments.

While consumers are feeling less than content in terms of their financial position, the value of sound advice has never been more evident. The challenge for advisors is to clearly define their client-service model and value proposition among multiple competing messages. Clarity in terms of your pricing model is also essential. For example, if you are charging for asset allocation services, be clear about the fee related to that service.

GenX and GenY, along with a subset of Boomers, are embracing the DIY approach in greater numbers. Advisory firms need to improve their use of client facing technology (client portals, vaulting, etc.) to address this trend.

PE/VC firms and others have and will continue to consolidate financial advisory firms because they see value in the relationship between advisor and client. Properly positioned advisory firms have a bright future.

The future of advice

- **Key Driving Factors**
 - Economy & Markets
 - Financial Services Stumbles
 - Consumer Wealth
 - Consumer Sentiment
- **Investment Product, Service & Platform Trends**
 - Product
 - Pricing
 - Custodians
 - TAMPs
- **Financial Advisor Tactics**
- **Does this information influence your business decisions?**

Key Driving Factors

Economy

1. Continued high unemployment rate (8.2%)

- ❖ 15.1% including discouraged workers
- ❖ 1948-2010 average: 5.7% (2.5% in 1953 to 10.8% in 1982)
- ❖ Seven more years at current recovery rate to reach 5.7% average
- ❖ 13.5 million unemployed Americans
- ❖ Jobless recovery
- ❖ Secular reshaping of the US economy?

2. Low interest rate environment

- ❖ Harms savers, helps borrowers
- ❖ Harms banks
- ❖ Harms discount brokerage firms and independent broker/dealers
- ❖ Consumers & financial services firms both trying to find ways to make money (e.g., annuity company exits)

3. Living with uncertainties

- ❖ European uncertainty
- ❖ US economic uncertainty
- ❖ US political uncertainty
- ❖ US budget uncertainty
- ❖ Stock market volatility
- ❖ Housing price uncertainty
- ❖ Unpredictable tax policies
- ❖ Unclear future of Obamacare

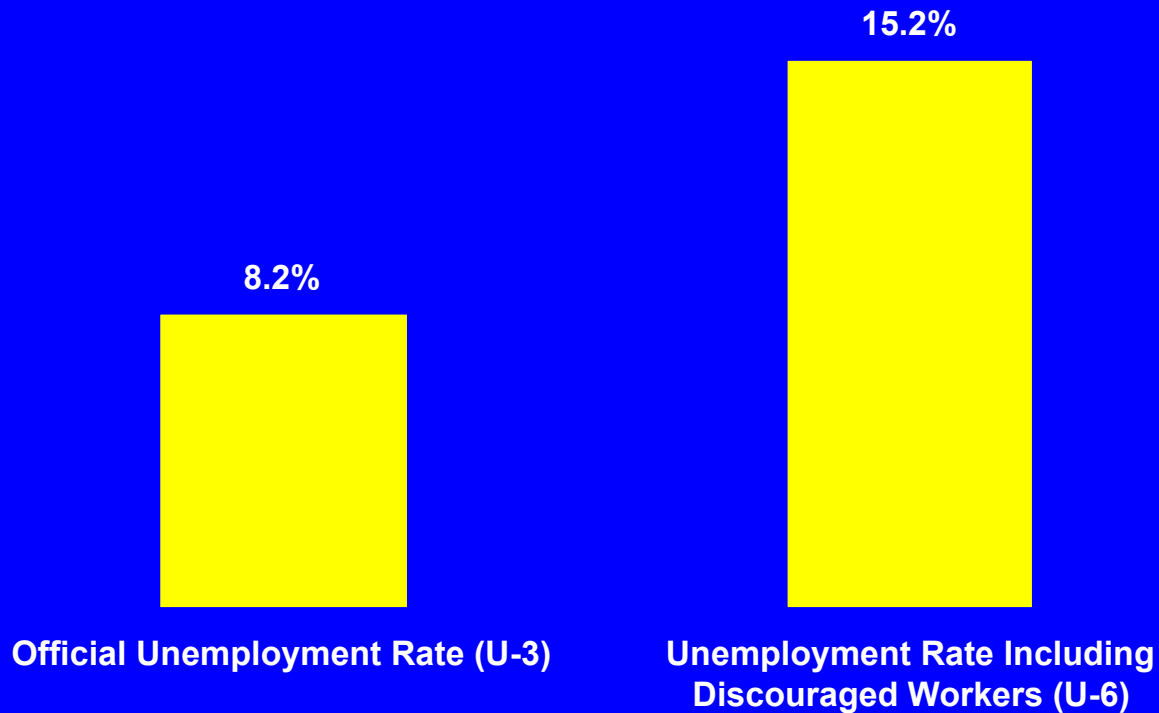
4. Stagnant economy

- ❖ Inflation in check
- ❖ US dollar best of weak currencies
- ❖ Gold – the great savior



The True Unemployment Rate (U-6), is Even Higher at 15.2% Including Discouraged Workers

Adjusted Unemployment Rate



Source: 1/13/13 Wall Street Journal; 4/17/12 Fidelity Investments Presentation (Young); 4/7/12 Wall Street Journal; 3/25/12 Bureau of Labor Statistics Web Site; 11/2/11 Google Finance Web Site; 10/2/11 Trading Economics Web Site; 8/20/11 San Francisco Chronicle; 8/20/11 Wall Street Journal (Labor Department); 4/7/11 Impact Communications Email (Swift); 4/7/11 Bridgewater Email (Milliman); Tiburon Research & Analysis

Financial Services Industry Stumbles (Old Stumbles)

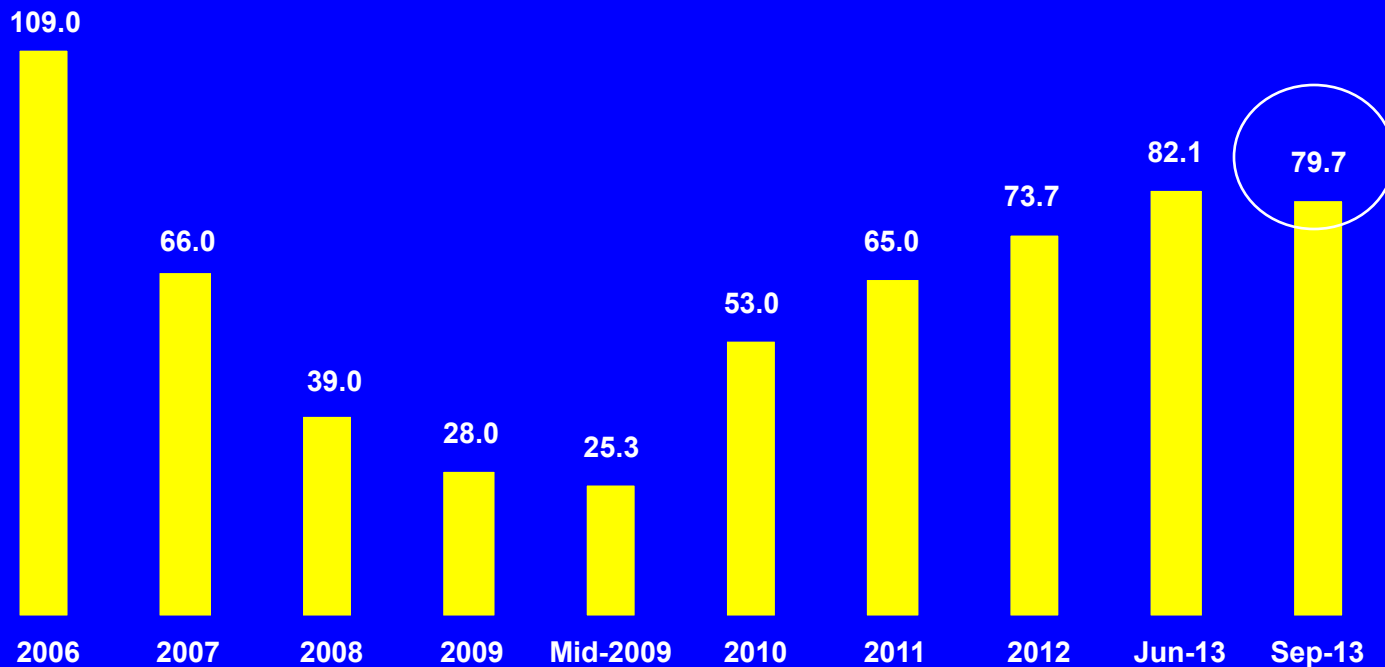
- ❑ Madoff
 - ❖ What a sad excuse of a man...
- ❑ Stanford
 - ❖ An idiot as well but with pride
- ❑ Goldman Sachs Group
 - ❖ Fab Fav guilty
 - ❖ Matthew Taylor: \$8.3 billion hidden trade (\$118 million loss)
- ❑ MF Global
 - ❖ Corzine cannot find a job
- ❑ Raj Rajaratnam sent to prison for eleven years (appealing)
 - ❖ Raj Gupta sent to prison for two years
- ❑ SAC Capital Advisors
 - ❖ Nine current or former employees (e.g., Mathew Martoma)
 - ❖ Ex-wife -- “Ongoing racketeering scheme”
- ❑ Jerome Kervel (SocGen) sent to prison for three years
- ❑ Kweku Adoboli (UBS) sent to prison for seven years
- ❑ Bank of America (Countrywide largest fines ever)
- ❑ JP Morgan Chase & Company sued the big fish (the whale’s boss) (now to pay \$920 million fine)
- ❑ UBS – assisting in tax avoidance
- ❑ LIBOR Manipulation – UBS; RBS; etc.
- ❑ Standard Chartered – Iran dealings while sanctions
- ❑ Amex – excess late fees
- ❑ Peregrine Financial
- ❑ The Reserve – Bents mostly cleared



Source: 9/23/13 Wall Street Journal; 9/5/13 TD Ameritrade Email (Schweiss); 4/4/13 Financial Times; 4/4/13 Financial Advisor; 4/2/13 Fidelity Investments Email (Langlois); 3/30/13 Joyce Financial Management Email (Joyce); Tiburon Research & Analysis

The Conference Board's Consumer Confidence Index is 79.7, Up Since 2009 But Still Down Substantially from its Recent 2006 Peak of 109.0

Conference Board Consumer Confidence Index (Index = 100)



Source: 9/25/13 San Francisco Chronicle; 9/24/13 San Francisco Chronicle; 8/27/13 The Conference Board Web Site; 2/11/13 San Francisco Chronicle; 11/30/12 Wall Street Journal (Conference Board); 11/25/12 San Francisco Chronicle (Conference Board); 9/27/12 Wall Street Journal (Thomson Reuters: University of Michigan); 6/30/12 Wall Street Journal; 4/11/12 Joyce Financial Management Email (Joyce); Tiburon Research & Analysis

