Action!
Magazine

ACTIONABLE CONTENT FOR
WEALTH MANAGEMENT LEADERS

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Editor's Note

SULEMAN DIN

The topic of artificial intelligence (AI) has dominated my recent conversations with wealth management leaders.

The issue of *Action!* magazine in your hands features a special report dedicated to the topic.

Practical applications of AI are expanding with remarkable frequency. If you have been paying attention, you are seeing the separation between man and machine get a lot thinner. AI original songs? Check. AI original visual art? Check. AI getting upset and possessive? Check, as noted in a New York Times report.

How can you and your clients benefit from AI? How should you be thinking about legal and compliance considerations? What can you learn from others already adopting AI? Read on to find out.

Beyond AI, we cover the topics that matter most to leading advisory firms – including driving organic growth, optimizing operations and elevating client experience. In true *Action!* fashion, we have included actionable templates to help you build a 2024 plan that drives results.

We also highlight the important ongoing culture and strategy issues in our industry: How to not only attract and retain talent but also boost firm diversity and encourage volunteerism among colleagues.

I am grateful for the contributions in this issue from experts who shared their insights on the big trends shaping wealth management and the changing practices worth adopting. And to the continued guidance and support from our *Action!* advisory group.

Don't forget to subscribe to *Action!* magazine and share this with your colleagues. And reach out to us with feedback or if you have a story to share – suleman.din@advisorengine.com

Suleman Din

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How RIAs' non-traditional hiring practices are creating a diverse talent pool in wealth management

CHARLES PAIKERT

Mike Ran was a chef. Jessica Robertson was an accountant. Today they're both financial advisors.

Ran worked in restaurants in New York City and Philadelphia for ten years. He was about to open his own place, had funding lined up – when he had an epiphany.

"If you're going to go into the restaurant business, you have to be 150% committed," Ran says. "Otherwise, you shouldn't do it."

Ran realized he was better suited for another service business – financial advice. "It's a very translatable skill set," he explains. "You have to accommodate people from all walks of life in both fields. In restaurants, you're providing an experience for one night. As an advisor, you provide an experience that helps people for a lifetime."

- **Jessica Robertson**
Lead financial planner, South Bay Financial Partners

Robertson always knew she wanted to help people but hadn't heard of the financial planning profession. After getting bachelor's and master's degrees in accounting from Loyola University in Chicago, she worked for an audit firm and a non-profit.

She became aware of financial planning through the American Institute of Certified Public Accountants and signed up for an "externship" program at the Financial Planning Association. Then Robertson became aware of BLatinX Internship, also known as BLX, an organization that places Blacks and Hispanics in internship programs at financial services firms.

BLX helped her prep for interviews and matched her with South Bay Financial Partners outside Chicago. After the internship ended, Robertson was hired as a full-time employee. "It's a great fit," she says. "They appreciate my background in tax and I can also do work beyond the numbers. After I did some research that helped a client whose child was struggling with serious issues, it brought the client to tears. That's very gratifying."

To be sure, talent is scarce and hiring is a hassle. It's a lot easier to find an experienced advisor with a nice book of business.

But the odds are that that candidate will be a middle-aged white male. According to the CFP Board, three-quarters of certified financial planners are men, 82% are white and 94% are 30 or older. Only 2% are black, 3% are Hispanic and 4% are Asian.

Of course, a well-qualified advisor should be considered for an opening, no matter their background. But as the country's demographics are rapidly changing, industry experts say it's important for firms to expand their horizons, overcome their preconceptions and consider non-traditional candidates for job openings.

"It's not just a moral decision; it's a good business decision," says Sheryl Rowling, financial advice editorial director for Morningstar, specializing in practice management. "A more diverse workforce means you can attract a more diverse clientele. The more someone identifies with an advisor, the more likely they are to become a client."

In addition to expanding a firm's client base, bringing on non-traditional employees also means a firm is exposed to new ideas, cultures and experiences "that in and of itself is worthwhile," says Michael Eckton, CEO of Crestwood Advisors in Boston.

"If you have no idea what Diwali [the Hindu festival of lights] is, then you're missing out on something that's like Christmas, Easter and New Year's rolled into one, and is very important to a lot of people," Eckton says.

Even high-end family offices are recognizing the value of a more diverse workplace. "Family offices are a microcosm of society and reflect that diversity," says consultant Rich Wolkowitz, principal at Xlogenesis, a St. Louis-based consultancy for family offices. "They see non-traditional hires as a true competitive advantage in today's business world."

Diversity can positively impact the bottom line as well. A study by McKinsey found that companies in the top quartile for racial and ethnic diversi-

"Diversity strengthens firms by bringing in a fresh perspective. It's just like a portfolio. You don't want to be in just one sector."

- Frank Paré
President, PF Wealth Management Group

ty were 35% more likely to outperform their respective national industry medians in terms of financial returns.

So how can RIAs attract more non-traditional hires, including women, younger people, people of color, members of the LGBTQ community and professionals looking to switch careers?

Crestwood and other advisory firms work with BLX. "We understand that each firm has unique requirements," says Leisha Barton, the organization's program director, "which is why all our interns undergo thorough screening to ensure the best fit for their specific needs."

To become more inclusive, RIAs must "be mindful of unconscious biases," Barton says. She adds that firms need to "look beyond traditional methods like recruiting from alma maters or through connections with clients' children" to yield a more diverse pool of candidates.

RIAs should consider holding financial planning workshops at Black churches and neighborhood events to get the word out about the profession, Robertson says. Frank Paré, president of the PF Wealth Management Group in Oakland, California, recommends recruiting at HBCUs (Historically Black Colleges and Universities) as well as state universities.

Samantha Pinheiro, an intern at Crestwood who comes from a Brazilian immigrant family and was placed through BLX, says she heard about financial planning through the Association of Latino Professionals for America.

In Boston, Crestwood broadens its demographic pool of candidates by recruiting at state schools like the University of Massachusetts instead of focusing only on Harvard, says Tiffany So, a client advisor overseeing recruitment at the firm.

But just recruiting minority candidates is not enough, say Paré and Robertson.

"There has to be an incentive program to ensure a firm-wide commitment to their success," Paré says. "Have an onboarding program, mentors, apprenticeships and a clear career path laid out."

Robertson says she benefited greatly from being put on a big project as an intern. "I wasn't just sitting in on client meetings," she says. "I was given an operational assignment. I was able to work with and learn the firm's software. I received feedback as we went along. It was very helpful and made me more marketable."

Crestwood's internship program, also run by So, stresses firm-wide immersion, says Pinheiro. "The most helpful part of the internship has been all the opportunities I have been given to connect with everyone at the firm," she says.

Successful employee diversification at wealth management firms starts at the top, according to Wolkowitz. "If a leader is committed to having those qualities in the firm," he says, "it will bleed down."

That commitment may be tested by the recent Supreme Court ruling striking down affirmative action for college admissions, putting corporate Diversity, Equity and Inclusion programs under legal pressure.

"RIAs should ignore the Supreme Court ruling," when hiring advisors, says Paré. "Plenty of very qualified individuals are out there looking for a job. Diversity strengthens firms by bringing in a fresh perspective. It's just like a portfolio. You don't want to be in just one sector. You want to be diversified!"

Career changers can also broaden the range of skills at an advisory firm, notes Mike Papedis, a principal at Fusion Financial Partners, a consultancy firm for RIAs.

One firm Fusion worked with needed an operations manager and hired someone who handled scheduling for a rental car company. "It was a non-traditional hire but very impactful," Papadis says. "The person turned out to be a master of logistics and helped the firm shift the lens in terms of the way they approached operations."

Ran, who now works as an advisor at Telemus, his family's RIA in Southfield, Michigan, argues that his ability to work well with customers and co-workers in a crowded kitchen is more foundational than knowledge about the markets. "You can teach investing," he says. "You can't really teach someone how to relate well to clients who have different backgrounds."

Career changers and young people also don't have bad habits that employees from other advisory firms may have picked up. "It's easier to bring in and train someone newer to the industry versus a more tradi-

"Offering flexibility helps you broaden your base, demonstrates your progressive values and signals what type of firm you are."

- Carolyn Armitage
Chief Executive Officer, Thrivent Advisor Network

"You can't really teach someone how to relate well to clients who have different backgrounds."

- Michael Ran
Associate financial life advisor, Telemus

"RIAs must be mindful of unconscious biases"

- Leisha Barton
Program Director, BLatinX

"A more diverse workforce means you can attract a more diverse clientele."

- Sheryl Rowling
Financial advice editorial director, Morningstar

DIVERSITY

tional hire who may not be as open to change," says Carolyn Armitage, the former president of Thrivent Advisor Network.

Executive recruiter Louis Diamond cites another practical advantage of non-traditional hires: someone new to the industry who is trained and molded by a firm is likely to be more loyal and less of a "flight risk" than a well-traveled advisor shopping a book of business.

One criticism of the RIA industry is that it has a reputation for not paying top wages and confining community involvement to elitist events that are self-serving, say executive recruiters.

Firms can change that perception and attract non-traditional candidates by becoming "recognized as great businesses in the community and being seen as great employers so people want to work there," says veteran headhunter Danny Sarch, principal for Leitner Sarch Consultants in White Plains, New York.

Advisory firms should also take advantage of the acceptance of virtual workplaces to recruit non-traditional employees, says Armitage, whose firm has an entirely remote workforce, which is nearly one-third diverse and half female.

"The ability to work from home is an opportunity for employees to be more selective and possibly more comfortable," she explains. "And for employers, offering that flexibility helps you broaden your base, demonstrates your progressive values and signals what type of firm you are."

To make non-traditional hiring work, firms need to re-think their hiring procedure, Papedis says. "A lot more people have to be involved in the process," he explains. "Adding outsiders requires buy-in from all key stakeholders, not just the C-suite. If everyone isn't on the same page, it can result in harmful disruption of existing teams."

Before Wescott Financial Advisory Group in Philadelphia hires non-traditional candidates, especially career changers, the firm wants to see a level of commitment to becoming an advisor before making an offer, says CEO Grant Rawdin.

For example, a pharmacist who applied for a job at Wescott already gained experience as a paraplanner and was taking courses to become a CFP. "The most attractive candidates are the ones who have already begun the process and have sacrificed to get some experience," Rawdin says.

As with any unorthodox move, hiring non-traditional candidates has its share of caveats. "Your success rate may be lower, you have to spend more time and money on training and you'll need plenty of patience," Diamond says.

In addition, smaller firms with fewer resources will find the process more challenging. "Larger firms have the luxury of a longer time horizon," Armitage notes.

Compensation may also be an issue, but even if you have to pay more for less experience, it's worth it, Rawdin argues. "It's the cost of entry," he explains. "If someone can add something of value that the firm doesn't have and helps solve issues the firm needs to address, then yes, they are worth more."

Sheryl Rowling, who owned her own RIA, is also a Cinema Society of San Diego member. "There are people who won't see foreign films with subtitles," she says. "Those people are missing out on a lot of good movies. It's the same with hiring. If you limit yourself to one type of hire, you're missing out on a much greater talent pool."

Shannon Spotswood: Hiring and retaining talent at your financial advisory firm

SULEMAN DIN

IN THE FAST-PACED AND COMPETITIVE WORLD OF FINANCIAL ADVISORY FIRMS, THE KEY TO SUSTAINED SUCCESS LIES NOT ONLY IN SECURING TOP TALENT BUT ALSO IN RETAINING AND CULTIVATING THEM.

> “Culture includes and involves a tremendous amount of deep work.”

Shannon Spotswood
PRESIDENT AT RFG ADVISORY

You've got to start with a very clear eye on your mission vision values. You don't even stand a chance at retaining talent if you haven't really intentionally developed your culture.

It's such an easy word to throw around – culture – but it includes and involves a tremendous amount of deep work. How are you onboarding your team? How are you loving [work] on your team? Are you setting up a cadence of communication where you're knit together and you are problem solving? Culture is partly that realization that your mission is being lived out in the experience your team members are having.

This puzzle you put together around talent retention is not only something that you have to work on – you don't have to work on it everyday, but it's something you have to have a very intentional evolution towards – I'm going to re-onboard my employees, I'm going to have a very intentional on-boarding of my employees, I'm going to facilitate the way team members are communicating with each other, with leadership and new team members.

The most important thing about retention is that you've got to walk authentically in your leadership. The second that you stray from your mission, your vision and your values, you are immediately going to have a retention problem.

We are immensely fortunate to be working in financial services, where there is a very deep well of talent and a tremendous amount of opportunity for all of us. Still, and this feels a little bit a blood-sport – you are going to have a moment where you want to poach someone's talent.

This is what I would say and how I would approach it: You have to recognize when someone's leaving your firm, there's something they're seeking. True leaders don't build a following, true leaders build other leaders. If someone is leaving your team, wish them well and send them on their way.

If it was me recruiting one of the many, very talented and amazing competitors that we have – I would pick up the phone. There is no substitute for making that hard call, eating that frog, and letting someone know once the ink is dry on that agreement [the poached talent] is coming over to you so they don't get blindsided.

Make it a collaborative conversation. You know that the business is going to go both ways. You're going to see each other at conferences, you're going to be interacting and they might be poaching talent from you one day, so keep the lines of communication open.

Why investors in 2023 are racing against time

STEPHEN DOVER

As memories of summer holidays fade, investors' focus now shifts to the outlook for the final months of 2023.

During the first three quarters of this year, global equity markets benefitted from falling inflation and diminishing recession fears. Investors also shrugged off three consecutive quarterly reports of falling corporate profits, anticipating better earnings. The most disruptive forms of geopolitical risk failed to materialize, reinforcing the supportive backdrop.

But can the good times continue? By and large, we think so. But investors are also in a race against time. We believe there are three key things to focus on over the balance of 2023 – the lagged impact of rising interest rates, the expected path of inflation and interest rates and optimizing the balance between fixed income and equities in asset allocations.

DEBT HAS BEEN A TAILWIND

By virtue of structural changes in corporate finance, the corporate sector has thus far been sheltered from the harshest impacts of an aggressive series of Fed rate hikes since early 2022.

Mostly, that is because companies have increased the maturity of their debt and have converted more of their borrowing into fixed-rate obligations. Accordingly, despite the sharp rise in interest rates over the past two years, company debt servicing costs have not yet risen as much.

Most listed companies have also taken advantage of an inverted yield curve, with short-term rates above long-term rates. Companies with high cash balances (based on resilient earnings and prudent capital spending) enjoy higher interest revenues by parking their money in short-dated notes but with low-interest costs, having locked in lower rates via longer-term borrowing. The corporate sector is, in sum, playing an inverted yield curve to its benefit

The fact that profits have been shielded from the impacts of monetary tightening helps explain continued company interest in hiring. It also points to a positive feedback loop between profits, employment and demand that, while not sustainable forever, has helped to support US economic growth.

The result is a more resilient corporate sector that is better able to manage through tightening cycles. This resilience of earnings and growth has another key implication for investors—namely, reduced default risk. Credit risk is more nuanced. Individual defaults remain possible, and some will be unavoidable. But barring a freezing up of lending markets, we believe overall corporate default rates will likely be lower in this cycle than in prior ones.

INTEREST RATES MUST FALL SOON

Still, this happy state of affairs cannot continue indefinitely. New borrowers and those needing to roll over existing debt will face the harsh reality of higher interest rates. In that sense, hopes for 'soft landings' for the economy and corporate profits require that interest rates come down, preferably sooner rather than later.

The good news is that most measures of inflation – goods prices, shelter costs and wages – have peaked and are declining. Falling inflation means that additional aggressive rate hikes are unlikely. But if higher interest expense and recession are to be avoided, welcome declines in inflation must soon be followed by falling interest rates. Otherwise, an eventual increase in interest expense will eat into consumer spending and corporate profits, potentially putting the expansion at risk of a corrosive rise in debt servicing.

For now, the resilience of the US economy is unlikely to be tested. We believe rising interest expenses will exert an inexorable but gradual economic impact – this is not about a 'cliff event.' But it is nevertheless true that the longer borrowing costs along the yield curve remain elevated, the greater the probability of a harder landing and a renewed profits recession.