Consumer Attitudinal Changes

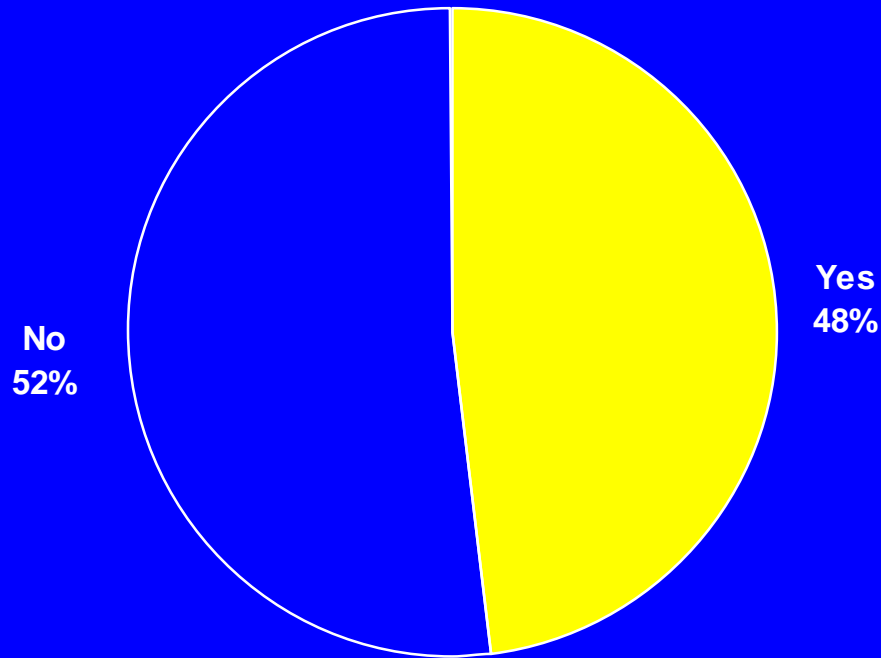


- ❑ Consumer confidence & sentiment trending up but still very low consumer sentiment (close to late 2007 levels)
 - ❖ Hampered by industry stumbles, government ineptitude, random violence, & world events
- ❑ Substantial financial services industry trust gap continues
 - ❖ Critical component of financial institutions
 - ❖ Harris Reputation Quotient: Only tobacco & government scored lower than financial services
 - ❖ Some firms seemingly slow to grasp long-term impacts
- ❑ You believe...
 - ❖ No change or increase in financial services industry confidence
- ❑ Tiburon forecasts continual trouble...
 - ❖ Improvement needs lack of scandals (Tiburon report is semi-annual now)
 - ❖ The bond bubble pop is coming (and the industry is going to be blamed unless marketing campaigns ramp up)
 - ❖ The economy & markets may really drive

Source: ; 4/9/13 Morningstar Presentation (Phillips); 4/9/13 TD Ameritrade Presentation (Bradley); 4/2/13 Fidelity Investments Email (Langlois); 4/1/13 Financial Planning; 3/30/13 Joyce Financial Management Email (Joyce); Tiburon Research & Analysis

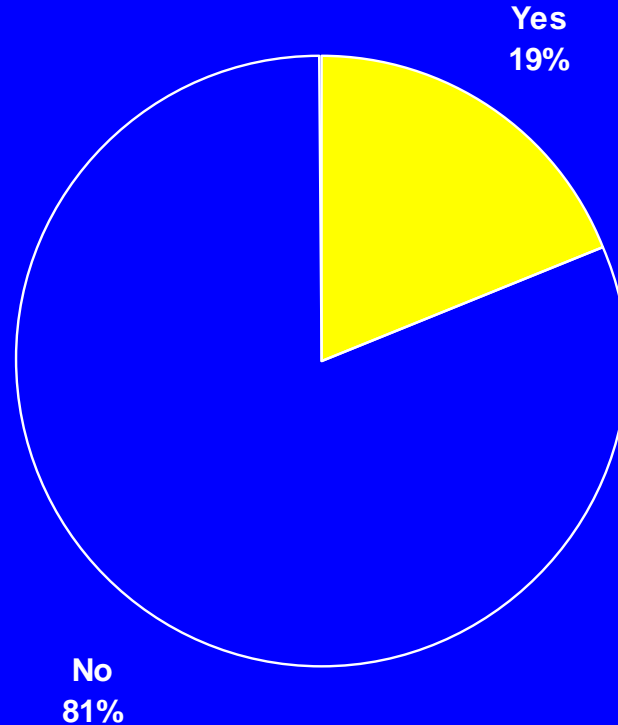
Almost Half of Consumers would Consider Changing Financial Service Providers Because of General Levels of Service

Consumers By Propensity to Change Financial Service Providers Because of General Levels of Service



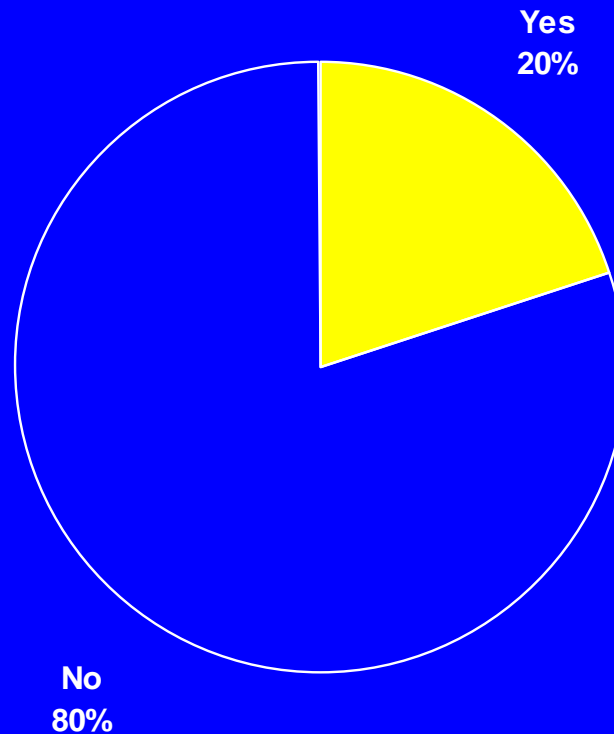
Less than 20% of Individual Tax Clients Report Being Very or Somewhat Likely to Switch Firms

Individual Clients By Propensity to be Very or Somewhat Likely to Switch Firms



Only 20% of Individual Tax Clients Report Being Approached by Another Firm in the Last Year

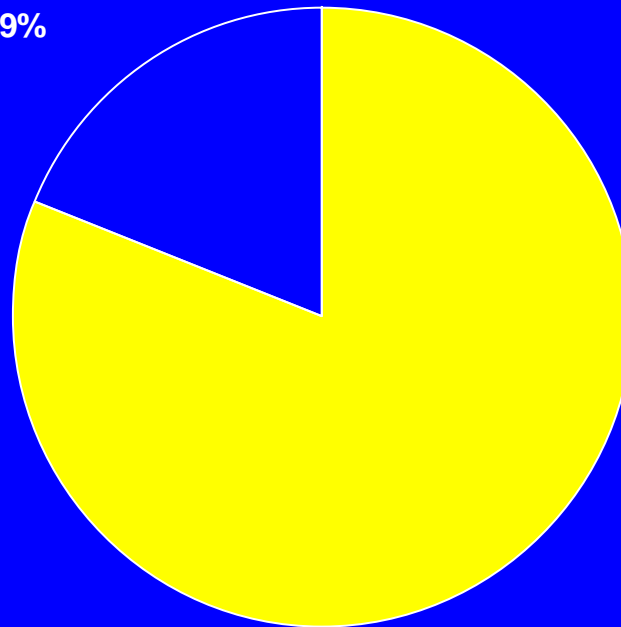
Individual Clients By Propensity to Have Been Approached by Another Firm in the Last Year



Over Three-Quarters of High Net Worth Individuals Say that they Plan to Take Money Away from their Current Financial Advisors

High Net Worth Investors By Propensity to Keep Assets with Current Financial Advisor

Leave All Money
with Financial
Advisor
19%

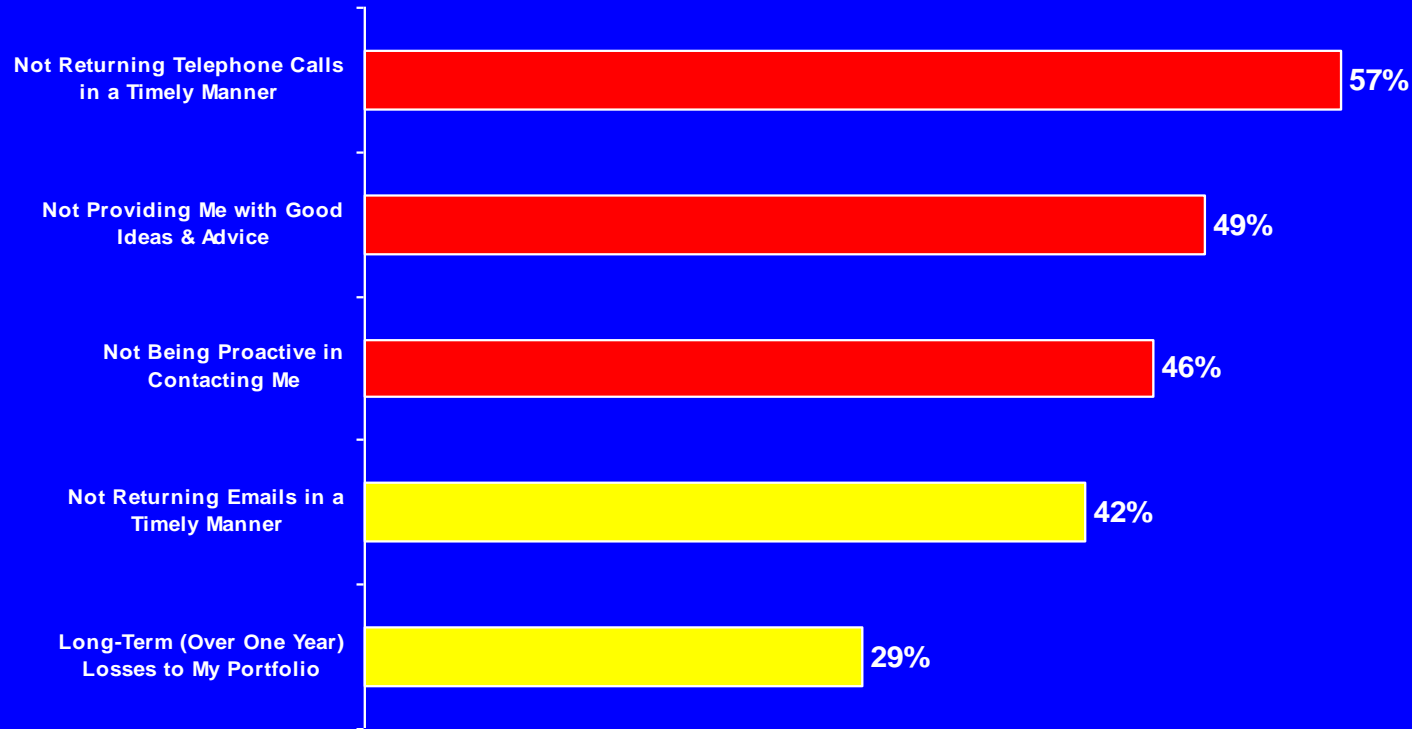


Take Some Money
Away from
Financial Advisor
81%



Ultra High Net Worth Investors Mention Responsiveness, Financial Advice, & Proactiveness as the Most Important Financial Advisor Client Service Factors