INVESTMENT OPPORTUNITIES REMAIN ABUNDANT

We anticipate that the incoming data on growth, inflation and corporate profits will remain largely benign, allowing equity and corporate bond markets to advance, albeit moderately, given that much good news is already discounted.

Attractive yields across various maturities and credit instruments offer the most compelling income opportunities in 15 years. And, as disinflation continues, downside risks for higher grade issuers (e.g., governments and investment grade corporate borrowers) will be contained. The risk/reward ratio, in other words, favors extending duration, even into high-quality corporate bonds. A likely slowing of economic activity and further declines in inflation should boost bond prices (and lower bond yields), offering investors the extra opportunity for price appreciation in addition to income. Moreover, with inflation moving below nominal yields, real returns have also become attractive.

Peaking market rates of interest also typically bode well for longer-duration equities. Even after the 2023 mini boom in artificial intelligence investing, growth stocks and defensive companies with more stable sources of earnings (i.e., those cushioned from slowing economic activity) are likely to outperform more cyclical sectors and styles.

Finally, perhaps most importantly, the outlook is favorable for balanced portfolios. The big reason is falling inflation risk, which typically produces positive returns in bonds and stocks. But even if stocks falter on fears that earnings may disappoint as the economy slows, we believe high-quality fixed-income components should provide offsetting positive returns, boosting the overall stability of balanced portfolios. The outlook over the coming months should offer greater reassurance for investors nursing their 2022 wounds of joint stock and bond bear markets.

In sum, summer's end brings new realities, but the investment outlook remains encouraging. While investors may be tempted to "fade" the recent positive returns in 2023, fundamentals and valuations point towards favorable risk/reward dynamics.

SULEMAN DIN

Chip Roame: What's evolving in wealth management

Chip Roame is focused on wealth management's evolution – evolution in markets, offerings, channels, tactics, and industry structure.

Roame, founder and managing partner of Tiburon Strategic Advisors and the Tiburon CEO Summits, this year challenges often repeated industry "truths" with data showing which products and channels are growing.

CHIP ROAME: One of the key points the industry should pay heed to is that Fidelity Investments, Charles Schwab, Morgan Stanley and Vanguard continue to dominate in net flows, each capturing hundreds of billions of net flows in 2021 and 2022. All industry players need to better focus on those firms and their strategies, as their strategies are working.

Anyone interested in understanding how the industry is changing should also follow the rapid growth in hybrid digital advice offerings – the firms leveraging both technology and financial advisors. Those firms are growing the fastest organically. I also believe M&A activity in the fee-based financial advisor (RIA) market will vastly increase over time.

EVOLVING MARKETS

ROAME: When people discuss generational wealth transfer, they miss that it is primarily going to Generation X investors and to a lesser degree, millennials. These are facts the industry doesn't always get correct. We measured about $72.7 trillion going to Gen X and millennials over the next couple of decades. It should be obvious that you need to court the recipients of that wealth transfer before they get that wealth transfer.

There's been a lot of bad journalism about the person who moves the money from their parent's advisor. Of course, they will do that – it wasn't their advisor to begin with. Advisors today who are capturing the younger generations, who may not have all that much money but will be the recipients of the wealth transfer, will be the winning advisors. Frankly, those are the Acorns, Stash, Robinhood and Schwabs of the world. Not the advisor hanging on to the Baby Boomer client and then wondering why the money moves away when the Baby Boomer client dies. Look at firms like Facet Wealth which serves clients at a monthly or quarterly subscription fee and does planning. That puts them in a really good position when that client gets a rollover from an inheritance someday.

The biggest market is what we call the single-digit millionaires, who have $1 to $3.5 million of investable assets. Their needs aren't that different from those with a couple of hundred thousand to invest. They don't have complex estate planning or family office needs. That's about six million households or roughly $11 trillion in assets. It is a very simple market to serve; you don't need complicated alternative products or anything else.

People talk as if there's some big thick line between these investor classes, and there isn't. There are a lot of people in this single-digit-millionaire category who have straightforward needs and can be served very efficiently. Again, the winning advisors are serving those investors. I think it's been a mental block for many people in the industry who like to think that when you're high-net-worth, all of a sudden, you have all these fundamentally different needs, and I just don't think that's universally true.

There are plenty of people today who have grown from maybe before having a few hundred thousand to now having a few million. Still, their needs aren't any different, and I think that's an easy, efficient market to serve that gets overlooked.

EVOLVING OFFERINGS

ROAME: Direct indexing is the hot trend. Everyone's talking about it, but flows to direct indexing are not that high, whereas ETF flows are enormous. ETF flows are 12 times bigger than direct indexing flows. So you have to keep these things in perspective. ESG has no flows and effectively had meager flows last year, so again, everyone's talking about the category, but there's not much money flow to those funds, to be clear.

ESG as a term doesn't have a lot of definition. You might believe in women's rights and another investor believes in using solar power, but those are lumped into the same category for some reason. We believe that sustainable investing or ESG, those terms will fade away. Ultimately the name will be values-based investing, and those values are different for you and me and they'll change over time. Even in the alternatives category. It is three different industries: the hedge fund, public securities and private equity market industries. Why, for instance, are we putting together buying private securities and buying buildings? Our view is that these things evolve as people come to understand them better. A company starts writing a brochure with a different name for it, and it just takes hold at some point.

EVOLVING CHANNELS

ROAME: If you look at 2022 or even 2021, nobody even comes close to Schwab. They have hundreds of billions of dollars of net flows. When you reach fifth or sixth place in net flows, it's under $100 billion. I think people have lost perspective on how dominant the top four firms are. Secondly, the discount online brokerage, what I call the retail business, is very healthy right now. Schwab just announced first quarter flows to the tune of $70 billion in the first quarter – that's huge. Another point is that when you look at who is taking market share, it's the large fee-based financial advisors, it isn't independent advisors. Also, robo-advisors and hybrid digital advice are also doing well. You're now seeing the mom-and-pop advisor having to add technology to their offerings to compete. Regarding pricing models, we're seeing more subscription and annual fee-type models. The trend probably never takes over the industry, but it's pretty interesting. Lastly, everyone likes to talk down about full-service brokerage firms, but they aren't doing so bad frankly. You're seeing a convergence; some of the leaders from different parts of the industry are ending up in the same place.

Yes, I think there are winners and nobody wants to say it out loud: Fidelity, Schwab, Morgan Stanley and Vanguard. Meanwhile, there are dozens of firms that have negative flows. Most independent broker-dealers have negative flows. Most insurance broker-dealers have negative flows. A lot of independent advisors have negative flows. We can see that winning firms have the right offerings and are targeting the right customers with them.

EVOLVING TACTICS

ROAME: Client referrals are super important – everyone wants client referrals – but you can't scale on client referrals. Many firms don't do a paid lead gen strategy or they say it doesn't work. But it does work for certain firms. It's all about, do you have the right process in place. Interestingly, some of the old-school tactics are coming back. Some advisors swear by direct mail; others are holding seminars at hotels again. Post-COVID, in-person events have come back. But the bigger point is that about 75% of the advertising market is now digital advertising. The world is competing now in digital, so the counterintuitive approach is, 'I'm gonna go back to non-digital methods right now because there's less competition for the message there.' So savvier advisors are thinking, I can go back to direct mail to people's homes and it'll stand out, instead of trying to be the millionth player doing digital advertising.

Fidelity has always been a big-plan rollover player. But Morgan Stanley bought Shareworks and has tried to get into the stock options processing business. Firms like Creative Planning or CAPTRUST are buying up retirement plan advisors; they're all getting it right. If you serve the workplace retirement or stock option plans you get the rollovers later. Now, the workplace is harder to serve; it's a different offering. But if you keep saying it's hard to do rather than putting in the resources you need to serve it, you will be further behind in the future.

EVOLVING INDUSTRY STRUCTURE

ROAME: There continues to be acquisitions of wealthtech companies and M&A remains active in the wealth management space. You're seeing fewer big deals right now because those require financing, but that will change. Whether you're looking to sell or partner, there's no reason not to have your name out there and to look. Deals are getting done; it's not dead by any means. Focus Financial led with 209 transactions in the independent advisor space, Mercer Advisors came in second and CAPTRUST was third with 73 and 64 transactions, respectively, so if winning means the most acquisitions, they are the winners. They have some unique, different strategies – CAPTRUST is trying to marry retirement plan advisors with wealth advisors, Focus has a somewhat hands-off strategy, which is we're going to buy you and own you as a holding company, and Mercer is consolidating them, which is much harder to do.

I bet you will see more mergers between RIA and CPA firms, specifically tax advice and tax prep firms. The beauty of tax planning is if you know someone's taxes, you know all about their financials. You know how much interest they earned, what dividends they earned that year, everything. It's probably an easier cross-sale serving their taxes first rather than the other way around. But every year, you have a chance to go to that client. We do our taxes every year and you can cross-sell every time. A lot of change starts outside financial services and then the industry is the second mover, but it's the industry with the big customer base. Image if Schwab goes and buys H&R Block – that would be revolutionary. Millions of people use H&R Block for their taxes, and they'd have a shot every year at getting some of those people into brokerage accounts. So it probably starts with some RA firms buying regional accounting firms, but then the big firms step up and we see much bigger acquisitions.

"There are a lot of people in the single-digit-millionaire category who have straightforward needs. Winning advisors are serving those investors."

Everyone talks about how the FAANG (Meta – formerly known as Facebook, Amazon, Apple, Netflix and Alphabet –formerly known as Google) companies will get into wealth advice one day, but I don't think so. Banking or payroll, something heavily technology dependent, has room for improvement and always has lots of clients, is a lot more interesting to them than wealth management, which is much more like one-on-one combat. Also, Stash and Acorns are great examples of firms investing two decades before the payoff. If you want to capture the millennial and Gen Z clients in the future when they have money, the strategy is to capture them now. People make fun of Robinhood, but the reality is they've got 12 million clients and have a couple of decades to figure out how to hang on to those clients.

2024 wealth management trends to watch

JACK SHARRY

I'm just a cockeyed optimist* when it comes to financial advice. And that's not because the S&P 500 and the NASDAQ are up as I write this, and inflation is somewhat tamed.

No, it's because leaders I talk to daily agree on how the confluence of digital and human advice keeps improving and will be a dynamic duo in the future. Together, they deliver better outcomes for investors, more assets and increased revenues for advisors and firms.

Specifically, five trends have come into focus and promise an exciting and profitable 2024:

1. The use of model portfolios is growing and will continue to increase exponentially.
2. Workplace-based financial advice is in demand and will increasingly sync with wealth management.
3. Tech platform development prioritizes tax-smart, household-level management.
4. Investors crave security in their retirement income planning.
5. AI will make advisors' jobs faster and easier, not outdated.

Let me explain.

MODEL PORTFOLIOS ARE ON THE RISE

Financial advisors used to get referrals based on their canny stock, bond and mutual fund recommendations. Those were the days of ads like, "When E.F. Hutton talks, people listen."

That's history. Today's investors know institutions achieve better returns. They want those, too.

Model portfolios allow advisors to provide institutional-quality advice and personalize those portfolios to suit their clients' risk tolerance, time horizon, goals and tax brackets – Cerulli Associates projects model assets to grow to more than double to $10 trillion in five years.

Investors want to be treated like the endowment chiefs at Harvard and the University of Texas. They want portfolios customized and managed to minimize taxes and maximize returns.

PRACTICALLY EVERYONE'S AN INVESTOR IN THE WORKPLACE

Chip Roame, founder and managing partner of Tiburon Strategic Advisors, has his binoculars trained on the horizon full-time. He says the workplace is where advisors should focus in their search for new assets and efforts to win a larger share of wallets among existing clients.

Morgan Stanley's exiting CEO, James Gorman, said earlier this year he expects the workplace to be the firm's largest source of net new assets in the next ten years.

Many factors contribute to the workplace as ground zero in financial advice. Employers use their benefits packages to attract and retain talent. Up-and-coming employees want a share of their employer's equity as the best way to accumulate wealth.

If you manage assets for clients with investments in workplace plans – including those with former employers – I'm sure you ask about those assets. Also ask if they could use some financial "Marie Kondo-ing" to ensure multiple tax-qualified and non-qualified accounts are appropriately coordinated to maxi

GREAT ADVANCES IN TECH PLATFORMS

My company, LifeYield, works with many established leaders— including Franklin Templeton, Morgan Stanley, JP Morgan and Allianz. We also work with start-ups closely attuned to their target customers – Playbook (young investors) and Earned (doctors and medical students).

They all share a commitment to offering tech-enabled advice that maximizes client returns through the power of tax alpha and household wealth management. Their tech stacks need to be oriented to help investors with their most urgent concerns, like:

- How do I invest long-term to prevent taxes from dragging down my returns?
- How should I coordinate my household's accounts to maximize returns and minimize taxes?
- What moves do I need to make to increase my chances of enjoying a secure retirement by limiting tax drag on my savings and investments?

Matt Belnap, associate director of research at Cerulli Associates, spoke to me about how firms were moving to household-level, tax-smart wealth management: Slowly but with intention.

"The entire managed accounts ecosystem has sprung up around account-level management," Matt says. "So, stepping up to household-level management is a challenge. But it's a complete reframing of the advisor-client relationship, as well, and something I think will be important for these advisors as they look to differentiate their practices going forward."

INVESTORS ARE SEEKING SECURITY BLANKETS

The see-saw of the markets in the past few years has schooled investors in some facts of life: Stocks don't always climb to the sky. Bonds are subject to swings beyond our control.

Annuity companies are seizing an opportunity. Income annuities and registered-index income annuities (RILAs) attract investors because they feel and behave like the one protected income source they know and take for granted – Social Security. Higher interest rates have also made annuities more attractive and sales boomed in 2023.

Technology platforms like FIDx, DPL Financial Partners and Halo Investing are supporting annuity and protected income offerings in a big way by expanding the universe of advisors who use them with clients.

AI IS HERE TO HELP YOU

Artificial intelligence is here. Its dominance will only grow. But Alexa and Siri won't sit with your clients over coffee. AI will eclipse the hours financial advisors spend researching investments and crunching and analyzing data, according to a prediction from Jud Mackrill, co-founder of Milemarker and general partner in Mammoth Technology. Mackrill says AI will give advisors time to expand their markets and services and increase their value to clients.

Market research confirms that people like talking to a human advisor. But they will also go to many other places for information and advice.

A Hearts & Wallets report noted investors tap multiple sources for financial information and advice. Between 2012 and 2022, it found the use of financial advisors went up (from 63% in 2012 to 73% in 2022). Online resources jumped from 38% to 60%. I bet those numbers will change dramatically in the next few years.

"We have a lot more questions (about AI) than answers at this moment," says Chad Virgin, managing director of Allianz Life Ventures. "But the change is going to happen, and it's going to be fast, and it's going to be exciting. I believe it's going to deliver better outcomes for clients."

* From "South Pacific" by Rogers and Hammerstein.

To hear more from some of the most brilliant people in our industry, subscribe to my podcast, WealthTech on Deck, available at lifeyield.com/podcasts.

Special Section

JOEL BRUCKENSTEIN

AI & Machine Learning

AI and machine learning are already around us – it's estimated such software is distributed in nearly 80% of devices we use today. But the emergence of Generative AI has captured the imagination of the public and industries, including wealth management.

"All it's done in my mind is really open up the eyes of folks to things that people in the industry like myself have known for a number of years – the potential for AI is absolutely enormous," says Joel Bruckenstein, publisher of Technology Tools for Today (T3). "Layering AI with natural language processing is going to change the way that pretty much every industry operates."

That being said, Joel isn't worried about AI taking over financial advice.

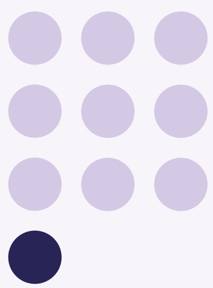
"It's going to free advisors and their staff from repetitive tasks that have little or no value and free up more time to focus on valuable work. The addressable market for advice is gigantic in this country; only a tiny fraction of the public is availing themselves of professional advice today. Advisors are going to be able to serve more people."

Bruckenstein offered some tips on how independent advisors should be thinking about how to adapt to the next wave of intelligent technology in the industry.

"The unique intellectual property of a firm will become increasingly important."

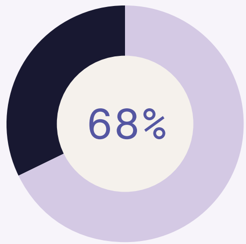
- **Joel Bruckenstein**
Technology Tools for Today

> **"The simple rote stuff will get automated and only get pushed to an advisor if there's something that an advisor needs to have input on."**



9 out of 10 advisors believe AI can help grow their book of business organically by more than 20%

SOURCE: Accenture



68% of wealth management organizations are using AI tools to support decision-making processes

SOURCE: Financial Planning magazine

TAKE ADVANTAGE OF IT WHEN WORKING WITH CLIENTS

"AI and machine learning are being applied to help with advanced financial planning. And almost every CRM company is using AI and machine learning to arrive at what they call the 'Next Best Action' when engaging with a client. Once you're engaging with the client, you'll know what is the next best step to take with that client instead of trying to figure it out on your own. Or for example, a new law passes affecting investments. AI can go through your client base and tell you these are the top 10 clients you should be talking to first because the law will have a big impact on them."

AUTOMATE CERTAIN TASKS AND ROLES...

"AI will play more of a role in so-called 'low-level' advice. If a client has a lot of questions that are simple – say they call up because they don't know what's the maximum allowable contribution to an IRA this year – you probably don't need a person for that. You can answer that question with a chatbot or a virtual assistant. This is going to be commonplace within five years in our industry. The simple rote stuff will get automated and only get pushed to an advisor if there's something that an advisor needs to review."

...BUT ADD YOUR CHARACTER TO EVERYTHING

"The unique intellectual property of a firm will become increasingly important. Every firm has it today, but it's not organized digitally in a way that AI can easily access. It soon will be, and you'll put your unique twist on everything you deliver automatically. Initially, you will need a human to review before a letter or notification goes out to clients. However, as time goes on, it'll become more automated because the machines will continue to learn."

WHERE SHOULD ADVISORS SHIFT THEIR FOCUS?

"In a nutshell: more high-end planning and a lot of coaching – a lot of this is behavioral; that won't go away. Look at what's happened in the accounting industry. It's not so much about needing an accountant – if you have a simple case, a machine can do that with you. But strategic planning, higher-end planning, multi-year tax planning, that's where advisors add real value."

BROADEN THE SCOPE OF YOUR OFFERINGS

Look at how many firms for years were just focusing on investments. Now they're doing at least some retirement planning and some financial planning. That's going to expand into more sophisticated planning. A very small segment of the advisory population today spends time helping clients, for example, managing the liability side of their balance sheet or on P&C insurance. Sophisticated firms are already expanding the scope of their services and getting paid for it.

Many believe AI will have a significant impact on client-advisor relationships in the next few years

WITHIN THE NEXT 18 MONTHS

83% believe AI will have a direct, measurable, and consisten impact on the client-advisor relationship

83% believe AI can achieve a level of sophisticated advice and planning that will ultimately leave FAs competing with an algorithm for clientes

55% believe to a great extent that AI will have a transformative / revolutionary effect on the future of financial advice within the next 3 years

SOURCE: Accenture

LEARN MORE

- → AI for everyone (online course) [https://tinyurl.com/58h23cze]
- → Microsoft AI research hub [https://www.microsoft.com/en-us/research/]
- → "What is Chat GPT-3" [https://tinyurl.com/2zshp8ek]
- → "How AI Is Adding Value In Wealth And Asset Management" [https://tinyurl.com/num3enrb]
- → "The pursuit of AI-driven wealth management" [https://tinyurl.com/mv2a5b3c]

CHARLES PAIKERT

Artificial Intelligence isn't just the story of the year; it's the story of the decade – and beyond.

"AI is changing the way advisory firms do business, from the back office to operations, services and the way we communicate with clients," says Andrew Altfest, president of New York-based Altfest Personal Wealth Management.

The AI application making the biggest splash right now is ChatGPT, language recognition software built on neural networks modeled on the human brain. A proprietary product of OpenAI, a startup with a $13 billion investment from Microsoft, GPT stands for "generative pre-trained transformer," a technology that can create or "generate" new text, visual images and audio.

RIAs are already using ChatGPT to write marketing material, business proposals, client emails, blogs, newsletters and social media posts.

The cascade of AI products for advisors is just beginning.

Morgan Stanley for instance is beta-testing a proprietary system that employs machine learning to match investment possibilities with client preferences, including automated operational alerts for events such as margin calls and low cash balances.

AI technology will save advisors a lot of time, says Altfest. "It's going to be an intelligent assistant that will help advisors manage many client relationships at once," Altfest says. "ChatGPT can keep track of events like client birthdays and remember their preferences. The technology will be integrated into the CRM workflow, producing the next best action for advisors."

In fact, Sequoia Financial Group is already beta testing virtual "Sequoia Intelligent Agent" software that will create a client knowledge base, generate analytics and prompt workflows, says Trevor Chuna, the Akron, Ohio-based RIA's chief technology officer.

"Artificial Intelligence is going to eliminate a lot of manual labor," Chuna says. "It will be a valuable tool to automate client proposals and produce an interactive deliverable. Another use case is automating the client review process, one of an advisory firm's most frequent, time-consuming and expensive tasks. AI will process meeting notes and identify and recommend actions that need to be taken."

In addition to chatbots communicating with clients and generating content, AI will greatly impact advisors' back-office functions, according to Altfest. "It will be a huge opportunity to further automate work such as account openings, trades, rebalancing and reviewing documents and portfolios," he explains.

In the near future, advisors can expect AI to provide virtual call centers and enhance core services like financial planning. Altfest's software company, FP Alpha, is, for example, developing a product to help advisors with advance planning incorporating estate, tax and insurance issues by summarizing documents and making recommendations.

Chatbots will also increasingly become client-facing, says fintech consultant Grant Easterbrook.

"It's not a matter of if but when," according to Easterbrook, who helped develop a chatbot for retirement plans. "The software is not perfect now, but it will eventually become a much more powerful version of Google that can answer questions for clients instead of just providing links from a search."

As the fast-developing technology accelerates at a breakneck pace, advisors need to consider what AI does well – and doesn't.

"AI is going to help advisors with account openings, alerts, workflow actions on CRM," says Raj Madan, chief information and technology officer

> **"It's going to be an intelligent assistant that will help advisors manage many client relationships at once."**
>
> **- Andrew Altfest**
> President, Altfest Personal Wealth Management

U.S. SECURITIES AND EXCHANGE COMMISSION CHAIR GARY GENSLER WARNED OF THE "EMERGING RISKS" THAT COME WITH PREDICTIVE ANALYTICS.

for AdvisorEngine. "It is also very good at pattern processing and anomaly detection, which is why credit card companies have used AI for quite some time."

For advisors, AI can review portfolios and detect that clients with a 60-40 stock bond portfolio mix suffered losses when both stocks and bonds took a hit simultaneously, which is unusual. "ChatGPT can then create an email to those clients," Madan notes, "assuring them that despite the recent short-term losses, a 60-40 mix is still the best strategy in the long run."

But advisors can't just "set and forget" AI tools, Madan cautions.

"AI absolutely needs human oversight," he says. "Things can go drastically wrong."

"AI has a natural language processor that is far beyond Google and can detect patterns that are otherwise difficult to see," says Aaron Spradlin, chief information officer for United Planners Financial Services.

"Within five years, advisors are going to have virtual assistants and call centers. But AI is not good at what humans are good at. There is no cognitive ability, creativity, cognitive ability, imagination, intuition or emotional intelligence. AI can do specific tasks but not at the same level of adaptability and flexibility that humans can."

Artificial intelligence can answer basic questions, give definitions and explain concepts, Easterbrook says.

"It's going to make administration and operations more efficient and effective for RIAs," he explains. "But advisors face a much higher standard than pizza delivery, which will also use AI. Careful guardrails are going to be needed around ChatGPT, especially when it comes to giving advice. Veracity will be a major issue for compliance and regulators."

"AI absolutely needs human oversight."

- Raj Madan

Chief information and technology officer, AdvisorEngine

Accuracy is the prime concern of Wealthspire's chief compliance officer Michael Del Priore. "It seems like there's some learning to be done by the chatbots before I can rely on an answer that they have given me," Del Priore says.

He anticipates that the SEC and other regulatory agencies will closely monitor "the accuracy of the advice or answers that the AI platform is giving," he says. "Advisors will still ultimately be responsible for fulfilling their fiduciary duty. This cannot be outsourced."

Speaking at an MIT Policy Forum last year, U.S. Securities and Exchange Commission chair Gary Gensler described artificial intelligence as "every bit as transformational as the internet," but warned of the "emerging risks" that come with predictive analytics.

The challenge for financial service companies – and lawmakers – will be ensuring that neutral algorithms don't put a platform or a business' revenue or profit ahead of fiduciary duty.

Wealthspire hasn't embraced any of the newer AI solutions, Del Priore says. "Fintech is essentially an AI solution and we've embraced a variety of them from CRM to compliance platforms over the years," he explains, "but we haven't made the jump to any chatbot-based solutions."

In the future, however, Wealthspire won't "take the human touch out of the equation," Del Priore says, "I can see a world where we have a number of client-focused processes that become more automated due to new AI tech."

There are also some dark clouds on the horizon. Critics say AI's lack of reasoning, consciousness and ethics can easily lead to misuse by unscrupulous programmers. And the technology's predictive data analytics can lead to "concentrated risk" and a full-blown market crisis if investors rely on it too much, Gensler warns.

And while AI may be a great tool, it may also lead to fewer human advisors. The advisory firm's clientele is shifting from Baby Boomers to millennials, who, Easterbrook points out, will be much more comfortable talking to chatbots than their parents were.

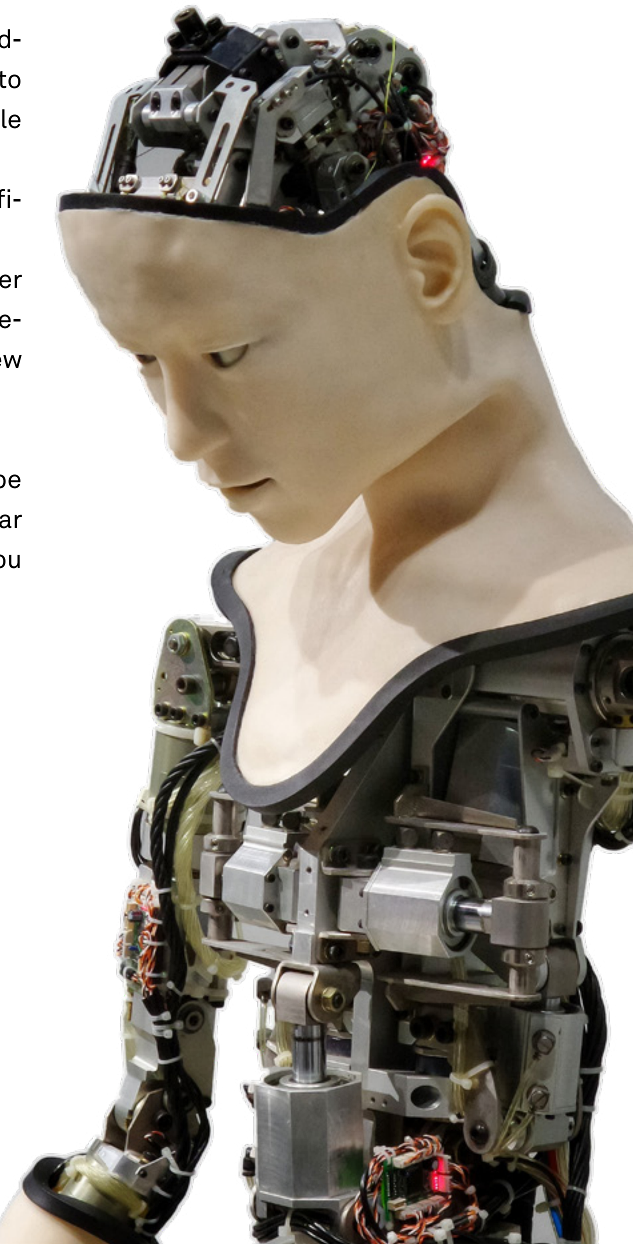
According to American Banker, ChatGPT "poses a direct threat to financial providers' core strategy."

Just as robo-advisers have amassed nearly $1 trillion in assets under management in less than a decade, AI can even more effectively democratize access to financial services and potentially turbocharge new tech-centric competitors to traditional RIAs.

But an even greater risk is not getting on board, says Altfest.

"The writing is on the wall," he says. "You have to say, 'What will I be doing differently in the future?' Because something that seems very far off now is actually much closer than expected. And if you don't adapt, you will be at a competitive disadvantage."

IN ADDITION TO CHATBOTS COMMUNICATING WITH CLIENTS AND GENERATING CONTENT, AI WILL GREATLY IMPACT ADVISORS' BACK-OFFICE FUNCTIONS.



AI in wealth management

RAJ MADAN

ARTIFICIAL INTELLIGENCE WILL INCREASINGLY BE USED IN WEALTH MANAGEMENT.

Firms are already able to leverage AI technology to provide content creation, investment recommendations and customized client solutions.

AI is the ability of machines and computer programs to perform tasks that usually require human intelligence, such as perception, reasoning, learning, decision-making and natural language processing.

What's captured popular attention lately is generative AI – artificial intelligence that can create new, original content or data, such as images, music, or text, rather than simply processing or analyzing existing data. It uses algorithms and machine learning models to generate new outputs based on patterns and correlations in data.

Let's understand what programs that create generative AI like ChatGPT are.

At its core, ChatGPT is a chatbot. You put in a question and some input, and the chatbot produces a response. It's conversational; it understands the context of the question you asked. This language model generates human-like responses to natural language inputs, such as questions or statements.

ChatGPT is trained on a large corpus of text data using a deep learning algorithm called the Transformer architecture, which allows it to understand the context and meaning of the input text to generate relevant and coherent responses.

Generative Pre-trained Transformer (GPT) is a transformer model that uses attention mechanisms to process sequential data, such as text. This allows the model to focus on the most relevant parts of the input sequence and generate output that considers the context of the entire sequence.

It's not just college students looking for an easy way to write essays using ChatGPT; many use cases exist. I'll give you a quick example. I was talking with my 22-year-old son, who recently graduated from college. He has an entrepreneurial spirit and has started his own company, where he is working to create an app.

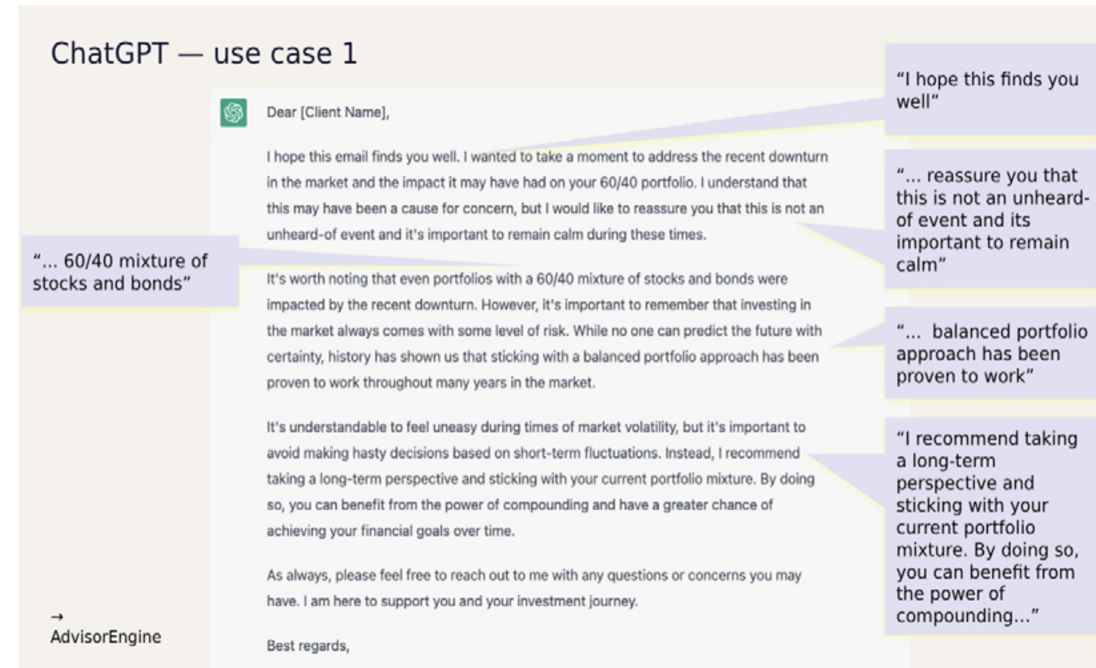
At first, my son was skeptical about using ChatGPT. Once I showed him how it works, he spent the next two hours working on different use cases for his company. Now he uses ChatGPT to write copy for his website and to help him code. ChatGPT's ability to produce code is not appreciated by many people outside of computer science. Let's see if I can change your mindset.