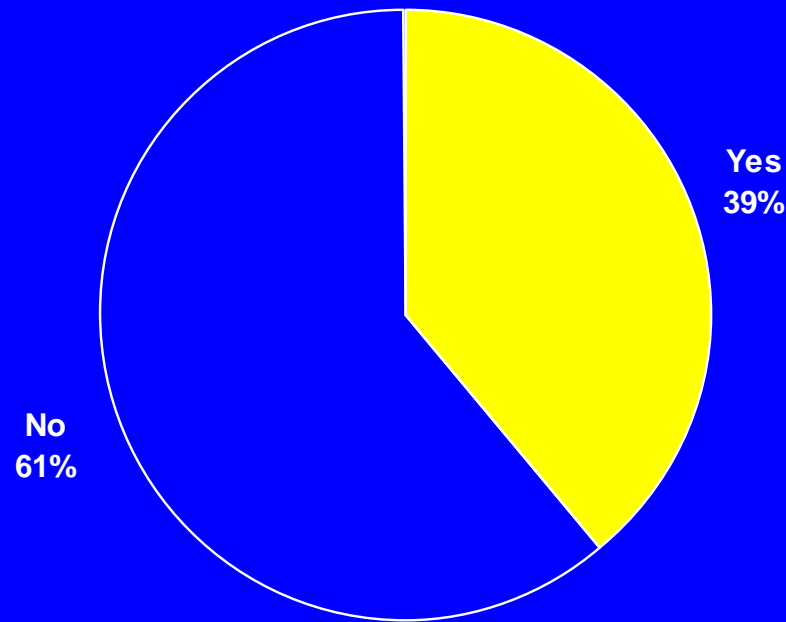
Ultra High Net Worth Clients Reasons Would Consider Changing Financial Advisors



Source: 12/9/11 Advisor One (Spectrem); Tiburon Research & Analysis

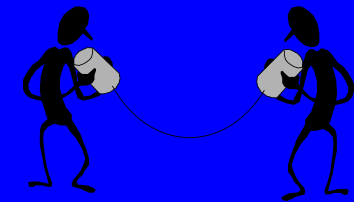
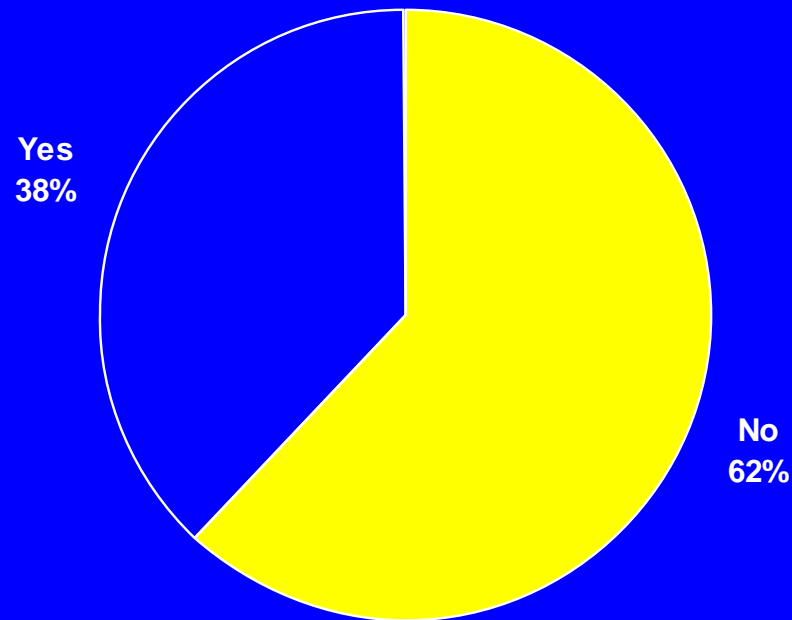
Nearly 40% of High Net Worth & Ultra High Net Worth Consumers Expect a Call Back from their Financial Advisor within Two Hours or they would Consider Making a Change

**High Net Worth & Ultra High Net Worth Consumers
By Propensity to Expect a Call Back from their Financial Advisor
Within Two Hours or they Would Consider Making a Change**



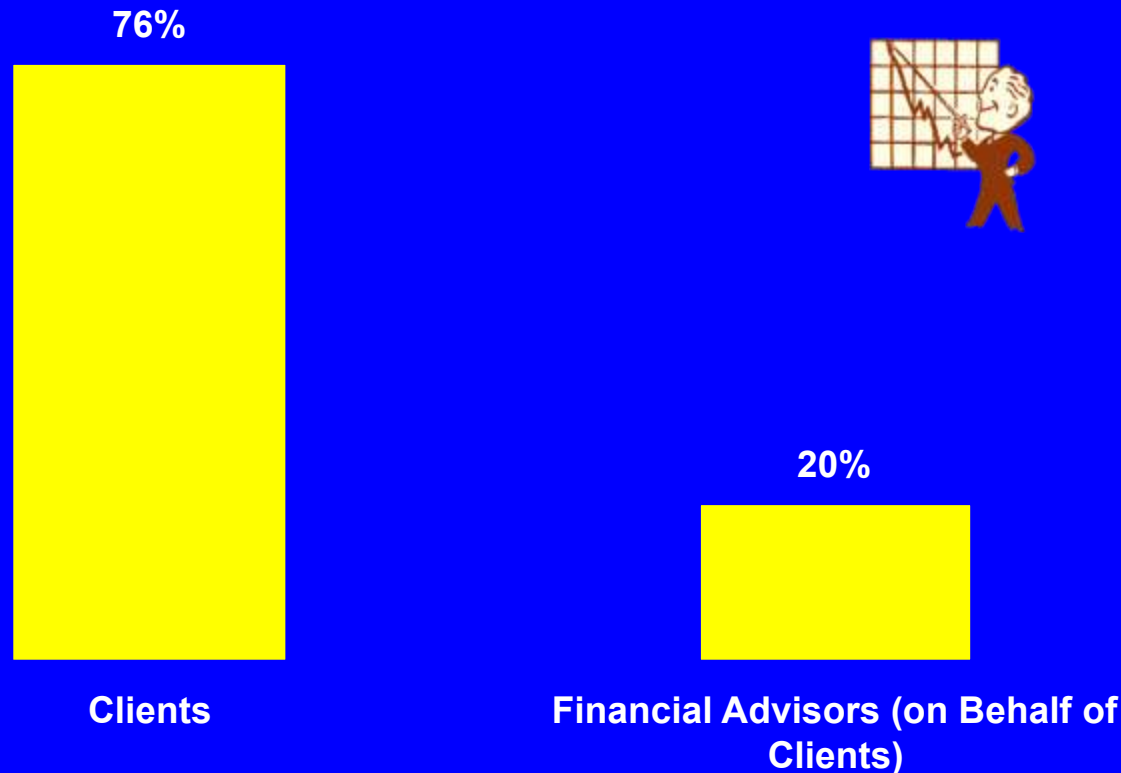
Almost Two-Thirds of Financial Advisors Do Not Communicate with their Clients on a Regular Basis

Financial Advisors By Propensity to Communicate with their Clients on a Regular Basis



Many Financial Advisors Remain in the Dark About their Clients' Self-Directed Accounts....

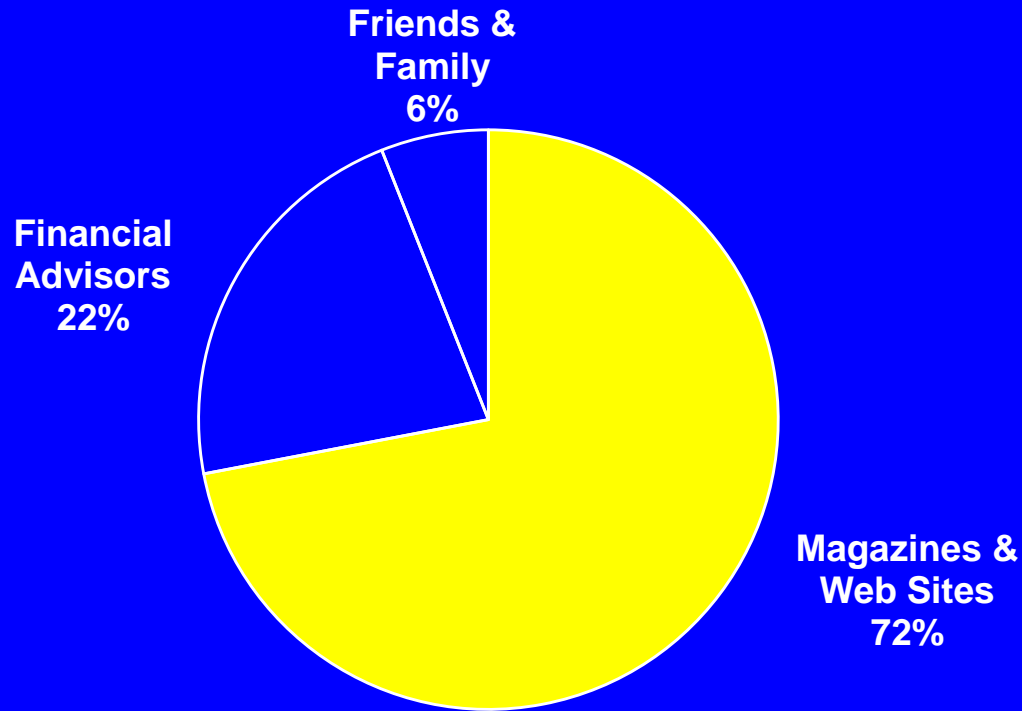
Client Has Self-Directed Account By Respondent



Source: 4/2/13 Envestnet Email (Asnes) (Cerulli Associates; Investment News); Tiburon Research & Analysis

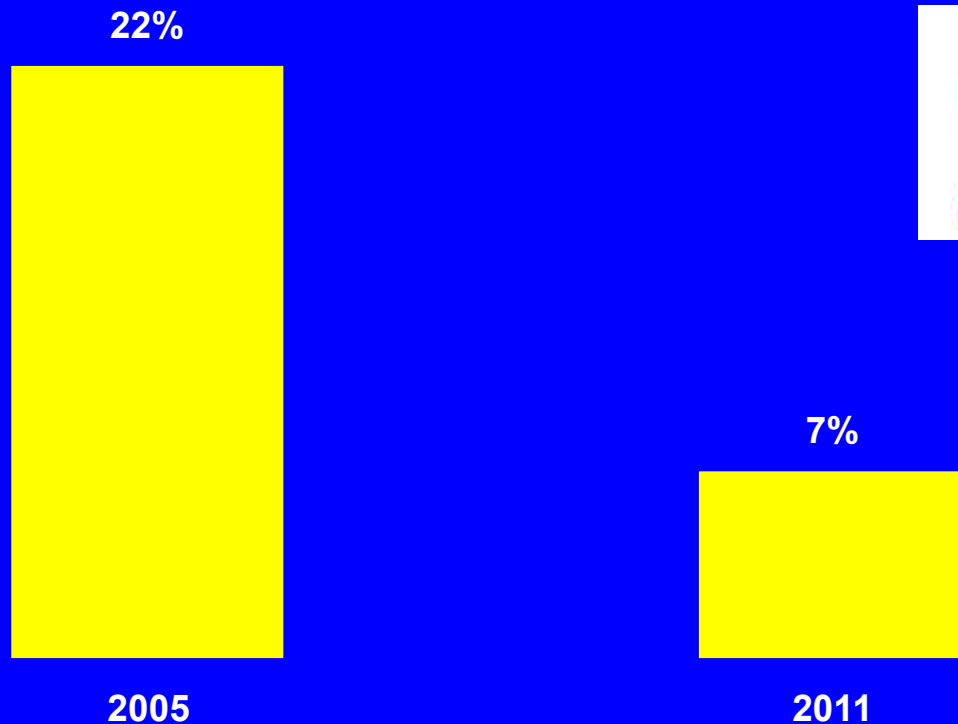
Another Source Said that Over Half of Consumers Rely on Magazines & Web Sites