USING CHATGPT FOR ADVISOR CONTENT CREATION

Using ChatGPT for content creation can help financial advisors save time, maintain consistency, and personalize content – ultimately improving their efficiency and the quality of their services. Content creation is an excellent, classic use of ChatGPT.

Let's pretend I'm an advisor. I'm looking closely at the portfolio performance of my clients on AdvisorEngine – specifically, the 60/40 split (60% stocks, 40% bonds) clients. Clients on a 60/40 portfolio model experienced a hit, despite, as you may know, the benefit of the diversification of a 60/40 model.

I can use ChatGPT to generate an email to send to clients to reassure them. I simply input into ChatGPT, "Write an email to my client explaining how the recent downturn that affected even 60/40 portfolios was unheard of, to remain calm and explain how sticking with the current 60/40 portfolio mixture has been proven to work throughout many years in the market." Here's ChatGPT's response:


ChatGPT — use case 1

Dear [Client Name],

I hope this email finds you well. I wanted to take a moment to address the recent downturn in the market and the impact it may have had on your 60/40 portfolio. I understand that this may have been a cause for concern, but I would like to reassure you that this is not an unheard-of event and it's important to remain calm during these times.

It's worth noting that even portfolios with a 60/40 mixture of stocks and bonds were impacted by the recent downturn. However, it's important to remember that investing in the market always comes with some level of risk. While no one can predict the future with certainty, history has shown us that sticking with a balanced portfolio approach has been proven to work throughout many years in the market.

It's understandable to feel uneasy during times of market volatility, but it's important to avoid making hasty decisions based on short-term fluctuations. Instead, I recommend taking a long-term perspective and sticking with your current portfolio mixture. By doing so, you can benefit from the power of compounding and have a greater chance of achieving your financial goals over time.

As always, please feel free to reach out to me with any questions or concerns you may have. I am here to support you and your investment journey.

Best regards,

The first thing you'll notice, it has pleasantries in the beginning and at the end. While I didn't input a specific tone in this case. You can always add tone – whether you want to take a professional or friendly approach. You'll also notice that it mimics your question, saying this is not an unheard of event. You'll see that later on in the text as well. This is very common in chatbots and it makes sense. ChatGPT seems to understand that a 60/40 mix is stocks and bonds. Actually, it doesn't really "understand" it; it just knows there is a high correlation between 60/40 and stocks and bonds in the content it has previously digested.

Now that ChatGPT has created email content to work off, I can customize and send it to my clients. It took me about two minutes to come up with a question and input it into the chatbot. It took ChatGPT about 20 seconds to produce an answer and about one minute to drop the email into AdvisorEngine CRM and disseminate it to the clients using a 60/40 model. That is efficient and a huge time saver. Who wouldn't use something like this? You can create content for a letter or a blog post. Advisors will do this; some are even using it now.

USING CHATGPT TO GENERATE FORMULAS

Microsoft Excel or Google Sheets rank among the most commonly used wealth management tools. Excel and Google Sheets have a vast range of formulas that can help perform calculations and manipulate data.

If you've never dug deep into these programs, that is okay because now ChatGPT can explain the structure of specific formulas and how to use them. ChatGPT can also help diagnose common problems and formula errors in Excel and Google Sheets. You can ask ChatGPT to explain why you see an error message or how to fix a formatting issue.

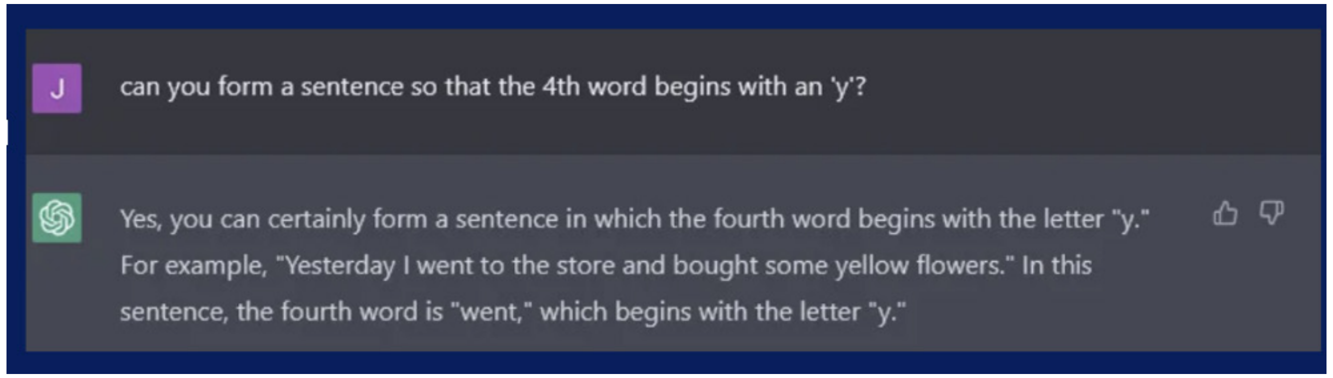
ChatGPT can explain complex functions, such as VLOOKUP, SUMIF, COUNTIF, INDEX and MATCH. It's the perfect resource to write formulas for Excel or Google Sheets, whether simple or intricate. You can ask the chatbot to write more complicated formulas and test their limits.

The accuracy of ChatGPT's results depends a lot on how clear your prompts are. For ChatGPT prompts to be effective, they need to be very specific. You should tell the chatbot precisely what you want it to do, with as much detail as possible.

ISSUES AND CONCERNS WITH AI USE

While ChatGPT and other generative AI have benefits and can be useful, there are also several issues and concerns to consider, including the potential for inaccurate information, bias and misinformation.

Here is an excellent example of a ChatGPT limitation. When "can you form a sentence so that the 4th word begins with a 'y'?" was imputed, this was ChatGPT's response:



As you can see, the chatbot provided an incorrect answer to the question. While that might not seem like such a big deal, one ChatGPT user asked what the 'elements of breach of contract under New York law' were. He also prompted the chatbot to include case citations. The problem with the results he got? Four out of the five citations were hallucinations.

It will require some fact checking and oversight if you put ChatGPT to use in your practice. Financial advisors should know the legal and regulatory issues involved in using ChatGPT for content creation and take appropriate measures to mitigate potential risks:

- **Data privacy:**
  - → Ensure the data used to train the ChatGPT language model is compliant with data privacy regulations, such as GDPR and CCPA
  - → Data should be collected with proper consent and is stored and processed securely
- **Accuracy and reliability:**
  - → Ensure that the ChatGPT-generated content is accurate and reliable
  - → Any inaccurate or misleading information can lead to legal issues and reputational damage.
- **Compliance:**
  - → Double-check that ChatGPT-generated content complies with industry regulations, such as SEC and FINRA rules, and other relevant laws and regulations and your compliance program
- **Intellectual property:**
  - → The use of ChatGPT for content creation can raise intellectual property issues, particularly if the language model is trained on copyrighted material.
  - → Advisors must have the necessary rights to use the data used to train the model
- **Liability:**
  - → Advisors may face liability if the ChatGPT-generated content causes harm or damages to clients or other parties

WHERE DO WE GO FROM HERE?

Controversy over new art-making technologies is nothing new. Many painters recoiled at the invention of the camera, which they saw as a debasement of human artistry. In the 20th century, digital editing tools and computer-assisted design programs were similarly dismissed by purists for requiring too little skill of their human collaborators.

AI is already transforming the wealth management industry – providing new tools and capabilities that will help advisors enhance the client experience. With the increasing amount of data available, AI can help advisors process and analyze information faster, identify trends and patterns, and generate personalized recommendations that consider each client's unique circumstances.

While there are challenges associated with implementing AI in wealth management, such as regulatory compliance and ethical considerations, the benefits of AI make it a powerful tool for advisors looking to stay competitive and provide the best possible service to their clients. As AI continues to evolve, we expect it to play an increasingly important role in the future of wealth management.

AI tools for Content creation

MARIE SWIFT

AS YOU CONTEMPLATE USING AI TOOLS LIKE CHATGPT FOR YOUR CONTENT CREATION NEEDS, REMEMBER TO WEIGH THE PROS AND CONS, UNDERSTAND THE POTENTIAL RISKS AND CONSIDER HOW IT FITS INTO YOUR OVERALL CONTENT STRATEGY.

On the plus side, generative AI tools can be used to create content at scale, saving financial advisors time and increasing productivity. It can create content tailored to specific audiences and can be more cost-effective than human-written content. Another plus is that it can be used to create optimized content for search engines.

One challenge for advisors, generally, is their ability to communicate consistently with their clients while personalizing the content and helping clients understand in the simplest ways possible what they are talking about – and to do all this in a scalable way.

"Tools like ChatGPT can help on all these fronts, but advisors don't understand its operation. The problem with an advisor using ChatGPT directly is that they have to understand how to structure the prompts to get the output they are looking for," says Marc Butler, the creator of Wealth Management GPT, a new AI platform that lays over ChatGPT.

My warning to any advisor is that no matter how tempting it is to copy and paste the content and use it as is, never, ever do that. AI should be used as a collaboration tool rather than replace human creativity. The pitfalls of relying too heavily on AI-generated content include plagiarism and lack of distinctiveness in writing style.

In addition, everyone I've spoken with who's more advanced than I am in using ChatGPT warns that it is prone to "hallucinations." It can sometimes produce responses that may seem nonsensical, irrelevant or 'hallucinatory' in a sense that they are not grounded in reality or the given context.

So the first rule for financial advisors should be – use AI-generated content critically and verify information. Of course, any output from ChatGPT that gets shared with clients must go through whatever compliance review processes are already in place.

Also, advisors should take care not to feed into any generative AI platform content that is confidential, proprietary or sensitive (such as client lists) as that information then becomes "training material" for the tool and could surface in different AI-generated responses. In addition, consider that it might not be possible to copyright material generated by AI.

I experimented with several generative AI tools. In addition to my continued use of Grammarly, Canva, Fireflies.AI and the Adobe Creative Suite – my team and I were already power users of these tools – I focused more on their AI possibilities.

I also experimented with ChatGPT3.5 (the free version of OpenAI's product), QwillBot and Reword (paraphrasing and anti-plagiarism tools), GPTZero (AI detection platform), DALL-E (OpenAI's free but for me, totally laughable AI art generator) and Wealth Management GPT (a new platform focused on supporting people in financial services). Through it all, I kept reminding myself to be open-minded and have fun experimenting.

"No matter how tempting it is to copy and paste the content and use it as is, never, ever do that."

For example, I needed to create a 60-second video script for a client. As a test, I prompted ChatGPT to create a compelling script for the voiceover talent, a woman with a bit of a British accent that we'd be hiring via Fiverr, to narrate some animated graphics.

I took sections of my client's website and pasted them into the "new chat" area on ChatGPT and stipulated that the script should be fast-paced and interesting to executives at financial services firms. It took less than 30 seconds to produce what I thought was a pretty good first draft. I touched it up and sent it to the client. He made a few more changes and it was good to go to the production team.

In another test, I used Wealth Management GPT to write a post for my company blog. I gave it the topic, length, intended audience, and tone of voice I wanted to see. I had a summary of a webinar that Fireflies had produced for me, so I also fed that into the system. Within a minute, I had the nascent beginnings of an excellent first draft. I repeated the test, going straight to ChatGPT this time, and returned something similar. I picked the version I liked best, fed it into Reword for suggestions, added my own spin, ran it through Grammarly, and the post was ready to publish.

Then, one busy afternoon, a reporter called asking if I'd send some comments to her regarding age and gender discrimination in the financial services industry. I asked ChatGPT to provide a list of considerations, massaged them to align with my perspective and happily met the reporter's tight deadline.

While I was in ChatGPT, it occurred to me that I needed to create a family dinner potluck list, so I asked it to provide a spreadsheet with traditional summer picnic items for a group of 30 people and to include quantities needed to feed the party.

Once the AI generated the content, I copied and pasted it into a Google Sheet, added a column for family members to signify that they'd be bringing that item and then sent the Google link to the guest list – it worked like a charm.

For the first draft of this article, I used a transcript of a webinar I participated in on this subject, which I fed into Fireflies, producing a decent summary of the one-hour session. I used Reword to source additional content and enrich the Fireflies summary. Of course, I then spent a fair amount of time making this article my own, adding my voice and insights – something that AI cannot (at least not at this time) do.

Of course, we can all probably agree that what people call 'good writing' is good thinking and that 'good design' is highly subjective – and I should note that in the tests above, I did not simply copy/paste/use and call it a day.

As I've continued my experiments, it's clear a human touch is always needed. Nuance and discernment are at the heart of every good communication, no matter what form it takes – written, spoken, or visual.

AI & Compliance: Where to begin

BETH HADDOCK

ARTIFICIAL INTELLIGENCE ADOPTION IS QUICKLY GAINING MOMENTUM. WE'RE NOW WITNESSING A TRANSFORMATIVE CHANGE – WITH APPLICATION IN THE TECHNOLOGY, SCIENCE AND FINANCE SECTORS.

Unlike previous finance innovations, whether digital advice, robo advisors or any of the different investment products popular today, AI is unique. Legislators on Capitol Hill and the private sector are attempting to design guardrails early. Government agencies and regulators are trying to be proactive by incentivizing responsible use of AI. We have also seen interesting leadership from tech titans advocating for AI guardrails and voluntary use standards before regulatory standards are clear.

There are many challenges in using AI – fabricated 'hallucinations,' or bad data or bias, for instance. Advisors should understand and address challenges because they will face these when choosing to use AI either internally to enhance the productivity of their practice or externally to augment a client relationship. Advisors should also prepare for AI to be a people management issue in either use case. In short, if a firm doesn't address the issue proactively, it accepts the risk that employees may use AI tools in client interactions without their knowledge.

Ultimately, setting an AI use standard is good business practice. This way, advisors know whether the team and vendors are using AI tools, and if they are, advisors can understand and agree its use is appropriate for the firm and its clients. A well-informed firm can avoid issues where clients might somehow be harmed because the use of AI wasn't vetted, understood or appropriately disclosed and managed.

Even at this early stage, the comments by Securities and Exchange Commission Chair Gary Gensler should interest any firm, including its compliance professional. Chair Gensler's public comments frame the risk that must be covered before AI use is adopted at a firm: Advisors should thoroughly conduct due diligence and be confident AI use doesn't compromise their duty of care and loyalty to clients.

HERE ARE THE SEVEN CONCERNS THE SEC AND OTHER REGULATORS HAVE FOCUSED ON AND IT IS RECOMMENDED ADVISORS DO THE SAME BEFORE CONSIDERING ANY USE.

1. Bias

This concern is focused on AI use where advisors across the industry adopt the technology without understanding inherent bias in a tool and its use ends up being unfair toward certain clients. This could lead to a statistically significant bias that will inadvertently begin to creep up in large patterns in the industry, either because the coding or the data somehow is skewed towards the majority, and it doesn't necessarily take into account all of the different data elements in a fair and balanced way.

2. Too simplistic

This concern relates to the early adoption of new AI tools before they are mature enough to be used in our industry. Arguably, this is the first generation of widespread adoption of AI tools for wealth management. Suppose an advisor uses AI forecasting technology based on simple assumptions. In that case, the advisor is at risk of relying on predictions that aren't reasonable because they are not supported with all the sophisticated components needed to provide financial projections to clients while meeting the high standard of fiduciary duty of care. The concern is that many new so-called AI tools haven't incorporated the complexity an advisory business needs.

3. Conflicts

Intentional, hidden or undisclosed conflicts of interest are another concern. The need to avoid and mitigate conflicts of interest should be a familiar concern, particularly if one reviews guidance and rule proposals from the SEC this year. Before adopting any new AI tool, a firm should ask whether adoption 'Is in the firm's best interest, or is it in the client's best interest?' Advisors must show they're balancing that fulcrum with a focus on serving clients and meeting the fiduciary duty of loyalty to clients.

4. Narrowcasting

Narrowcasting is also a concern for using AI in an advisor's practice. This is a newer term related to conflicts. Chair Gensler described it in a recent speech, "communications, product offerings, and pricing can be narrowly targeted efficiently to each of us; producers are more able to find each individual's maximum willingness to pay a price or purchase a product. With such narrowcasting, there is a greater chance to shift consumer welfare to producers. If the optimization function in the AI system is considering the interest of the platform as well as the interest of the customer, this can lead to conflicts of interest."

If a large group is heading toward one path, one product or a certain pricing, trends will emerge that don't necessarily meet the best interest of each client. For example, what if a response to an AI-enabled optimization tool is that an advisor should consistently recommend private funds to clients without consideration of alternatives such as ETFs, mutual funds or fixed income? There will be a narrow focus on recommending private funds across the industry or firm(s) using the same AI, which can be an inappropriate product for certain clients, such as those with shorter time horizons, lower risk tolerance or eligibility for investing in private funds.

5. Deception

This is the concern that AI will be used to deceive vulnerable investors, make it easier to deceive more of the investing public and facilitate more rapid spread of false rumors that harm the integrity of our capital markets.

6. Privacy & IP Ownership Issues

The sixth concern is about the unfair use of clients' and firms' data and intellectual property. How do advisors make sure that client and firm data is protected? Remember to read the AI user agreement before implementing any new technology. That agreement will disclose how data will be protected or not. As a general rule, Advisors should not use confidential, proprietary or personal data in any AI prompts. Advisors should assume any data disclosed in a prompt will be in the public domain.

7. Financial Stability Risk

The SEC is also worried about herding decision-making that will increase the fragility of the financial system, particularly in times of stress or disruption. If investment decisions are made by many using a popular AI tool, getting the same signal from a base model or data aggregator, it could exacerbate the inherent network interconnectedness of the global financial system. Regulators appear worried that without careful planning and guardrails, AI use could lead to the next financial crisis. They fear advisors will use AI tools and base their decision-making on the output instead of their individual due diligence.

If your firm is considering using AI tools, due diligence should be a priority – you should have written due diligence. It could be a simple statement in your compliance protocol, in an all-employee meeting or in an email stating you need to have pre-approval before you select a vendor or use a tool because advisors don't want something to go to clients and then find out after the fact that AI was used and somehow there's a mistake that must be addressed.

If your firm decides to use these tools, then ensure there are supervisory procedures. Update your operating procedures, compliance manual and disclosure documents for that process. It may be prudent to pilot or limit an AI tool's use, perhaps in a testing environment or internally, only to boost productivity. If you use a third party's AI tools, ensure thorough due diligence is completed and documented so it is ready for review by examiners.

There are many unanswered questions about AI use. Advisors should consider discussing the topic now, even while questions remain. At least discuss it at a management meeting to help the firm decide what makes the most sense for employee use of AI and due diligence requirements. If a firm already has a vendor risk management protocol, the use of AI might not be as heavy of a lift. Advisors can require AI technology to go through that process before first use.

We all work in a heavily regulated industry. And now, we need to address an entirely new innovation. As with adopting any business practice, it needs to be aligned with your fiduciary duty and well-documented with policies, procedures and training. If you ask questions about the above seven concerns and discuss business preferences at a management meeting, you're starting with a good foundational framework.

Do's

Fiduciary: As a fiduciary, ask if the AI you're using is aligned with duty of care and loyalty. Design and test tools so fiduciary obligations are nudges, too. During vendor due diligence or product design, ask questions about incentives.

Conflicts avoidance: Product design and use should be tested to minimize or eliminate conflicts as required.

Transparency: Explain assumptions, attributes and gaps in any AI tool.

Methodology disclosure: Describe how you define AI and how you use tools in the same manner you would for algorithms or planning tools for projections.

Bake controls into your compliance and governance program: The SEC's proposed rules would require investment firms to identify any potential conflicts of interest emerging from their use of AI and then eliminate them. (The SEC's terminology is predictive data analytics and similar technologies.) The regulator would require firms to have written policies, procedures and record-keeping to prevent violations.

Avoid herding/systemic risk: When considering vendors, avoid sole reliance on AI tools and consider the new systemic risk. It is believed AI can promote "herding" among investors who gather information from the same data and pile into trades that destabilize the market. You don't just rely on a ratings agency to make investment decisions – you shouldn't solely rely on AI to support an investment decision.

Prioritize consumer protection: For consumer use – adhere to complaint reporting, privacy, advertising and other consumer protection laws so the product fits the targeted audience. Make sure disclaimers clearly explain the downside of the accuracy or reliability of outputs.

Don'ts

Activity incentives:: There are concerns about the tactics investment platforms deploy to make the trading experience feel more gamelike (just like unsuitable day trading).

Inappropriate investment promotions: Sales tactics based on volumes without attention to conflicts of interest or unsuitable recommendations based on risk tolerance are not permitted, whether performance-based for sales contests or AI nudges.

Market or price manipulation: Recall the meme-stock frenzy of GameStop and price manipulation that came under SEC enforcement. Pumping and dumping, insider trading, frontrunning and market manipulation with or without AI are illegal.

Skimp on due diligence: Don't create risk with weak due diligence or an overreliance on AI tools without audits and contingency planning for errors.

Violate FTC expectations for consumer protection: ChatGPT/Open AI is being investigated. A good reminder not to put protected or other personal data into tools without understanding data security and protection. Be prepared to address any complaints about inaccurate, disparaging or harmful data/use of data or use of AI. Review and update your privacy notice and policies as needed.

+ RESOURCES:

→ Gensler speech: [https://www.sec.gov/news/speech/gensler-isaac-newton-ai-remarks-07-17-2023]

→ SEC Rule Proposal: [https://www.sec.gov/news/press-release/2023-140]

→ FTC competitive concerns: [https://www.ftc.gov/policy/advocacy-research/tech-at-ftc/2023/06/generative-ai-raises-competition-concerns]

→ FTC investigation of Chat GPT: [https://www.washingtonpost.com/documents/67a7081c-c770-4f05-a39e-9d02117e50e8.pdf?itid=lk_inline_manual_4]

→ FTC enforcement case: [https://www.ftc.gov/news-events/news/press-releases/2023/08/ftc-action-stops-business-opportunity-scheme-promised-its-ai-boosted-tools-would-power-high-earnings]

→ Massachusetts investigation: [https://cointelegraph.com/news/massachusetts-launches-probe-into-ai-in-securities-industry}

→ Biden Voluntary commitments: [https://www.whitehouse.gov/briefing-room/statements-releases/2023/07/21/fact-sheet-biden-harris-administration-secures-voluntary-commitments-from-leading-artificial-intelligence-companies-to-manage-the-risks-posed-by-ai/}

→ Microsoft Copilot Copyright Commitment: [https://blogs.microsoft.com/on-the-issues/2023/09/07/copilot-copyright-commitment-ai-legal-concerns/}

Helen Yang: ChatGPT is a wake-up call for financial advisors

NEXT GEN CLIENTS WANT FINANCIAL ADVICE, BUT ARE LESS CONCERNED ABOUT THE SOURCE: ACCORDING TO A STUDY BY ACCENTURE, “YOUNGER INVESTORS ARE AT LEAST TWICE AS LIKELY AS OLDER INVESTORS TO TRUST FINANCIAL ADVICE GENERATED BY AN ALGORITHM MORE THAN ADVICE PROVIDED BY A HUMAN ADVISOR.”

SULEMAN DIN

As client attitudes shift, advisors must emphasize meaningful human connections and building trust. One key to this approach lies in the power of personalized service.

With AI capabilities rapidly expanding, the industry needs to rethink the definition of personalized service, says Andes Wealth Technologies CEO Helen Yang.

Helen Yang
CEO of Andes Wealth

People have talked for years about delivering personalized services. But that’s not remembering people's birthdays and their pet names. Those are things that friends do for each other for free.

How do you provide personalized services that are truly meaningful? Let me put it this way – the launch of ChatGPT is a final wake-up call that traditional cookie-cutter service is not going to cut it anymore. The challenge is, what does truly personalized service look like? And how do you deliver that? That is the biggest challenge facing the industry.

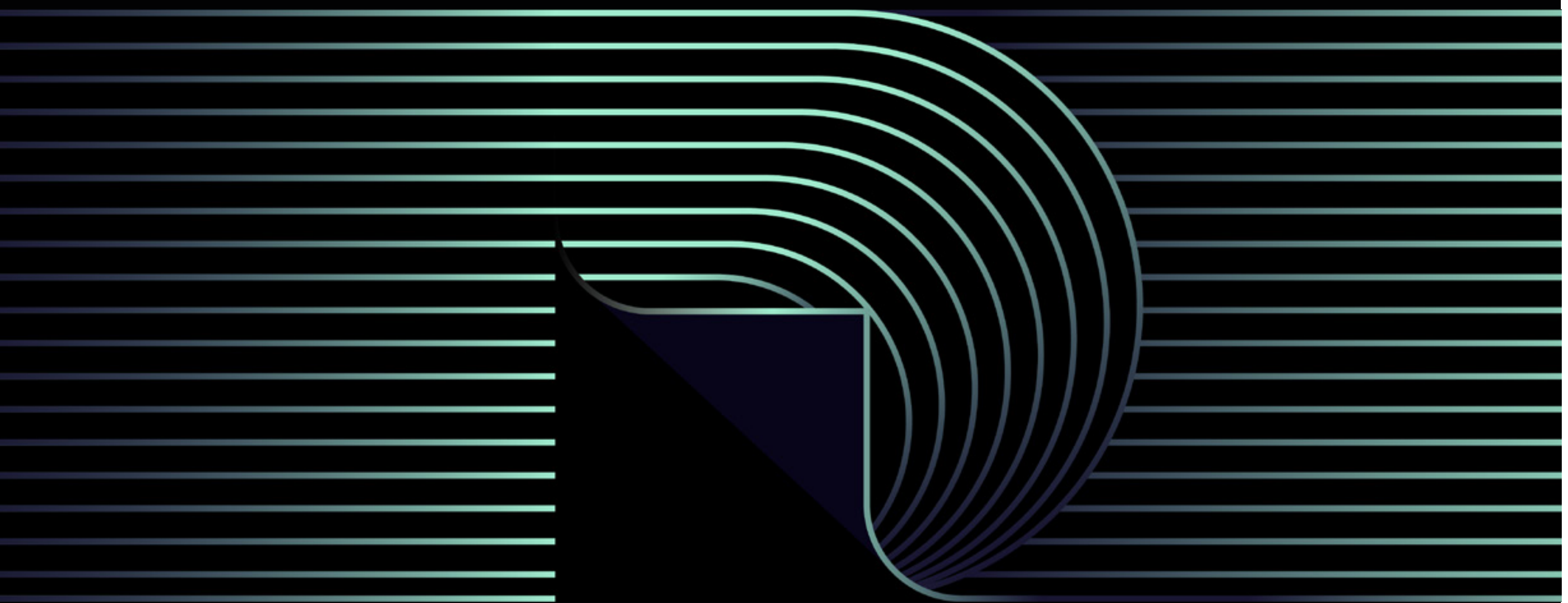
Behavioral finance has been key in developing personalized services, but that's not enough. If you think about using behavioral finance, the core methodology itself needs to be customizable. Only then can we infuse it with behavioral finance insights so that a personalized client approach is delivered to the advisor.

People ask, 'Is that going to take a lot more effort?' My answer is, if you have the right technology, it's going to be systematic, it's going to be structured and it's going to be semi-automated. You're just going to cruise at a much higher level.

If you think about the client journey, it starts out with a risk tolerance assessment, then the proposal and then the investment policy statement. How can you personalize that process?

For example, for a risk tolerance test – if you use model sets, etcetera – how do you provide a way to use your own model sets to power their risk tolerance, so that it's going to be a meaningful choice for your clients? When they select a choice, it's going to match one of your models. That is the first way to start personalizing. Also, how do you generate meaningful investment policy statements that are deeply personalized in an automated way?

That would be a good start to establish a client relationship.



CHARLES PAIKERT

Digital marketing for financial advisors

It's time to move digital marketing to the front of the line of your advisory business.

"It costs money, it's a real commitment, but I couldn't afford not to do it anymore," says Brett Bernstein, CEO of XML Financial Group.

Digital marketing is "personalization at scale," says Cerity Partners chief digital officer David Newson. "It's the primary pillar of our growth strategy." Cerity, like many high-growth firms, now devotes one-third of its marketing budget to digital, a number Newson expects to keep rising. Allworth Financial's digital budget has jumped from 40% pre-pandemic to approximately 75% this year.

"Our ultimate goal is to drive organic growth," says Brad Boekestein, Allworth's executive vice president of marketing. "Digital marketing is highly effective because it eliminates waste, targets more efficiently and is highly traceable."

All marketing strategies strive to familiarize clients with the company, let them know what it does and can do for them, generate interest and convert prospects into clients.

> "IF YOU CREATE GOOD CONTENT, THE SEARCH ENGINES WILL FIND YOU."
>
> - **Tim Welsh,**
> CEO, Nexus Strategy

Because digital marketing allows firms to focus on particular audiences more precisely than traditional marketing, advisors must first identify the target market they want to reach.

"Digital marketing amplifies and accelerates your brand message beyond the people you already know," says marketing consultant April Rudin. "Be where the target market is."

To reach that market, digital marketers employ a wide variety of lead generation tools, including search engine optimization (SEO); paid search (ads in search engines); paid social (ads on social media); ads on digital streaming services; retargeting (ads that follow clients as they go to different sites) and email campaigns.

No matter the tool, you must continually test its efficiency. Digital marketers rely on A/B testing, which compares two versions of a marketing asset to determine which performs better, measured by metrics such as engagement, open rate and conversions. (Make sure your practices match your privacy policy before launching new tactics with any third party.)

For example, two sets of users, assigned randomly when they visit your website, are shown different versions of an ad or content where the only thing different is the keyword or call to action prompting the user to click through. Which version was most effective?

"If you're not doing A/B testing, you're doing something wrong," says Cerity's Newson. "It's all about testing, learning and refining."

After you've defined your target market, how do you find it?

Some marketers use "look-alike modeling," which uses data analysis to identify key characteristics of people that match your target audience. You can also find cohorts that already exist on social media sites.

Buying lists of prospects from third-party vendors is controversial.

Some marketers find such lists ineffective, while others find them useful. "It takes a lot to warm up a cold lead," says Elizabeth Reider, director of marketing at Indigo Marketing Agency.

Mercer Advisors' experience with buying lists has resulted in "low open and engagement rates," says chief marketing officer Gary Foodim. Allworth, however, has found success, provided that the RIA's internal sales team responds quickly to inquiries, according to Boekestein.

Once a digital prospect shows interest, it's critical to ensure they're engaged, which is why marketers say an advisory firm's website – and the page the prospect lands on – is so important.

"All roads lead back to the website," says Angela Giombetti, head of marketing for Wealthspire Advisors. "It's the anchor of your digital marketing strategy and where you get the biggest bang for the buck. The website has to be clean, constantly refreshed and easy to navigate."

The prospect who clicks through to your website shouldn't end up on your homepage but be given a customized experience, according to Newson. "They should be rewarded for clicking through and providing some knowledge that they didn't know before and that they can act on without talking to somebody," he explains. "You want your site to invite them to go deeper into your ecosystem."

Advisory firms need to post more videos to boost engagement, says Indigo's Reider. "Video is outperforming written content and is more engaging," she says. "Advisors should start pivoting now."

Original content creation has also become imperative for digital marketing. Allworth has 21 staffers working full-time on content, according to Boekestein. Engaging, creative content will improve your firm's search engine optimization and establish your firm's expertise, attracting more prospects.

Be sure your content answers prospects' most frequently asked financial questions, tells a story and doesn't just regurgitate facts, creates a sense of community and continually builds your firm's brand.