Consumers By Main Source of Financial Advice



The Share of Consumer Households Headed by Individuals in their 20s that Use Financial Advisors as their Primary Advice Provider Has Fallen From 22% in 2005 to 7%

Consumers Households Headed by Individuals in their 20s: Share Using Financial Advisors as Primary Advice Provider



Source: 3/20/13 Bank Investment Consultant (Cerulli Associates); Tiburon Research & Analysis

Investment Product, Service & Platform Trends

Rapidly Evolving Investment Approaches

❑ Fixed income & cash (defensive bias)

- ❖ Low interest rate environment impacting consumers, institutional investors, & financial services firms
- ❖ Industry impacts include waiving of money market fund fees, lack of ability to share money market fund fees, & forced exits from annuity & other insurance products (e.g., Sun Life)
- ❖ Strategies to capitalize on end of the bond bubble?
- ❖ Baby Boomers to bail on equities?

❑ Managed accounts winning

- ❖ \$5.0 trillion
- ❖ 2/3 of net flows into investable assets

❑ Rep as advisor & portfolio manager programs showing mixed results

- ❖ Gathering most assets
- ❖ Utilize mutual funds & ETFs
- ❖ Often weakest investment performance (often weaker than consumer direct models)



Source: (Crager); 9/24/13 Jefferson National Financial Email (Greenberg); 9/23/13 Joyce Financial Management Email (Joyce); 4/9/13 Hatch & Company Presentation (Hatch); 4/9/13 Morningstar Presentation (Phillips); 4/9/13 JP Morgan Asset Management Presentation (Gatch); 4/2/13 Envestnet Email (Asnes) (Cerulli Associates); Tiburon Research & Analysis

Rapidly Evolving Investment Approaches

❑ **Goals-based investing continues to slowly take over**

- ❖ Asset liability matching
- ❖ Personal performance reporting

❑ **Numerous retirement income strategies**

- ❖ Bond ladders
- ❖ Dividend stocks
- ❖ Retirement income funds
- ❖ Deferred income annuities
- ❖ GMWB annuities (will they ever win?)
- ❖ Reverse mortgages (are consumers fully informed?)
- ❖ Life settlements

❑ **Downside protection strategies**

- ❖ Mutual fund volatility & asset protection
- ❖ Decline in living benefit strategies
- ❖ Longevity insurance (annuities)
- ❖ Protection switching from annuity level to mutual fund level

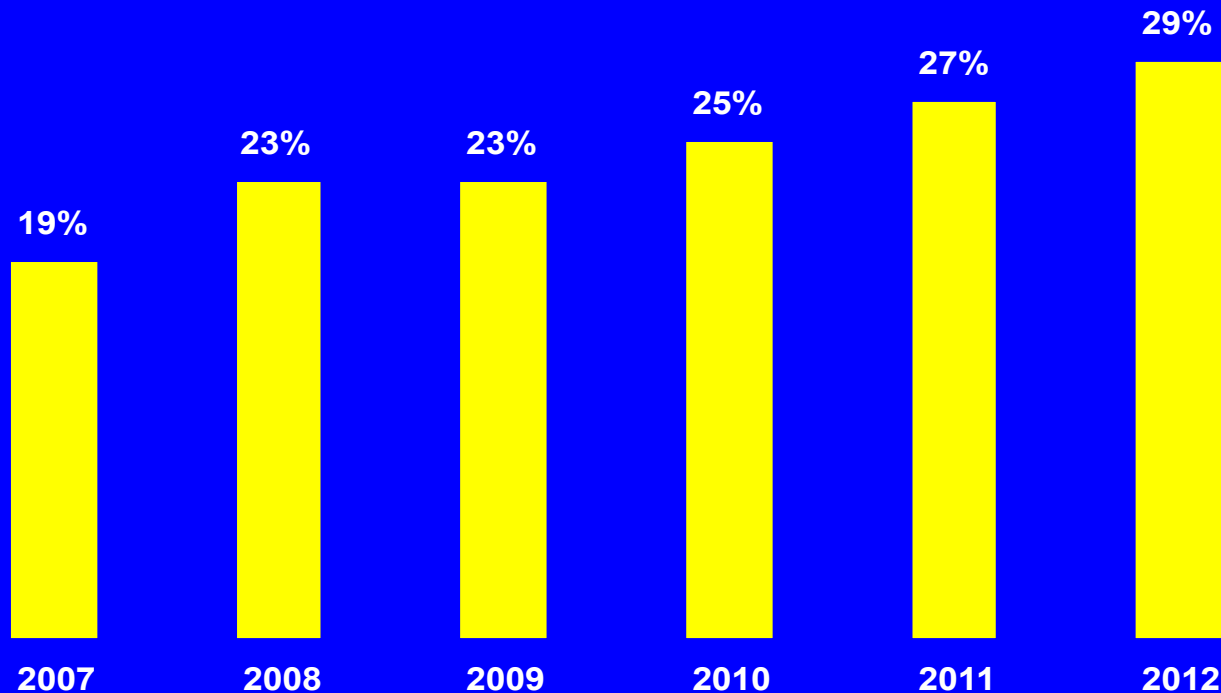
❑ **Thematic investing**

- ❖ Will social media & mobile technology lead to more tactical trading?



Passive Equity Assets (Index Mutual Funds & ETFs) Now Comprise 29% of Equity Mutual Fund & ETF Assets

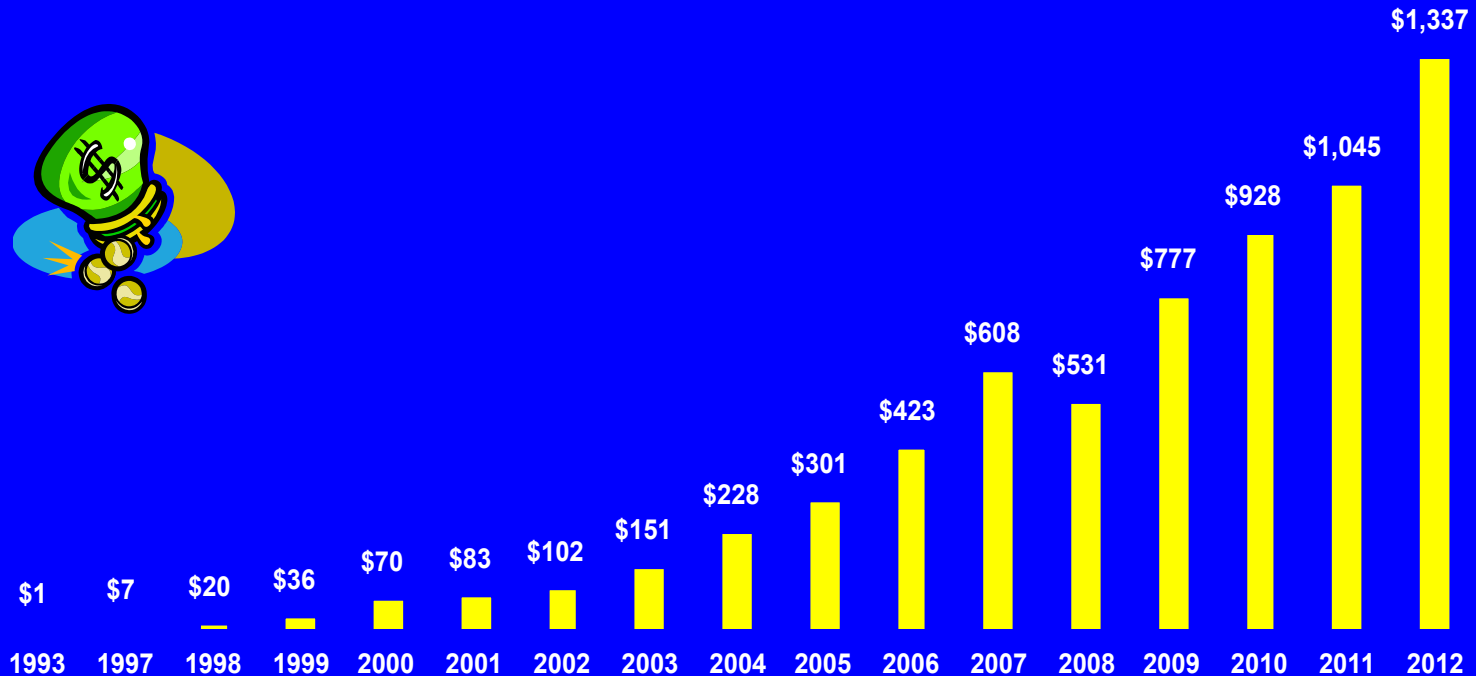
Passive Equity Assets (Index Mutual Funds & ETFs) As a Share of Equity Mutual Fund & ETF Assets



Source: 4/9/13 TD Ameritrade Presentation (Tomczyk); 4/3/13 TD Ameritrade Email (Schweiss); 4/2/13 Envestnet Email (Cerulli Associates; Simfund Database); Tiburon Research & Analysis

Exchange Traded Funds Have Gathered \$1.3 Trillion Assets Under Management, Up from \$1.0 Billion in 1993