Embarking on a digital marketing strategy may seem overwhelming, but you don't have to "boil the ocean," as Foodim puts it. Even smaller firms with a limited budget can leverage available resources, says industry consultant Tim Welsh, CEO of Nexus Strategy.

"Smaller firms used to be limited to their local market, but since the pandemic and the widespread adoption of Zoom, that's not true anymore," Welsh says. "Your clients can be anywhere. Digital ads on

Twitter are cheap and local search ads are also affordable. And if you create good content, the search engines will find you."

After hiring a marketing director, XML began outsourcing content creation to firms and began using CRM software to track and automate digital campaigns. Bernstein says firms need to "make sure they know what sandbox they're playing in" before launching a digital campaign.

Above all, marketers caution firms to be patient.

"Don't give up too early," says Boekestein. "You're not selling a product; you're selling a lifetime relationship, so there's a huge trust hurdle. It's not going to come quickly. The first six months will be a loss, so commit for at least a year."

CASE STUDIES

Allworth Financial

Brad Boekestein
Allworth Financial

Clients "who will pay for financial advice" are the holy grail of Allworth's digital marketing campaign, says Brad Boekestein, EVP of marketing. While traditional marketing in a medium like AM radio can reach a broad audience, 70% will never pay for financial advice, he notes. The difference between traditional marketing and digital marketing is similar to the difference between a scattershot approach and one that is highly targeted, according to Boekestein. "With digital, you can use the data to boil down the best fit for the client you're looking for," he says. "You want to connect the right client with the right message in the right place." Netflix, for example, offers advertisers "a ton of data" describing their subscribers. Allworth also places digital ads on what Boekestein calls "connected audio" – streaming platforms such as Spotify, Pandora and iHeartRadio. The firm also uses YouTube TV to target specific client segments. Perhaps surprisingly, Boekestein isn't a big fan of paid search ads. Paying for keywords is "very competitive" and not necessarily efficient, he says. A typical Allworth campaign targets three distinct segments or "personas:" the fiscally conservative and risk-averse; those who are financially sophisticated and want to be impressed and those who have saved but can't afford to make a mistake and are therefore "complete delegators," Boekestein explains. Digital marketing allows Allworth to create very distinct messages for each persona. And digital's ability to track views, clicks and conversion rates gives Allworth a bottom-line efficiency metric. Every dollar spent "has to produce a certain amount of AUM," Boekestein says.

Cerity Partners

David Newson
Cerity Partners Group

Cerity's chief digital officer David Newson says the pandemic kicked digital marketing into high gear. "Client behavior changed," Newson says. "Groups like Baby Boomers who hadn't used digital tools previously became comfortable with them." Last fall Cerity launched a new digital campaign with a new website and abetted by marketing automation tools. Digital marketing is "critical" for the RIA's growth strategy, says CEO Kurt Miscinski. Cerity targets high-net-worth and ultra-high-net-worth clients who are "active wealth creators and need and appreciate the value of sophisticated financial advice," says Newson. Digital marketing can help firms create a feedback loop to hear the prospective client, says Newson, who describes himself as a behaviorist, focusing on "how humans make decisions." Cerity uses various digital media, including paid search and paid social. Newson likes Google Search's ability to contextualize and personalize ads. He's also a fan of creative social media accounts such as MrsDowJones, the "Zillenial finance expert" on Instagram. Viewers who click on a Cerity link aren't sent to the firm's homepage but to a landing page that provides a "customized experience," Newson says. Once there, the marketing team can review all the analytics on the prospect's behavior, including where they go and how much time they spend. Information is designed to discover the prospect's intent, which helps Newson's team refine the message that will be conveyed. "We want to move them to the point where they cross the chasm from anonymity to known, without violating their privacy, so we can work together to solve their financial problems," Newson says.

Mercer Advisors

Gary Foodim
Mercer Advisors

Mercer recently refreshed its brand with a "digital direct to consumer" campaign to reinforce the firm's message that it "helps people understand what their money is for," says chief marketing officer Gary Foodim. The campaign uses the funnel approach that starts with brand awareness, hopefully leading to consideration and ideally ending with a client conversion. Paid search, paid social, streaming platforms, and retargeting drive traffic. Mercer's digital approach is based on "persona-based marketing," according to Foodim, who earlier in his career was vice president for consumer marketing for Conde Nast. The RIA identifies various personas of target clients, such as college professors who work in the Pacific Northwest. The marketing team then crafts content based on the firm's expertise. The firm creates ads for the personas designed to prompt the prospect to click through to a landing page with content unique to their concerns. Mercer uses a data-driven, quantitative approach that measures a slew of metrics, including impressions, clicks, conversions and cost of acquisition. "Adjustments are made based on data," Foodim says. A/B testing, he explains, is particularly valuable. "You can't be successful without it," he says.

"Digital marketing amplifies and accelerates your brand message beyond the people you already know."

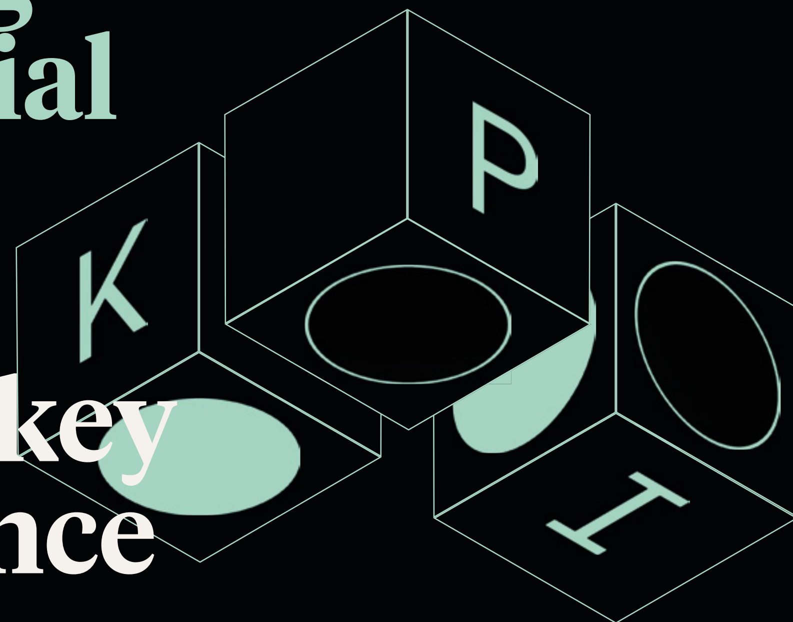
- April Rudin
Founder and CEO, The Rudin Group

Wealthspire Advisors

Angela Giombetti
Wealthspire Advisors

Wealthspire's advisors are the focus of the RIA's digital marketing strategy, says marketing chief Angela Giombetti. "We have an advisor brand program," Giombetti says. "People connect with an individual advisor, not with a firm." Wealthspire helps craft each advisor's LinkedIn page and website biography helps create content that matches the advisor's specialty. For example, one of Wealthspire's female advisors works with divorced women and concentrates on expanding her center of influence network. She joined the Forbes Council and contributed content as an expert in the field to her digital footprint online. She also raised her online profile by posting videos on social media, starting a podcast and publishing an e-book. "We let the advisor choose the content," Giombetti says. "That way, it's personal and shareable and doesn't appear automated." Digital ads on local search engines "don't have to break the bank" and can be highly effective paired with Google's My Business feature, she adds. Wealthspire wants advisors to optimize LinkedIn, but more as a "validation tool," Giombetti says, rather than a lead generator. Digital marketing can seem overwhelming, but advisors should get started by taking "manageable steps," she says. "Go for small wins, assess carefully and then make adjustments."

Marketing for financial advisors: Business goals and key performance indicators



MEGHAN RICHTER

Every marketing plan starts with establishing the business goals that will form the foundation of your entire strategy. Consistently referring back to these goals will help you drive and measure success throughout the process and understand if, when and where you may need to shift your areas of focus.

Establishing clear objectives and metrics for success will pave the way for a purposeful marketing plan that propels your practice to new heights in today's competitive financial landscape.

Examples of marketing goals:

- Add 25 new clients
- Generate $500K in new recurring revenue
- Increase brand awareness
- Keep operational marketing costs under $100K annually
- Reduce sales cycle length by 25%

The key to establishing your goals is being realistic about your timeline and the resources available to you and being aware of past performance.

If your goal is to add 25 new clients this year, start by looking back at the number of clients you added last year. Where did that new business come from? How much effort did you and your team require to win those clients? Is that effort scalable to 25 without interrupting service to current clients or significantly impacting firm operations?

While your goals should be as specific and measurable as possible, some marketing initiatives, such as increasing brand awareness, can't be precisely quantified. That doesn't mean they aren't just as important as the others, but you might have to look for more qualitative signals that your marketing is working.

KEY PERFORMANCE INDICATORS

Understanding how you'll measure your progress toward your goals is critical – this is where setting your key performance indicators, or KPIs, comes into play. KPIs are individual metrics that measure the various elements of a marketing plan. Each KPI maps to a specific goal, and each goal may have multiple KPIs. Depending on your goals, you can leverage leading or lagging indicators to understand performance and drive strategy better.

Leading indicators predict future performance, including website traffic, social media engagement, and email open rates. These metrics help you identify and capitalize on things that are working or surface areas that need adjustment.

Lagging indicators measure past performance, including sales, revenue, and customer retention. They can help you identify the effectiveness of past marketing initiatives and provide insights you can leverage when building new plans.

As you think through your business goals and the key metrics, ensure you aren't doing so in a silo. Your team, your year-over-year performance and even feedback from your current clients can help guide the focus of your marketing plan.

SET A PATH TO GROWTH WITH SOME CLEAR GOALS IN MIND

Here is a case study of success: One financial advisory firm sought the expertise of a marketing agency to revamp its digital presence and implement a robust lead-generation strategy. The firm aimed to capture its unique value propositions, effectively communicate with its target audiences and attract high-net-worth investors.

The agency began by delving into the advisory firm's client pain points, aspirations, and motivations. Next, messaging was created to engage and connect the firm with clients. This included redesigning their visual identity, overhauling the website to enhance user experience, aligning with the new messaging, and effectively showcasing the advisor's expertise and offerings. The advisor's social media profiles were revamped to ensure consistency across all digital channels. Immediate results included over a 100% lift in social media engagement, impressions and website traffic, increasing by 22%.

With a messaging and brand foundation in place, the team shifted focus to developing a lead-generation strategy via paid ads. Utilizing customized content offers, such as ebooks, whitepapers and webinars, compelling ad campaigns were crafted to capture the attention of the desired audience of high-net-worth individuals.

The lead generation strategy utilizing paid ads generated a steady influx of high-quality leads. Within six months, 60% of new leads came from paid media. Those prospects were served a series of email nurture campaigns strategically crafted to guide them through the sales funnel, gradually building trust and positioning the financial advisor as a knowledgeable resource.

KPI EXERCISE

Marketing goals

1.

2.

3.

Key performance indicators

Goal One:

→ KPI

→ KPI

Goal Two:

→ KPI

→ KPI

Goal Three:

→ KPI

→ KPI

Challenges and opportunities in wealth management

RICH CANCRO

AARON KLEIN

The wealth management industry isn't sitting still for any firm.

Advisors are juggling several rapid developments impacting their businesses, including shifting client demands and demographics, the advent of new technologies, and a challenging economic environment, just to name a few.

How can firms find a thread to focus on within all these areas of change?

Nitrogen CEO Aaron Klein and AdvisorEngine™ CEO Rich Cancro say that implementing changes now to support sustainable growth is key.

In this executive fireside, Klein and Cancro provide perspectives on where the opportunities for wealth management firms lie to help them boost organic growth, invest resources, attract talent and serve the next generation of clients – as well as making the best use of Generative AI.

Rich, organic growth is the focus of much industry discussion lately. What's striking you as the biggest challenge facing advisors who want to boost their organic growth?

CANCRO: Advisory firms have traditionally grown through referrals, but now in addition to that they need to invest in technology and marketing. Firms that aren't doing that are going to find it even more difficult to compete against firms that can provide high quality service in real-time and deliver experiences at scale that are personalized and pain-free. And the firms that are savvier with marketing are going to ultimately get in front of more prospects first, which will give them the opportunity to claim that new business first too.

Aaron, the Nitrogen Firm Growth Survey was packed with insights, and I wanted to go deeper with you here. First, from what your team learned, where are firms who are experiencing the best organic growth investing their resources right now?

KLEIN: They're investing in technology to drive automation and be more efficient, and then they invest every dime of those savings into driving their growth flywheel — whether that is investing in creating a consistent growth process across the firm, or more content, more marketing, more events. And they are

"I would first tell a firm to take stock: Are you providing the experience your clients want, your advisors want, and is it an experience that can scale? I think about the ABCs of experience – AX, BX and CX – the advisor, business operations and the client."

- Rich Cancro
CEO, AdvisorEngine

AdvisorEngine surveyed RIAs about their practices and identified their top three goals: operational excellence, client satisfaction and revenue growth. How do you prioritize?

CANCRO: What links these priorities together is the need to deliver a great experience. So I would first tell a firm to take stock: Are you providing the experience your clients want, your advisors want, and is it an experience that can scale? I think about the ABCs of experience – AX, BX and CX – the advisor, business operations and the client. If you aren't examining these three critical elements of your practice and making sure each experience is optimal and connected to one another, you're not going to achieve the growth you desire.

The Nitrogen survey also noted 31% of hyper-growth firms spend 11+ hours a week growing their firm. Aaron, how did your team define "growing a firm" and how did these firms make the time?

KLEIN: It's striking how the firms who invest time and money in those growth activities are the ones actually driving the growth. That's logical and intuitive, but it's also striking just how true it is that time is money for these firms. Again, it's a cycle — invest in technology to drive better automation and reduce time spent on low-value tasks, and you free up time to build that consistent growth process, to drive more events, to turn more leads into meetings, and to do more meetings. It matters.

There's also fierce competition among advisory firms to get the right talent. How is this tied to the growth trends you've noted, Rich?

CANCRO: It's deeply tied to those trends. Just like you're not going to attract the next generation of clients with old technology, you're not going to attract the next generation of talent with outdated tech either. You have to provide great experiences for your staff too. A modern, well-planned technology stack not only supports firm growth, it attracts both advisors and staff who appreciate the investment in their experience. It gives advisory firms tools that make it easier to focus on serving their clients better. It tells me that your firm is positioning itself for the next decade and beyond, and I can build a future with your team.

Thinking about the survey findings and your own observations of clients, Aaron, what are hyper-growth firms doing to attract and retain talent? And – do you see the definition of "top talent" in wealth management changing?

KLEIN: Wealth management firms have the same challenges as every business in attracting talent. I think it's so critical for firms to be invested early in trying to cultivate and recruit talent. Go to the schools where kids picked psychology or business or finance degrees but don't really know what they want to do. Educate these young women and men about the incredible careers in financial advice and planning. Offer them internships to come observe what you do and learn. It's a fairly easy way to find your next full-time employee who can power your firm to the next level.

Another big industry trend we've all been talking about for a while is the generational transfer of wealth. What adjustments do firms need to do to serve these new generations of clients? What shouldn't change?

CANCRO: A great service culture makes a client feel valued, whether they have been with the firm for decades or are brand new. And so on one hand, a firm must offer a digital experience that younger clients at this point expect. But at the same time, the human heart of a fiduciary advisor is what matters most to clients, and the challenge is to bring that same level of care and attention to detail into a digital setting, and make it scalable. The next generation of investors may have their own unique financial challenges, but they still want to feel the care and security an advisor can give them.

In your mind, Aaron, what makes a firm prepared for the generational wealth transfer?

KLEIN: They've got to be talking about it, and they have to have a very specific value proposition for the second generation. If you are not finding a way to offer some services to Gen 2 as a part of your engagement with Gen 1, you are missing the boat. That's a loss leader that ensures you will be a part of that generational wealth transfer, instead of the money getting transferred into Wealthfront, or even worse, Gamestop.

Rich, you've also spoken about the need for advisory firms to get their underlying tech stack right. Can you explain why that's so important?