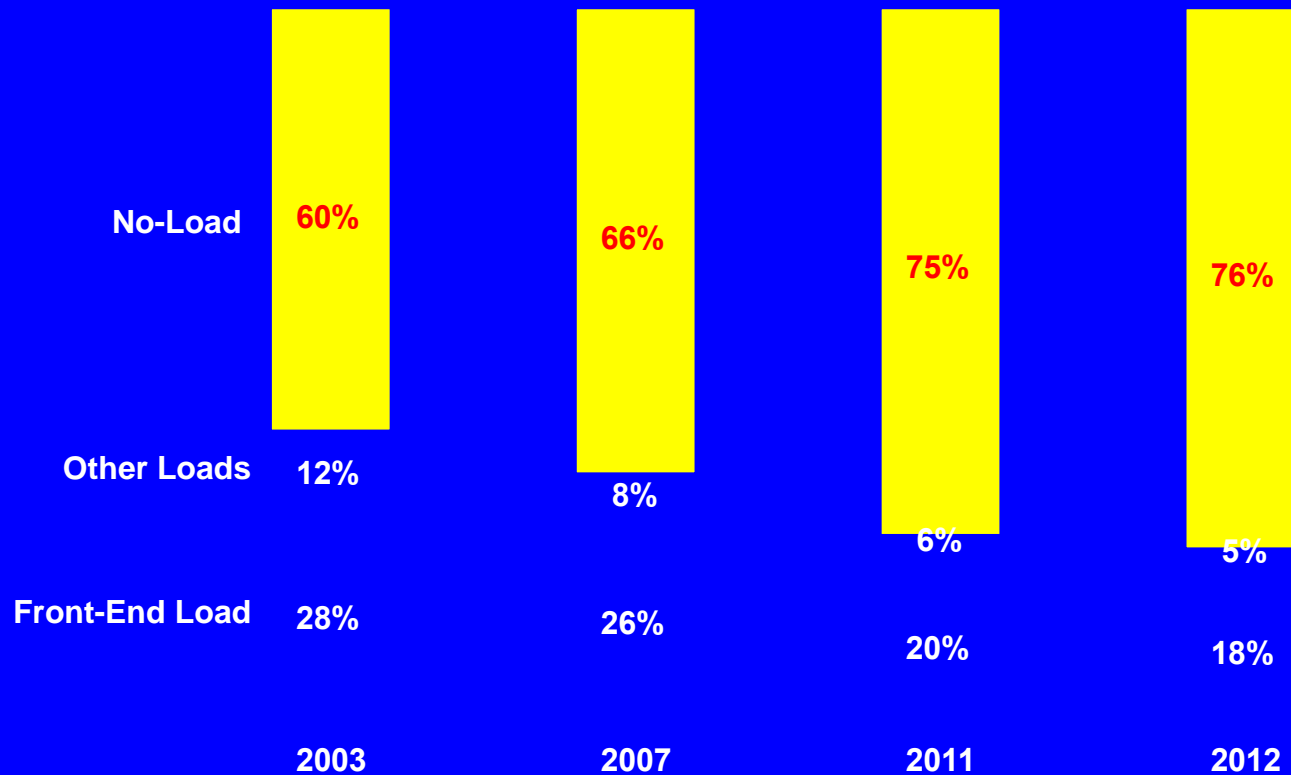
Exchange Traded Funds Assets Under Management (\$ Billions)



Source: 7/1/13 Money Management Executive (Fuse; Morningstar); 4/9/13 TD Ameritrade Presentation (Tomczyk); 1/8/13 Business Intelligence Middle East (ETFGI); 1/1/13 ICI Fact Book; 1/13 Journal of Indexing; 12/31/12 Barron's; 12/28/12 ETF Trends; 12/24/12 FSI Newsbrief; 11/12/12 Money Management Executive (ETF Industry Association); 10/18/12 New York Times; 10/15/12 Money Management Executive (SSGA); Tiburon Research & Analysis

No-Load Share Class Mutual Funds Have Taken Over the Mutual Funds Industry

Mutual Funds Assets Under Management By Share Class



Source: 10/3/12 Envestnet Presentation (Bergman) (ICI Fact Book); Tiburon Research & Analysis

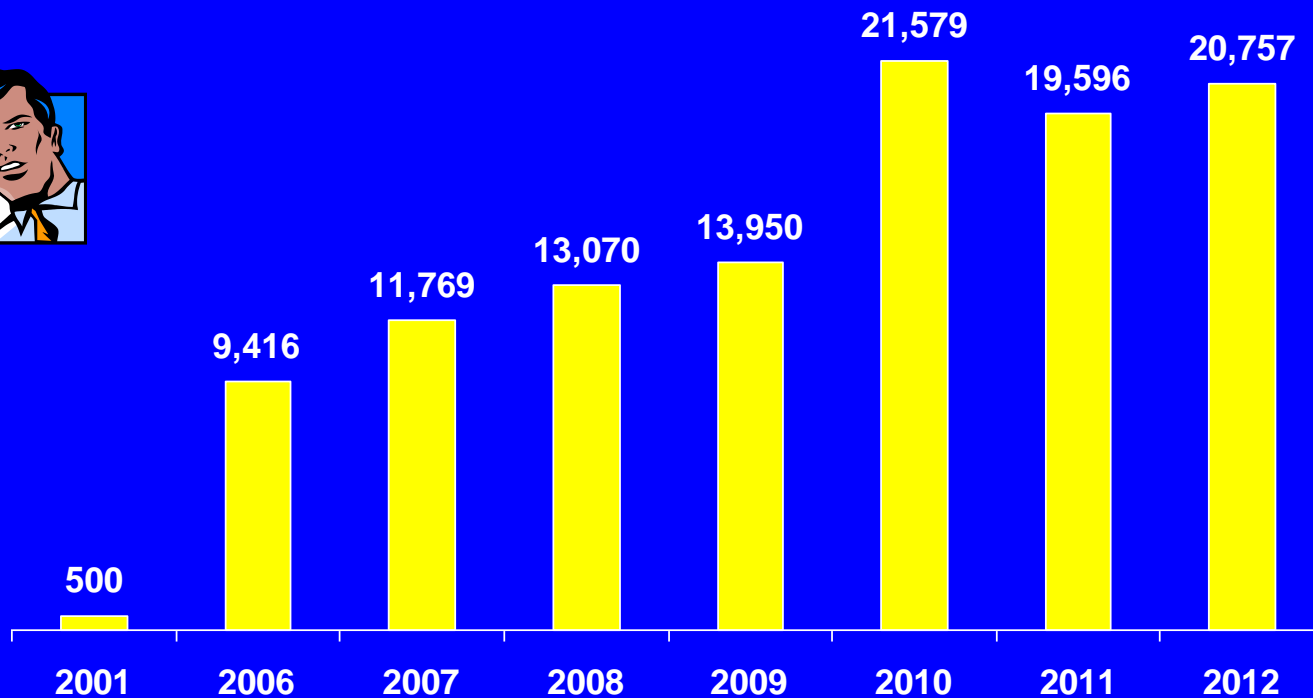
Alternative Investments

- ❑ **Mixed results & predictions for alternatives**
 - ❖ Tiburon view -- Less growth than most predict
- ❑ **Democratization of alternatives (“Liquid Alts”)**
 - ❖ Mediocre performance
 - ❖ Style drift
 - ❖ High fees
- ❑ **Hedge Funds**
 - ❖ Promise better than reality
 - ❖ Macro returns are micro
 - ❖ Gross returns versus net returns
 - ❖ Limited flows
- ❑ **Private Equity & Venture Capital**
 - ❖ Private Equity: Blackstone, KKR, & The Carlyle Group targeting 401K plans
 - ❖ Venture Capital: Crowd Funding, Kick Starter
- ❑ **Other alternatives**
 - ❖ Structured notes
 - ❖ Limited partnerships
 - ❖ Managed futures
 - ❖ Commodities
 - ❖ Gold Bullion stellar board
 - ❖ Art and wine in Hong Kong
 - ❖ Collectibles
 - ❖ Taxi Medallions

Source:: 9/13/13 Financial Times; 4/9/13 TD Ameritrade Presentation (Tomczyk); 4/3/13 ETF Trends; 4/3/13 Fidelity Investments Email (Langlois); 4/3/13 TD Ameritrade Email (Schweiss); 4/2/13 Investment News; 4/2/13 Investnet Email (Asnes) (Cerulli Associates; Simfund Database); 4/1/13 Investment News; 3/30/13 Joyce Financial Management Email (Joyce); Tiburon Research & Analysis

TAMPs Serve 20,757 Financial Advisor Clients, Up Over 19,000% Since 2001, But Down from a Peak of 21,579 in 2010

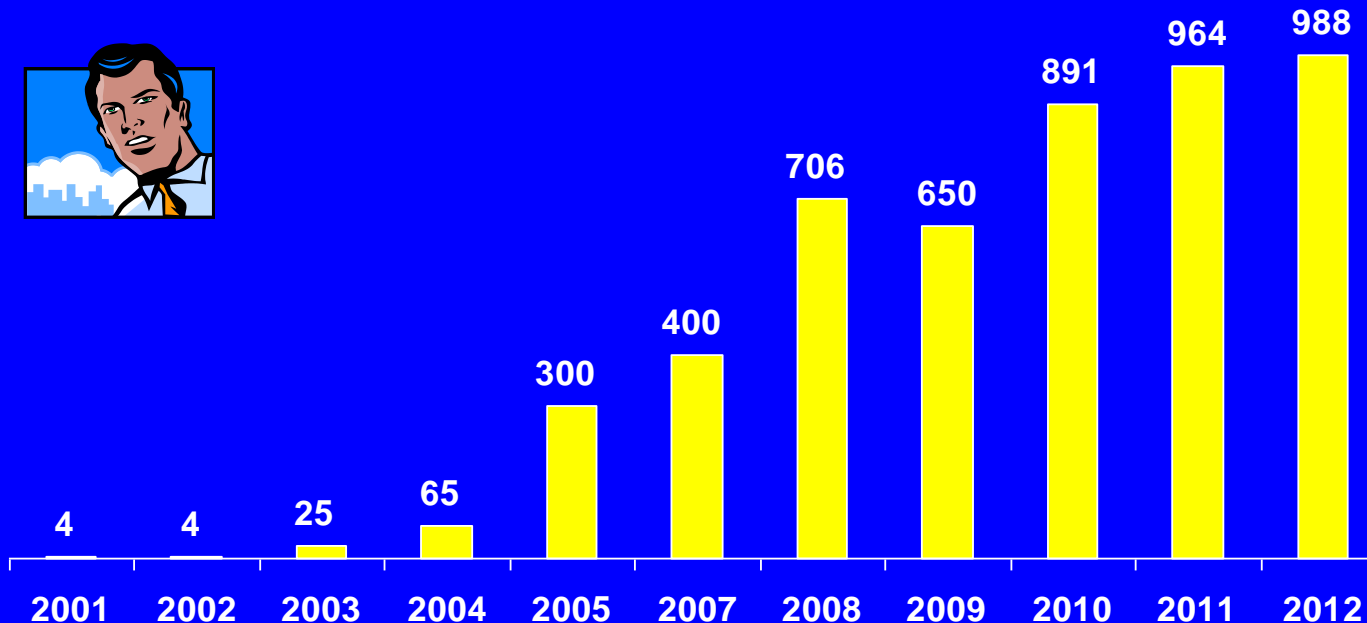
TAMPs Financial Advisor Clients



Source: 6/11/12 RIA Biz; 3/31/12 Investnet 10Q Report; 6/11/12 RIA Biz; 3/12 Loring Ward Group ADV Part II; 1/9/12 Loring Ward Group Email (Potts); 12/31/11 Investnet 10K Report; 12/2/11 RIA Biz; 11/8/11 Investnet Stock Analysts Conference Call (Bergman); 9/28/11 RIA Biz; 7/6/11 RIA Biz; 12/31/10 Investnet Annual Report; 8/16/10 RIA Biz; 4/3/10 RIA Biz Email (Southall); 2/28/10 Google News Alerts; Tiburon Research & Analysis

TAMPs Have Gathered 988,000 Accounts, Up Hugely Since 2001 and Over 200% Since 2005

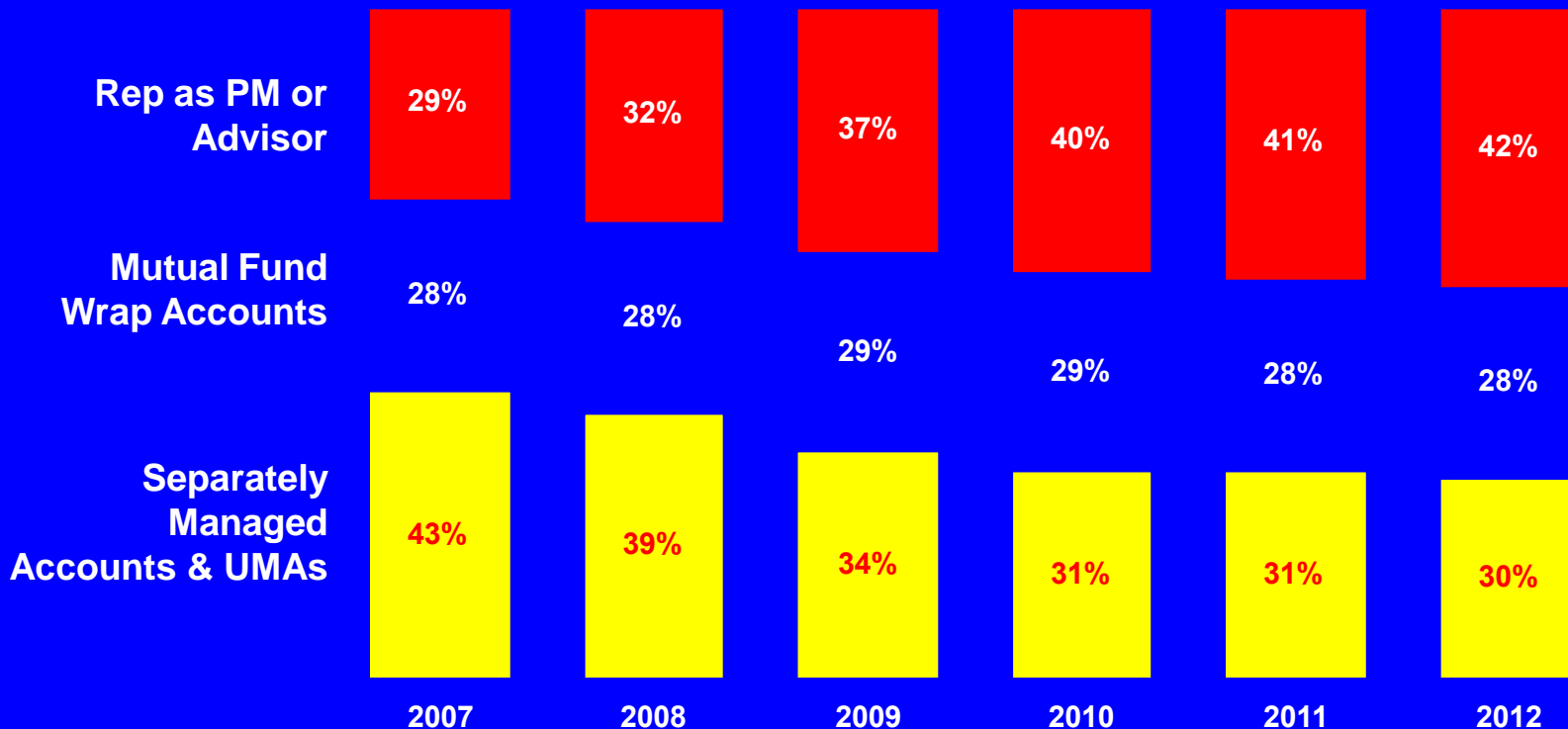
TAMPs Accounts (Thousands)



Source: 3/31/12 Envestnet 10Q Report; 12/31/11 Envestnet 10K Report; 11/8/11 Envestnet Stock Analysts Conference Call (Bergman); 10/3/11 Envestnet Email (Thebault); 9/26/11 Envestnet Email (Thebault); 6/11 Financial Advisor; 4/26/11 Vestmark Press Release; 4/26/11 PR Newswire; 4/20/11 PR Newswire; 11/22/10 Investment News; 9/29/10 Envestnet Email (Phoenix); 9/16/10 Envestnet Press Release; 8/16/10 RIA Biz; Tiburon Research & Analysis

Amongst Packaged Managed Account Programs... Rep Driven Programs Have Been Taking Share from SMAs & UMAs

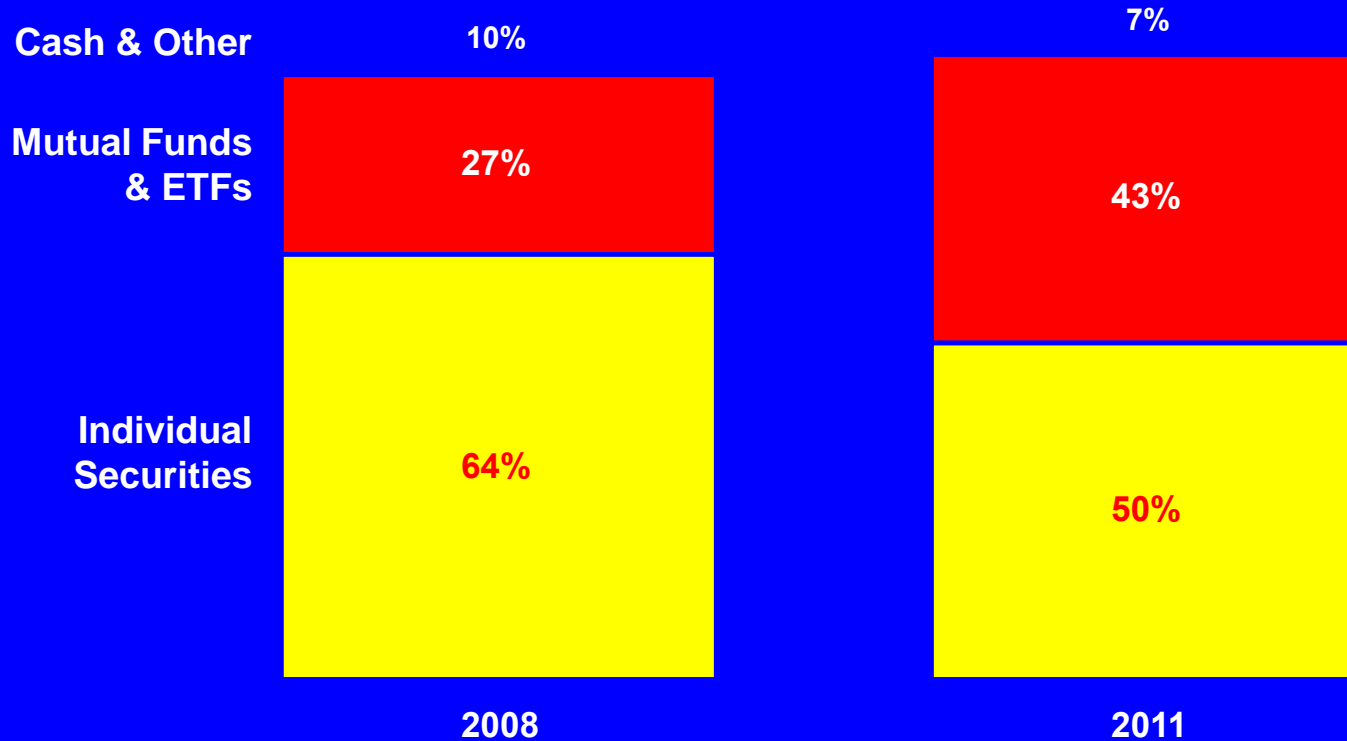
Packaged Managed Accounts Assets Under Management By Product



Source: 4/9/13 Hatch & Company Presentation (Hatch); 4/9/13 MFS Presentation (Jessee); 4/2/13 Envestnet Email (Asnes) (Cerulli Associates); 3/30/13 Joyce Financial Management Email (Joyce); 10/3/12 Envestnet Presentation (Bergman) (Cerulli); Tiburon Research & Analysis

Advisor Managed Portfolios Increasingly Include Mutual Funds & ETFs

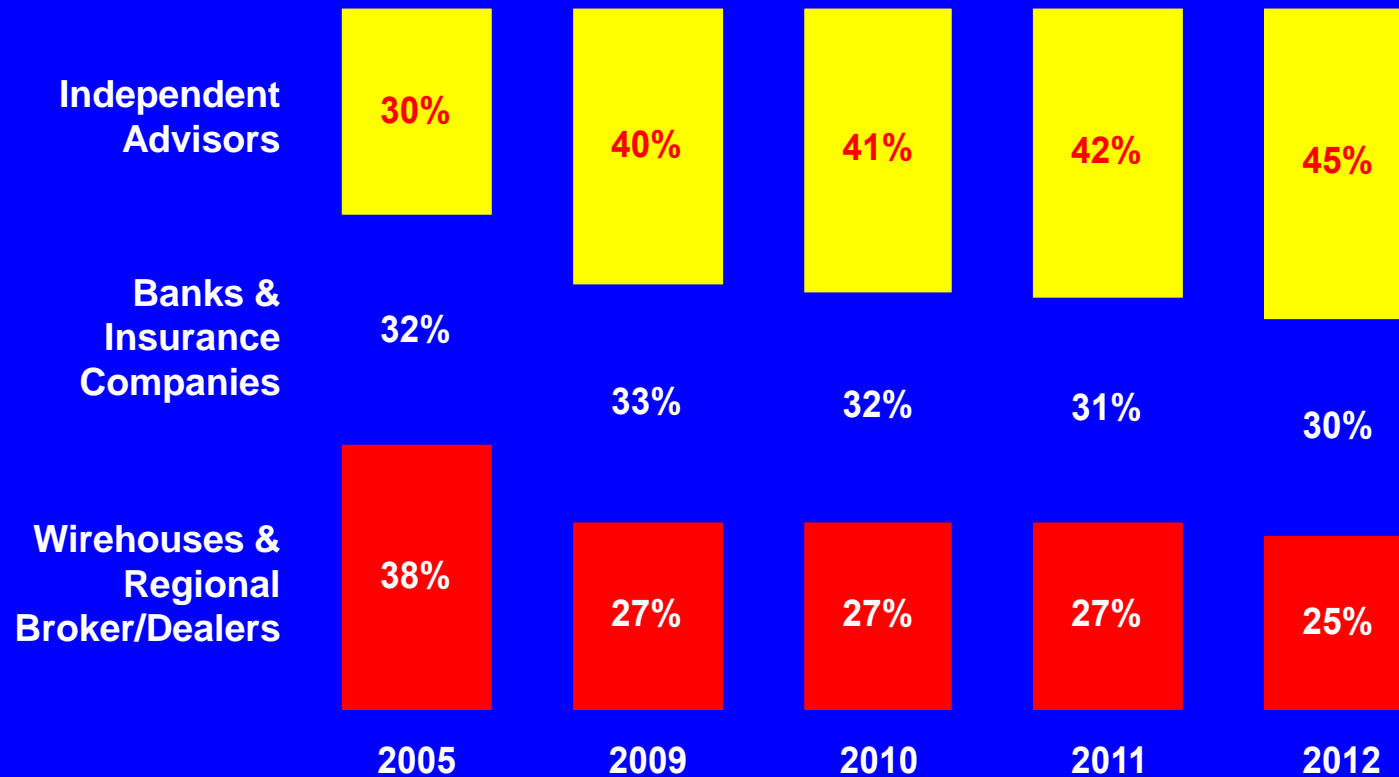
Rep as PM or Advisor
Assets Under Management
By Underlying Investment Product