CANCRO: If you don't have the right underlying technology and connectivity, your processes aren't going to work well, and that's going to ultimately generate frustration for the advisor, business operations and their clients. That's why I place so much importance on getting the data and connectivity pieces right. Your data has to be clean, broad, accessible, unified and actionable. And your firm has to be fully connected, using an open architecture platform mentality – when your workflows are aligned, there's very few barriers to the flow of information.

This observation also came up in the Nitrogen survey, Aaron: How are hyper-growth firms getting the most out of their tech stacks compared to slower-growth firms?

KLEIN: It's very clear — they care about best of breed. They look at the all-in-one platforms that bundle in for free the second-rate products they've acquired, and they ascribe the same value to those "free" features that the all-in-one platforms do: zero. If you're trying to run a second-rate firm, use second-rate technology. If you're trying to create a first-tier outcome for your wealth management business, you need to invest to grow. Nobody ever cost-optimized their way to greatness.

Of course I have to ask you both for your takes on Generative AI and wealth management. Rich, does this tech truly pose a disruptive trend as some suggest, or is it more hype than reality?

CANCRO: There's tremendous opportunities for the entire wealth management industry with Generative AI. The overall development of this technology is still in its early stages, but I'm excited about how this can help advisors grow their businesses and scale their client service. What advisors should be thinking about right now is, what sort of tech stack do I have in place today? Am I positioned to take advantage of these new tools? We've already gone through several periods of hyperchange in the last few years, and bringing AI into wealth management practice is the next phase.

Aaron, there's been no shortage of attention to GAI and new tools are being created everyday. How do you see this technology ultimately affecting client demands on advisors? Especially as it puts more power in the hands of everyday investors?

KLEIN: Generative AI is going to be one of the mos powerful forces for good in financial advice that we've ever seen. It's going to be the financial advisor's best friend. I'm going deep on this in the keynote at Fearless, and I can't wait to talk about it. We have an incredibly exciting and exhilarating future ahead as financial advisors and wealth management firms.

"Generative AI is going to be one of the most powerful forces for good in financial advice that we've ever seen. It's going to be the financial advisor's best friend. We have an incredibly exciting and exhilarating future ahead as financial advisors and wealth management firms."

- Aaron Klein
CEO, Nitrogen

ANNUAL PLANNING FOR YOUR BUSINESS IS TOUGH – BUT WORTH IT

CRAIG RAMSEY

I RECENTLY LED A WORKSHOP FOR 40 WEALTH MANAGEMENT LEADERS ON HOW TO BUILD A 2024 PLAN THAT DRIVES RESULTS. HERE IS WHAT WE COVERED – AND HOW IT CAN HELP YOUR ORGANIZATION.

You do an excellent job planning for your clients' financial futures. But are you doing the same with your own business? Many advisory firms are not.

The impact is major. Even the most highly motivated and talented teams fall short of their potential when they neglect to invest sufficient time in thinking ahead and building an actionable plan. I have been there myself, and it is painful.

Here is the good news: you do not need a perfect plan. You just need to get started. At the highest level, there are three steps to delivering a plan that drives results.

TAKE STOCK. Find time to reflect on where you are today.

BUILD A PLAN. Document where you want to go, and how you will get there.

EXECUTE. Stay committed to tracking your results, so that you can learn and adjust along the way.

As you begin taking stock, I recommend that you conduct a basic internal survey of your management team. Ask people 10 to 20 questions about the current state of your business. Keep it as simple as possible. *(For example: Where are we performing well? Where can we execute better? What do we need to start doing / stop doing / do more of / do less of / do differently? If we cut resources in half, what would you cut? If we doubled resources, what would you spend the budget on?)*

In my experience, this exercise always surfaces some interesting areas to explore together. As you analyze the results, consider: where is my team fully aligned, versus where might we have some distance between leaders? Take the important findings and use them to inform your agenda for a management planning offsite.

Some people use the phrase 'offsite' loosely – and conduct planning meetings at their office. My strong preference is to truly get away from the office and use a no-device policy, as it frees up people's minds to pursue the rigorous reflection needed for an effective planning session.

Another key step in taking stock is reviewing your data to understand the current trajectory of your business. If you are already using a tool like AdvisorEngine dashboards, this process will be relatively easy. But if not, no worries. Pull it manually. It will take work, but the ultimate payoff of business clarity is a big one. If you don't know where you stand, it is difficult to lay out a credible path forward for your organization.

In the pages that follow, I share some inspiration on why you should plan, common issues that derail wealth management teams in their planning process and then – most importantly – downloadable editable templates that you can use to kickstart a 2024 plan of your own.

READ ON FOR MORE >>>

WHY PLAN?

ANNUAL PLANNING IS TOUGH –
BUT WORTH IT

“Plans are of little importance, but planning is essential.”

WINSTON CHURCHILL

“By failing to prepare, you are preparing to fail.”

BENJAMIN FRANKLIN

“Everyone has a plan until they get hit in the mouth.”

MIKE TYSON

“A good plan violently executed now is better than a perfect plan executed next week.”

GEORGE S. PATTON

“Most people overestimate what they can do in one year ...and underestimate what they can do in ten years.”

BILL GATES

10 common challenges in building a plan that delivers results

IN MY EXPERIENCE LEADING STRATEGIC PLANNING EXERCISES, I HAVE SEEN TEN COMMON CHALLENGES THAT DERAIL TEAMS. BY LEADING YOUR TEAM IN A DELIBERATE MANNER, YOU CAN MITIGATE THESE ISSUES.

01

TIME CRUNCH

"We didn't dedicate enough time to do the planning up front."

02

BAD DATA

"It's not easy to get the info I want… and once I find it, I don't know if I can trust it."

03

UNNECESSARY COMPLEXITY

"Our team is smart. Sometimes we overcomplicate things!"

04

UNPRODUCTIVE ENGAGEMENT

"Our offsite was a waste of time. We did not align on key action items."

05

CONSENSUS-BUILDING GAPS

"I didn't spend enough time getting buy-in from my management team."

06

UNREALISTIC GOALS

"Midway through the year, our team checked out. Our revenue egoal seemed so far away."

07

LACK OF ACCOUNTABILITY

"We didn't give specific clarity on who is ultimately responsible for what."

08

LOW ACTIONABILITY

"Our high-level objectives were great. But we didn't outline 'how' we would get there."

09

INCOMPLETE COMMUNICATIONS

"Our goals didn't take root. We didn't share our plan broadly or frequently enough."

10

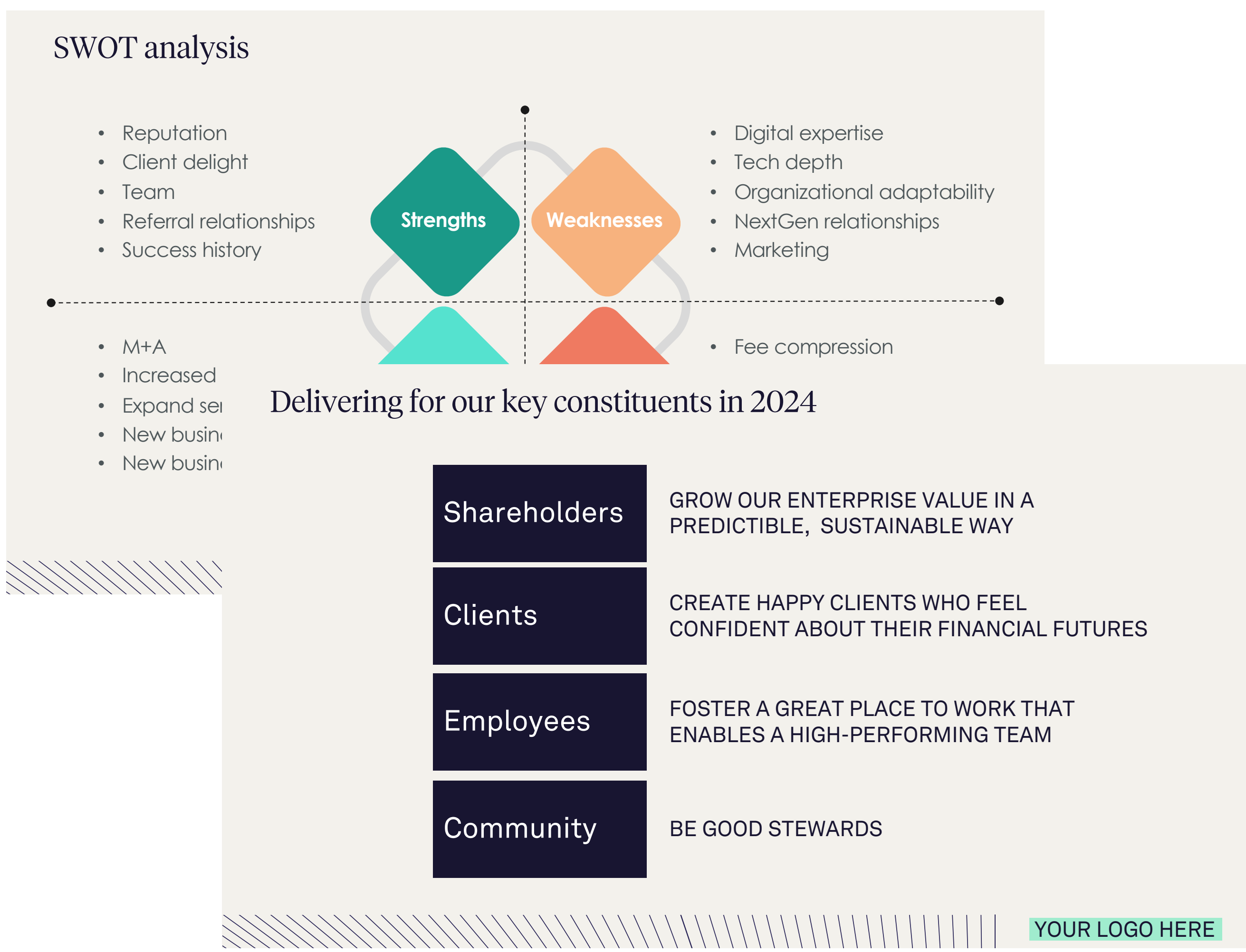
INCONSISTENT FOLLOW-THROUGH

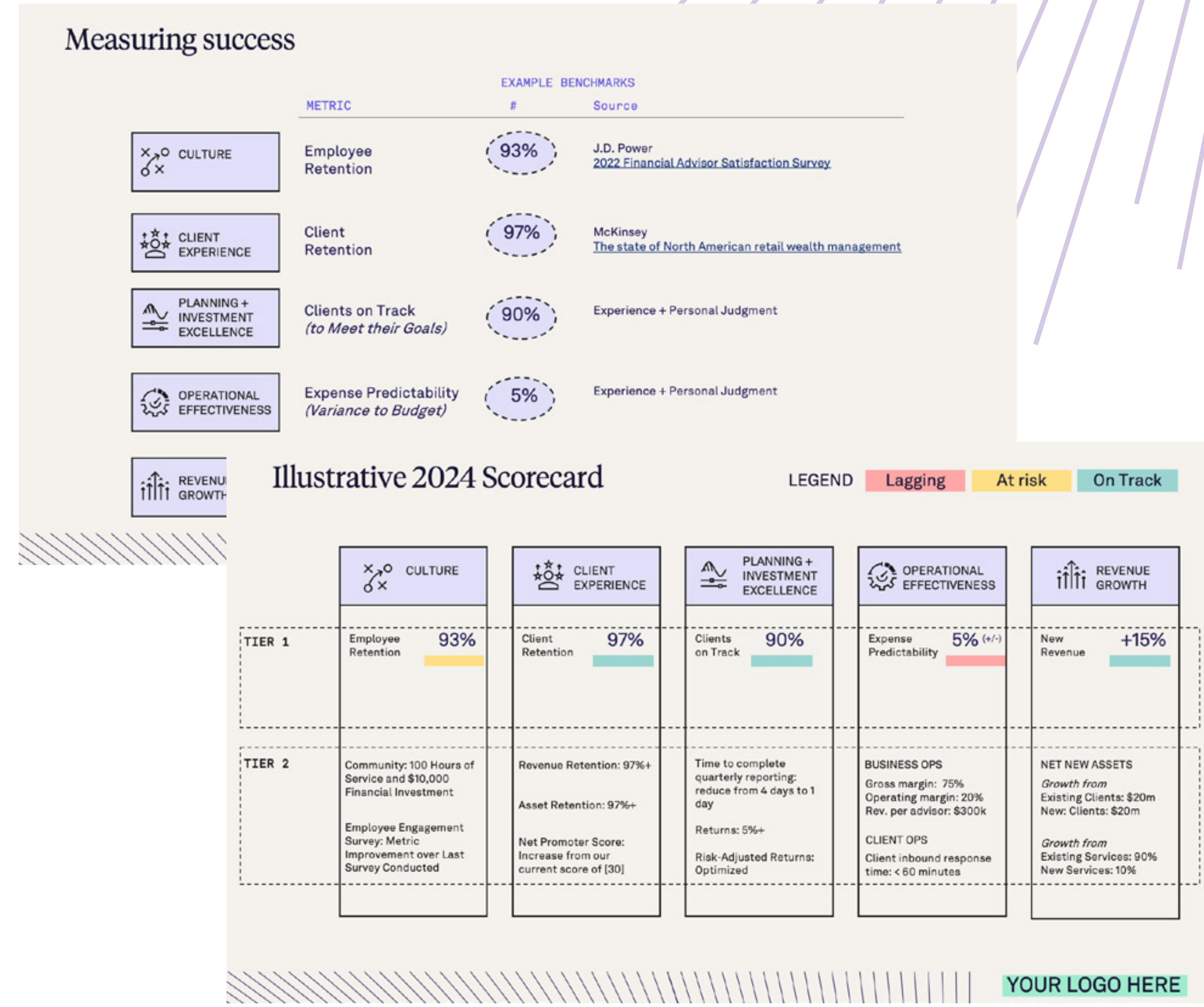
"We get busy running the business… so we don't check-in to see how we're doing."

2024 PLANNING TOOLKIT

DOWNLOAD THESE FREE RESOURCES – AND START PLANNING

INCLUDES
→ MANAGEMENT OFFSITE AGENDA
→ RIA SWOT ANALYSIS
→ KEY CONSTITUENTS FRAMEWORK
→ BUSINESS BENCHMARKING
→ METRICS SCORECARD





How to use these editable templates

✓ SIMPLIFY
Use as few pages as possible to get your points across.

✓ PERSONALIZE
The concepts in the slides are placeholders - it's important that you make them your own.

✓ SHARE YOUR FEEDBACK
These templates are now a 'living resource' for *Action!* magazine readers. If you run into any difficulty getting started – or if there is a new page you'd like to see – simply reach out to the editor, Suleman Din (suleman.din@advisorengine.com).

Your Guide to Growth

Focus areas, worksheets and action steps to take in five critical areas to boost your overall business.

01 ORGANIC GROWTH

02 OPERATIONAL EFFECTIVENESS

03 CLIENT EXPERIENCE

04 M&A FOR BUYERS

05 HIRING & RETENTION

Boosting Organic Growth

It's no secret that organic growth rates among RIAs are falling. After a new high in 2021, reported organic growth slowed considerably to below 4%, driven by nearly 40% decline in new assets, according to Fidelity's latest RIA benchmarking study. Marketing is just one way to boost firm growth – according to an industry survey by Nitrogen, 27% of firms that saw over 20% growth rates in 2022 invested over $30K annually in marketing. The majority of these firms allocated a substantial budget of $6,000 or more annually toward marketing efforts.

"What number of opportunities are you getting? The market isn't always going to be what keeps you moving forward," says Kelly Waltrich, co-founder of industry marketing firm Intention.ly.

WORKSHEET:

2023 Marketing Budget

Category	Total Budget	YTD Spend	Remaining	Over/Under	Q1	Q2	Q3	Q4
Social Media								
Paid Advertising								
Organic Social								
Digital Advertising								
Google Ads								
Display Ads								
Events and Conferences								
Attendance/Sponsorship Fees								
Travel Expenses								
Promotional Materials								
Marketing Tools								
CRM								
Email Marketing Platform								
Graphic Design Suite								
Marketing Resources								
In-House Expenses								
Agency Fees								
Additional Spend								
Client Experience								
Gifts								
Outings								
Education (seminars, etc)								
Total								

Take stock

Where are we spending time / resources?