Source: 4/9/13 Hatch & Company Presentation (Hatch); 4/2/13 Envestnet Email (Asnes) (Cerulli Associates); 3/30/13 Joyce Financial Management Email (Joyce); 10/3/12 Envestnet Presentation (Bergman) (Cerulli); Tiburon Research & Analysis

Independent Advisors Have Steadily Been Growing as a Channel at the Expense of the Wirehouses & Regional Broker/Dealers

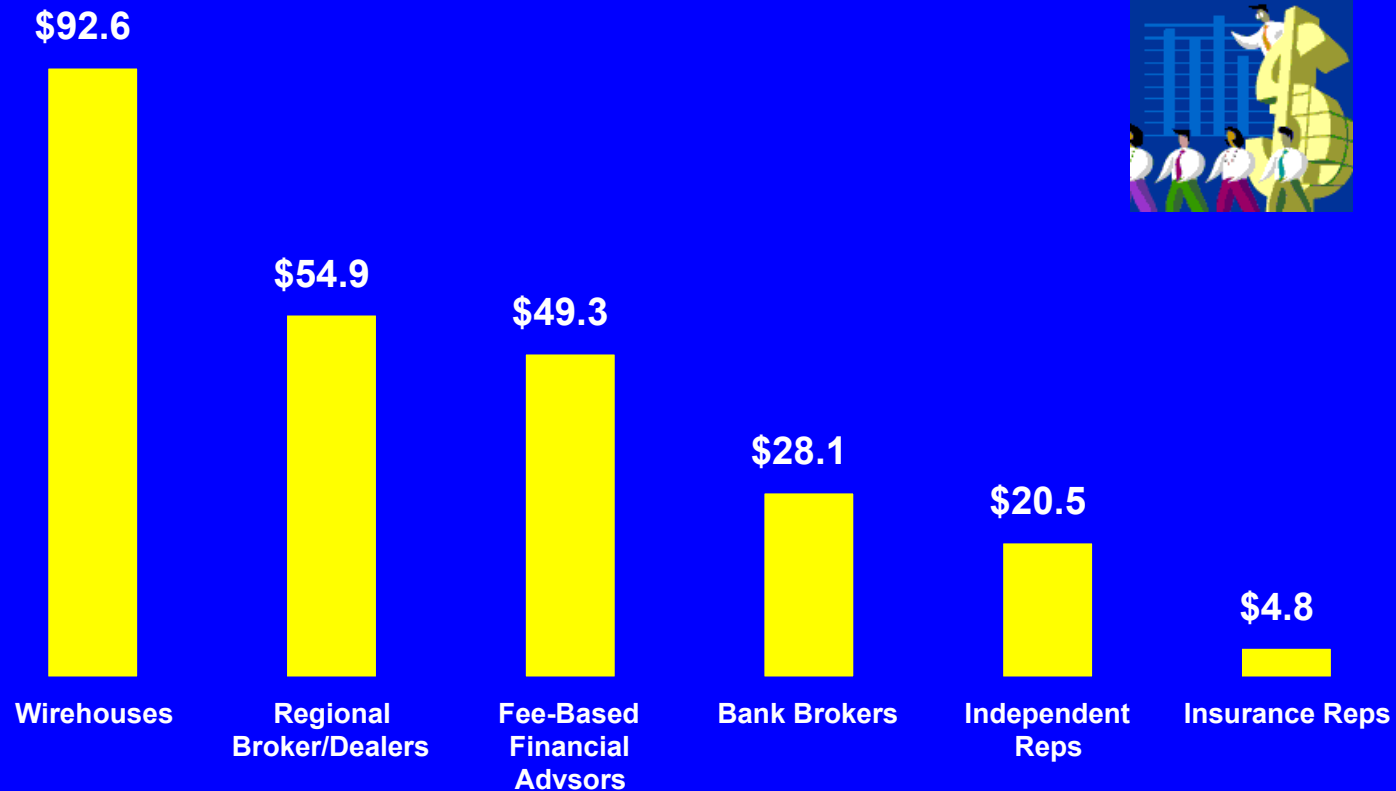
Financial Advisors By Distribution Channel



Source: 4/2/13 Envestnet Email (Asnes) (Cerulli Associates); /18/12 HighTower Presentation (Weissbluth); 8/11 Envestnet Presentation (Bergman) (Cerulli); Tiburon Research & Analysis

The Wirehouses Continue to Dominate Assets Under Management Because their Financial Advisors are Substantially More Productive

Assets Under Administration Per Financial Advisor (\$ Millions)



Source: 4/2/13 Envestnet Email (Asnes) (Cerulli Associate); Tiburon Research & Analysis

Financial Planning Services

❑ Financial planning

- ❖ Pricing to be unbundled again?

❑ 529 college savings plans

- ❖ Direct sold only

❑ Impact investing

- ❖ Morgan Stanley Investing with Impact platform
- ❖ Investnet sustainability platform

❑ Estate Planning

- ❖ Estate tax...
- ❖ Bigger wealth transfer post baby boomers

❑ Reverse mortgages

- ❖ Yes, predicting a come back
- ❖ Opportunity for next consumer focused innovation or next scandal?

❑ Life settlements

- ❖ Going against the grain
- ❖ Opportunity for next consumer focused innovation or next scandal?



Financial Advisor Issues

- ❑ **Common regulations between brokers & financial advisors**
 - ❖ Standard: fiduciary versus suitability (harmonization)
 - ❖ Overseer: SEC versus FINRA
- ❑ **FINRA signing bonuses stance**
- ❑ **Department of Labor taking its own path**
 - ❖ Another definition of fiduciary
 - ❖ Disclosures on fees, services, & fiduciary status (transparency)
 - ❖ Potential for same demand in non retirement accounts



Source: 4/9/13 Evensky & Katz Presentation (Evensky); 4/9/13 Convergent Wealth Advisors Presentation (Lockshin); 4/9/13 TD Ameritrade Presentation (Bradley); 4/2/13 Pensions & Investments Email (Battaglia); Tiburon Research & Analysis

Financial Advisor Tactics

Three Models (Two of which Lead to Raging Success)

- ❑ Mass marketing (Edelman; The Mutual Fund Store; Fisher Investments)
- ❑ Niche marketing (Hanson McClain; Ron Blue & Company; Cleary Gull; CMS Companies)
- ❑ Everyone else...



The Most Rapidly Evolving Tactical Issue Area is Sales & Marketing Strategies

Sales & Marketing Strategies

Mass Marketing	Niche Marketing	Everyone Else
<ul style="list-style-type: none">• Seminars• Self promotion (articles, books, radio, & television)• Advertising (direct mail, print, web, radio, television)• Public relations• Sales people• Measurement (offices, financial advisors, leads, closure rate, touches, client retention)	<ul style="list-style-type: none">• Identify niche(s)• Follow more narrow & customized mass marketing approach 	<p>Institutions</p> <ul style="list-style-type: none">• Advertising (Talk to Chuck)• Stadium & sporting event sponsorships <p>Financial Advisors</p> <ul style="list-style-type: none">• Client referrals (generally reactive)• Professional referrals• Community networking


Mass Marketing

- ❑ Sales People
- ❑ Magazine columns
- ❑ Radio program
- ❑ TV shows
- ❑ Books
- ❑ Social media (compliance & efficiency concerns) (Kirk Michie)
- ❑ New media (audio & video; podcasts & digital assets)



Three of the Top Independent Advisors are Following the Mass Marketing Strategy

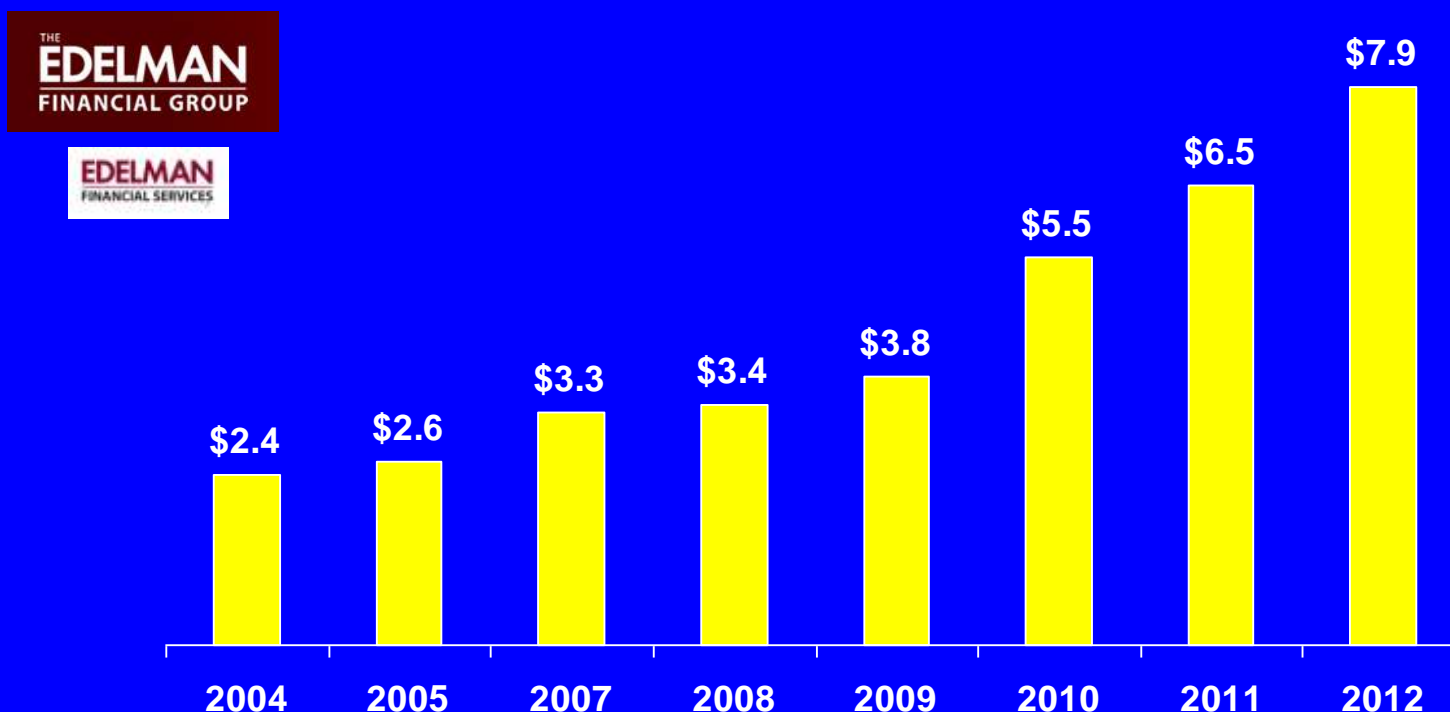
Leading Independent Advisors Mass Marketing

Fisher Investments	Edelman Financial Services	The Mutual Fund Store
<ul style="list-style-type: none">• Founded in 1973<ul style="list-style-type: none">- Founded by Ken Fisher• Based in Woodside, CA• 5 offices• 900 employees• 18,000 clients• 37,648 accounts• \$35 billion assets under management• \$5.0 million gross new assets• \$300 million revenues• CEO: Ken Fisher	<ul style="list-style-type: none">• Founded in 1973• 6 states• 22 offices• 240 employees• 14,200 clients• \$6.5 billion assets under management• CEO: Ric Edelman 	<ul style="list-style-type: none">• Founded in 1996<ul style="list-style-type: none">- Founded by Adam Bold• Based in Overland Park, KS• 34 states• 73 offices• 104 investment advisors• 32,000 clients• 67,950 accounts• \$6.5 billion assets under management• Chairman: Adam Bold<ul style="list-style-type: none">- CEO: John Bunch

Source: 4/10/12 Impact Communications Email (Swift); 8/18/11 RIA Biz; 6/8/11 The Mutual Fund Store Web Site; 5/31/11 The Mutual Fund Store Web Site; 5/31/11 The Charles Schwab Corporation Email (Salesky); 5/30/11 Investment News; 5/30/11 Kansas City Star; 11/28/09 Traders Daily; 5/17/09 Investment News; 5/12/09 Investment News; 3/08 Investment Advisor; 2/20/08 Investment Advisor; Tiburon Research & Analysis

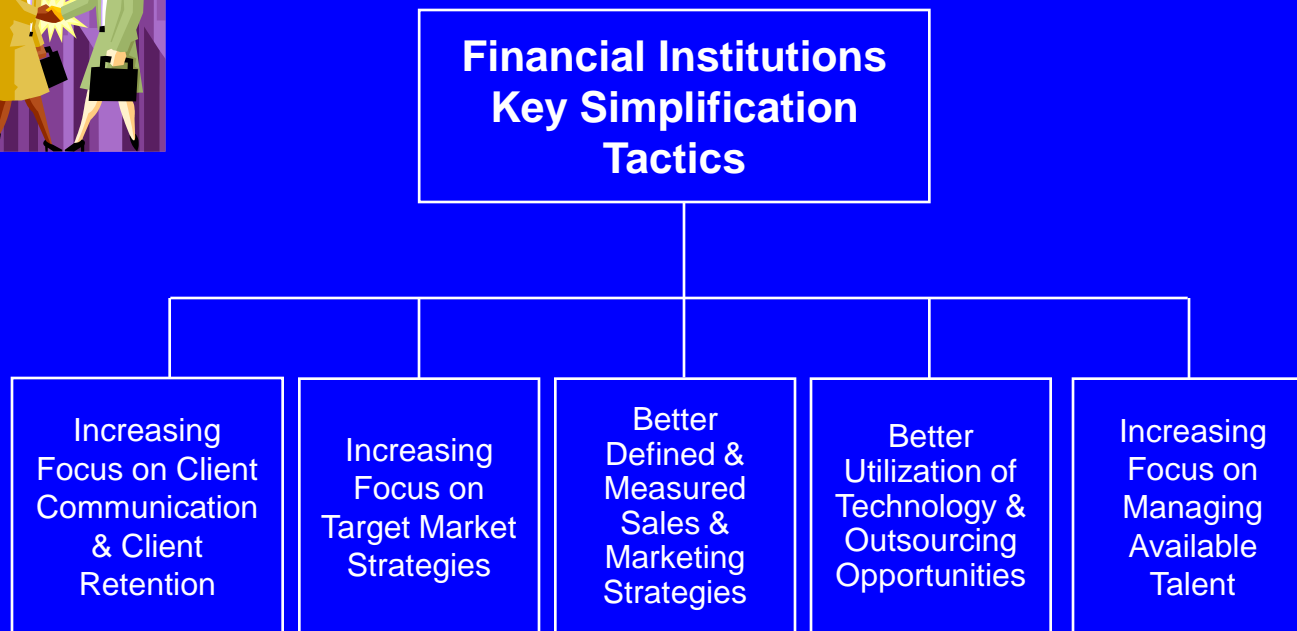
The Edelman Financial Group's Edelman Financial Services Has Gathered \$7.9 Billion Assets Under Management, Up Over 200% Since 2004

Edelman Financial Services Assets Under Management (\$ Billions)



Source: 9/25/12 Barron's; 9/6/12 PR Web; 5/2/12 Edelman Financial Services Press Release; 5/2/12 PR Web; 6/20/11 Investment News; 5/10/11 Sanders Morris Harris Group Press Release; 4/14/11 Edelman Financial Services Presentation (Edelman); 3/25/11 RIA Biz; 11/30/10 Google News Alerts; 11/5/10 Google News Alerts; 10/22/10 Google News Alerts; 5/24/10 Barron's; 5/10/10 Barron's; 10/21/09 RIA Biz; 10/15/09 RIA Biz; Tiburon Research & Analysis

Financial Institutions Key Simplification Tactics



Technology & Outsourcing (Financial Advisors)

☐ Technology... Improving the financial advisor experience

- ❖ CRM (with focus on aggregation) (Sales Force; Tamarac)
- ❖ Financial advisor desktop (Advisor Software)
- ❖ Mobility
- ❖ Paperless



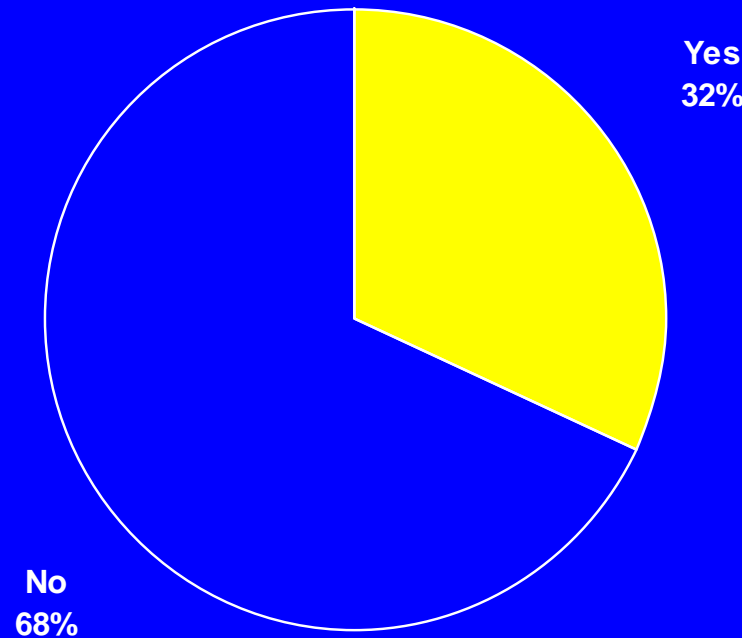
☐ Outsourcing... New business model emerging, with independence but support

- ❖ TAMPs: Investnet, Genworth Financial, Fortigent, CLS Investments, Edelman Financial Services, Hanson McClain Retirement Network, Etc.
 - ❖ Administration: Orion Advisor Services, Investnet
 - ❖ Aggregators: HighTower, Focus Financial Partners, Etc.
- ☐ Additional parties in the revenue stream will lead to squeeze on custodians and platforms more so than financial advisors

Source: 4/13/12 Advisor Software Email (Ringquist); 4/10/12 Turning Point Email (Vigeveno); 10/8/11 Joyce Financial Management Email (Joyce); 10/5/11 Capital Analysts Email (Lynch); 9/20/11 Impact Communications (Swift); 8/26/11 Joyce Financial Management Conversation (Joyce); 4/8/11 Fidelity Investments Email (Graham); Tiburon Research & Analysis

Technology & Outsourcing... Only One-Third of Financial Advisors Consistently Implement Workflow Processes

Financial Advisors By Propensity to Consistently Implement Workflow Processes



Source: 5/31/12 Financial Planning (Pershing); Tiburon Research & Analysis

Gen X and Gen Y Expectations and Traits



Comprehensive, understandable,
actionable financial information

Tech tools for communication, online account
access and management

Want transparency

Skeptical of
institutions

Collaborative approach, involvement in
decision process, advice without a
sales pitch

Want online educational
resources presented in an
engaging manner

Expect quick responses
and real time feedback

Tend to be conservative investors and need to understand risk management

Are unlikely to stay with their parents' advisor

Do not want to be
labeled

There will be a long-term impact of these consumer changes

Despite a prolonged low interest-rate environment, and even with rising rates, consumer behavior will be altered for a generation in terms of how investors think about lower risk or cash-equivalency investing. This will result in the following:

- Need for guaranteed return and income-generating products
- Continued and accelerating innovation of fee-based accounts
- Accelerating product shifts toward lower-total-cost investment vehicles, which will ultimately influence total cost of ownership, including for actively managed accounts
- Growth of indexing and exchange-traded funds
- Continued growth in popularity of unbundled products (separation of advice from product)



The Self-Serve Trend Will Grow

Do-it-yourselfers have more free information available than they could ever digest. There's no shortage of information. And value-conscious investors can go to Schwab, Vanguard or Scottrade.

There is a world of online advisors cropping up, specifically firms like Mint.com and Personal Capital, which provide account aggregation and budgeting tools for free. Other online advisory firms include: Betterment, Covestor and Edelman Online.

Companies like Betterment and Wealthfront charge fees in the .25% range.



Social Media Will Become an Increasingly Important Means of Communication Between Clients and Advisors

There is an emerging investor population called Generation D – for Digital.

- Spans multiple demographics**
- Represents 75 million people with \$27 trillion in assets**
- Differentiated by broad adoption of technology and extensive use of digital and social channels**

Digital tools & social media can help advisors:

- Improve effectiveness & timeliness of communications**
- Deliver financial education**
- Better meet client expectations**



Source: Accenture survey 2013

Financial Advisory (Planning) Firms Have a Bright Future

There are multiple key driving factors we have discussed today which could be considered a threat to financial advisory businesses. Yet, we see a bright future for firms which are providing comprehensive financial planning services to the emerging affluent and HNW market segments.

While consumers are feeling less than content in terms of their financial position, the value of sound advice has never been more evident. The challenge for advisors is to clearly define their client-service model and value proposition among multiple competing messages. Clarity in terms of your pricing model is also essential. For example, if you are charging for asset allocation services, be clear about the fee related to that service.

GenX and GenY, along with a subset of Boomers, are embracing the DIY approach in greater numbers. Advisory firms need to improve their use of client facing technology (client portals, vaulting, etc.) to address this trend.

PE/VC firms and others have and will continue to consolidate financial advisory firms because they see value in the relationship between advisor and client. Properly positioned advisory firms have a bright future.

Does this information influence your business decisions?