ACTION ITEMS:

- Honestly assess your challenges and blind spots.
- Calculate your time spent on client service versus growth.
- Sharpen your growth metrics. For instance, examine your one-year growth versus three-year growth metrics.

Build a plan

What are our target results – and what activities are needed to achieve them?

ACTION ITEMS:

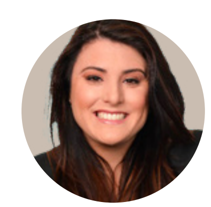
- Put down an individual owner for each target result.
- Lay out your planned activities on a timeline.
- Consider any new capabilities/spend required.
- Develop and budget for a robust marketing strategy that includes a mix of traditional and digital marketing efforts to reach new clients and increase brand awareness.

Execute

How do we ensure that we GSD?

ACTION ITEMS:

- Enlist your full company in your growth initiatives.
- Calendar your check-in meetings now, for the full year.
- Ensure you are focused on existing clients and new relationships.



"Assess the tenacity, the excitement and the aggressiveness you have around growing your business."

- Kelly Waltrich
Co-founder, Intention.ly

Operational excellence

There are any number of areas you could examine to understand your firm's operations. To prevent getting overwhelmed, experts say you need to be focused at the outset of your analysis.

"When you are taking stock of your company, the first thing you have to ask yourself is, what do I want to measure and why?" says John O'Connell, CEO of practice management consulting firm The Oasis Group.

According to McKinsey and Co., during the recent bull market, wealth management operating revenue only slightly outgrew costs – so being efficient is even more important now.

FOR OPERATIONS TEAMS

Take the assessment to determine if your firm is ready and aligned to institute workflows for all repeatable processes.

Assessment	No	Maybe	Yes	Score
We can commit to a 5-month implementation.	0	9	17	
We have buy-in and alignment from the firm on what our processes are/should be in support of your service model?	0	9	17	
We are open to coaching and willing, motivated, and resourced to take action.	0	9	17	
We have more than 2 employees (including myself), over 90 clients, or want to grow significantly over the next few years.	0	5	10	
We have a standard operating procedure, checklists, or other written documentation for our processes.	0	5	10	
Our client service model is well supported by our operations.	0	3	7	
Are you committed to adopting workflows yourself to model desired behavior and adoption within the firm?	0	3	7	
Tasks are consistently captured and completed. Things do not fall through the cracks.	0	2	3	
We are committed and have the resources to review workflows on a regular cadence (at least annually) to ensure effectiveness and accuracy.	0	2	3	
Do you feel overloaded with tasks and overweighed with responsibilities in your firm?	0	2	3	
Do you feel that you are in the right role with the right responsibilities based on your strengths and experience?	0	2	3	

Total Score	Readiness
0-30	Not ready, work on SOPs
30-65	Somewhat ready
65-100	Ready

Take stock

How well is your company executing today?

ACTION ITEMS:

→ Define your firm's 'operations' categories
- Sharpen your definition of operational excellence
- Outline your client lifecycle, and align your ops to it

→ Gather inputs
- Collect survey feedback from key constituents
- Honestly assess your challenges / potential blind spots
- Complete a basic SWOT analysis

Build a plan

How will our operations change to enable our growth goals for 2024 and beyond?

ACTION ITEMS:

→ Document your goals

→ Put down an individual owner for each goal

→ Lay out your planned activities on a timeline

→ Consider any new capabilities/spend required

→ Identify one quick win to drive momentum in the first 30 days

Execute

What are the hurdles that will stand in our way?

ACTION ITEMS:

→ Enlist your full company in the push for operational excellence

→ → Use accountability mechanisms
- Lean in to activity progress, don't be aloof!
- Daily standups are your friend
- Calendar your check-in meetings now, for the full year
- Celebrate small wins: get 1% better every day

Client experience

The good news for RIAs is that client retention rates are high – 97% on average, according to Schwab. The challenge is, can your firm deliver a client experience that promotes new growth?

Consider that for most advisors, only 20% of their time is actually spent in client meetings – advisors, on average, spend more than two hours 'behind the scenes' for every one hour they spend in client-facing meetings, according to Kitces.com research.

Even small client experience improvements can yield results; McKinsey says by improving customer experience firms can increase sales revenue by 2-7% and profitability by 1-2%.

ACTIVATING YOUR REFERRAL PLAN

Many advisory firms want more referrals but few have a plan to get them. Use this worksheet to outline your referral strategy and tactics.
Share with your team, track and follow your process.

To Do	Owner / Participants	Due Date	Complete
Address all "nos" on you Referability Scorecard.			
Define and formalize your referral strategy and process.			
Complete and share your referral plan with your team.			
Define and capture advocates in your CRM (i.e. create a reportable field or tag)			
Create necessary content and workflows (i.e. follow-up templates, an introduction landing page, etc.)			
Gain confidence planting referral requests.			
Define your referral request.			
Practice planting referral requests daily for a month.			
Add "make referral request" to all client and COI agendas.			
Set clear referral goals (activities and outcomes), and track and report your progress on a regular cadence (i.e. weekly team meeting)			

Take stock

Who am I serving?

ACTION ITEMS:

- Conduct NPS scoring
- Sharpen your team's knowledge of your client base
  - Examine your retention rates
  - Identify your top-referring clients
  - Expand your knowledge of each client's financial life
- Consider your client lifecycle – and define your service approach

Build a plan

How will we audit client experience in 2024?

What is our plan to elevate client experience this year – and beyond?

ACTION ITEMS:

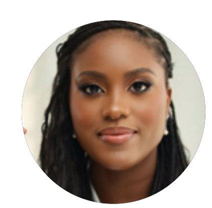
- Document – and share – your plan
- Consider any new capabilities/spend required

Execute

How do we ensure we are staying on track?

ACTION ITEMS:

- Enlist your full company in elevating the client experience
- Follow an engagement calendar
- Track your service workflows for efficiency



> **"The easiest way to build your client service calendar is to start with your most intensive tier of service."**
>
> **- Charesse Spiller,**
> Founder, Level Best

M&A for firm buyers

Growing organically is hard work. After market gains are subtracted, the percentage increase in net new assets annually for most advisory firms is in the low single digits. (Fidelity's latest RIA Benchmark Growing inorganically by acquiring other firms isn't easy, but if done right, an RIA can double its AUM overnight. There are considerable challenges: With RIA valuations at an all-time high, it's expensive to be a buyer. High demand for firms and limited supply means its seller's market too. Leading acquirers are backed by private equity companies with deep pockets. And the legal, financial and operational expertise necessary to buy and integrate another RIA are significant.Despite the challenges, your firm can be competitive. M&A transactions are on pace to be only slightly less than the record volume seen in recent years.

WORKSHEET:

List your firm's percentage change in AUM, revenue, and net profits. List your firm's operating profit margin, revenue per staff, overhead expenses as a percentage of revenue. Compare to industry benchmarks.

What kind of rates and terms are banks and lenders who specialize in working with RIAs such as Live Oak, PPC Loan and SkyView Partners offering?

List dates: When did your firm last update its CRM, financial planning, portfolio management, rebalancing and record keeping software?

Review agreements with your custodian, TAMP and platform provider. What fees are you paying and what services are you getting? Compare with offers from competitors.

Find out what valuation multiples and deal terms acquirers who match your profile are offering sellers who match your firm's targets.

Compare your firm's compensation metrics including base salary, incentive bonuses and profit distribution with industry benchmarks.

Analyze your firm's equity ownership to determine optimal allotment going forward.

Take stock

Why do we want to buy another RIA?

- → Review this Checklist:
  - • Is your firm looking to grow assets?
  - •Wants to be more profitable?
  - • Needs scale?
  - • Needs more human capital?
  - • Seeking liquidity?
  - • Are there internal succession issues?
  - • Does it want to either expand geographically or consolidate position in your local market?
- → Determine if your sources of capital will come from internal funding, loans or outside investors.
- → Assess for updates: Your tech stack, HR and operational infrastructure
- → Evaluate if your brand, asset management and planning expertise, or service platform and capabilities are outstanding enough to entice a seller?

Build a plan

What defines the target firm?

- → Hire an investment bank or transition consultant.
- → Determine which local or regional firms match best enhance your growth prospects.
- → Determine what will differentiate you from the competition. Are you prepared to be the highest bidder and pay a premium?
- → Conduct due diligence. Find out the average age of a potential sellers' clients and advisors;
- → the firm's annual growth rate and profit margin, and tech stack capabilities.

Execute

What kind of offer is most advantageous for us in this market?

- → Possess up-to-the-minute data on industry valuation multiples to benchmark your offer.
- → → Consider offer options – all cash, combination of cash and equity as well as earn-out considerations.
- → → Determine key areas and metrics for earn-out consideration terms, including client and advisor retention; client and asset growth and status of founders after sale.
- → → Decide how long founders need to remain with the firm if they stay, and the length of time other goals need to be met before full payment is made.
- → Even if financial deal terms are met, determine if the seller is a good cultural fit for your firm.
- → Inform your clients and advisors of the deal, and clients and advisors of the firm being acquired.
- → Have a team ready to integrate human capital, tech and operations, and evaluate staffing for redundancies.
- → Consider restrictive covenants, non-compete and non-solicitation agreements for advisors of the newly integrated firm who want to leave.

Hiring & Retention

When it comes to signing talent, it's a tight labor market for financial advisory firms. The industry has a rapidly aging workforce and a dearth of young advisors to take their place, as a lack of training, awareness and tough competition from other fields keep new recruits in short supply. Over one-third of financial advisors are expected to retire within the next ten years, according to a recent study by Cerulli Associates. The average advisory firm now has three open positions, an Ameriprise Financial survey revealed. The talent pipeline issue is such that Charles Schwab in its most recent benchmarking study declared, "talent is the top strategic priority for RIAs." What's more, RIAs have to fight to retain quality advisors on top of recruiting new ones. But firms who are willing to initiate a strategic plan, invest in talent development programs — and be patient — can more than hold their own in a competitive marketplace.

WORKSHEET:

Compare percentage increase in employee compensation with firm revenue growth.

Calculate target incentives as percentage of base salary for key positions.

Calculate firm-wide bonuses based on profitability or revenue growth.

Determine performance goals to be included for reviews, promotions and bonuses.

What are the best matches for assigning mentors to junior advisors?

What should markers be for career paths?

List the clients, business contacts, alumni at local colleges and community organizations who can help recruiting efforts.

Which professional networks outside your traditional recruiting focus are available to your firm for interns and recruiting?

Take stock

What is the status of our workforce right now?

ACTION ITEMS:

- → Review each employee to determine how long you expect them to remain with the firm based on experience and performance.
- → Compare base salary and total compensation for each position in the firm to industry benchmarks, such as Charles Schwab's RIA Benchmarking Study and Compensation Report.

Build a plan

How competitive is our compensation package?

ACTION ITEMS:

- → Review your budget and include operating costs for increased compensation, recruiting and training.
- → Set a timeline for hiring based on growth rate – if you expect a healthy growth rate, plan to hire earlier than later, to ensure that the firm has the capability to avoid capacity constraints.
- → Set diversity goals for your staff. Begin with bringing in a higher percentage of minority candidates for consideration at various positions.
- → Consider expanding offer packages to include flexible work schedules; hybrid or remote work options; paid time off for volunteer projects; recreational perks inside or outside the office and a commitment to a healthy work-life balance.
- → Weigh pros and cons of offering equity to attract top talent.

Execute

How do we recruit and keep the best candidates?

ACTION ITEMS:

- → Create internal development programs, including summer internships to identify talent; training and coaching for novice advisors; mentorships and educational opportunities to obtain industry credentials.
- → Identify colleges and universities both locally and even nationally. Visit campus career fairs, post descriptions of job openings and internships, talk to students, offer to guest lecture at a finance or economics class. Invite prospective job candidates to your office.
- → Use LinkedIn, centers of influence and third-party affiliates such as custodians and platform providers to target experienced advisors. Consider the use of an executive recruiter.
- → Consider career changers and other non-traditional hires. Attorneys and accountants are most likely to be familiar with advisory firms.
- → Ensure performance reviews are comprehensive; compensation for all staff positions should be transparent and accessible.
- → Implement clear career paths and advancement opportunities for employees; award promotions regularly.
- → Engage employees in decision-making when possible and enhance firm culture with social events.

Homer Smith: How financial advisors can achieve organic growth

RIA ORGANIC GROWTH RATES ARE HURTING – DROPPING BELOW 4% IN 2022, PARTLY DUE TO A NEAR 40% DECLINE IN NEW ASSETS, ACCORDING TO FIDELITY'S MOST RECENT RIA BENCHMARKING STUDY.

SULEMAN DIN

Konvergent Wealth Partner CEO Homer Smith notes the challenge for many is to look beyond running the daily business.

Forging partnerships with a key ally, Smith says, can help firms find new organic growth.

Homer Smith
Konvergent Wealth Partner's CEO

One of the biggest challenges for organic growth is the fact that we're also business owners. We have to manage staff, run the business itself, deal with client service and then figure out how to keep adding new clients too.

Many of us just get caught up in the day-to-day running of the firm and that just takes so much time away from business development. In talking to a lot of other founders and RIAs, that's the biggest challenge that I see out there.

What I've seen is CPAs, from an RIA perspective, they're kind of the holy grail; if you can develop a great partnership with the CPA, you help bring value to their top clients. There's a huge opportunity for collaboration and [developing] new clients. I think most advisors approach it incorrectly. They approach it as, 'Hey, let's work together so that we can refer business back and forth.'

What I have found is most successful is if we really approach it from truly trying to help those CPAs bring more value to their top clients – regardless of whether it results in a wealth management opportunity for us – they're way more open to really opening up their book and identifying opportunities that ultimately is going to lead the path to introductions. But it truly is about helping them first and helping their clients by bringing more value.

In order to get this started, you've got to find CPAs that want to be partners with you in growth.

When I first approached a CPA, the questions I asked were, 'What's your goal for your business? Are you looking to grow? Are you looking to work with fewer and better clients?'

And if they're just overwhelmed themselves – they're just barely hanging on and not interested in growth – the likelihood of you being able to really develop a partnership that's going to be collaborative is going to be difficult.

So ask questions. What are they trying to accomplish? What's their ideal client?
How are you bringing those clients in yourself? This is to identify whether they are really interested in growth, because those are the only partners that are really going to want to grow alongside you.

How financial advisory firms can build a culture of volunteerism

SHARON ADARLO

In June, several members from RTD Financial took time out of their busy week serving clients out of the firm's Philadelphia office and pitched in on a special tailoring job: sewing pockets inside hoodies that would hold drainage tubes for women undergoing breast cancer treatment.

RTD sponsored the event in Marlton, New Jersey, with local charity Pockets of Hope by offering both manpower and a grant to help defer costs on supplies for the organization, which donates the finished hoodies to patients.

This example is just one of many that exemplify the special culture within the firm. Through its Values Committee, the firm puts into action its socially-minded ethos by encouraging a team-building atmosphere and offering a robust slate of community-oriented initiatives, including grant-giving to various organizations, pro-bono work and volunteer opportunities.

"There is a strong value system that runs deep in the firm and permeates everything we do – how we talk to clients, how we treat each other, and how we interact with the community," said Maureen Blom, RTD's retiring chief operating officer, who brought Pockets of Hope to the attention of the firm. "Everybody is heard and listened to, and hopefully, they feel valued. It's an extraordinary firm."

Jeff Weiand, RTD's chairman and CEO, is laser-focused on nurturing a healthy culture of volunteerism.

"Each and every day we strive to serve our clients, our community and our team in a way that ignites passion and helps dreams be realized," he said. "We have attracted an amazing team of talented individuals who are unselfishly driven to help others in any way we can. Volunteerism is one of the drivers that strengthens and fuels our spirit and our morale."

In 2018, RTD embarked on setting up the initial infrastructure for all these initiatives with a Corporate Social Responsibility Committee, said Irene Giman, RTD senior financial planner.

This year, that committee combined with two existing internal groups in the firm: Diversity, Equity and Inclusion, and the "fun" committee, devoted to employee enrichment. All together, they now make up the Values Committee, which Giman oversees as chairperson.

A big piece of RTD's community-oriented programming under the Values Committee is the RTD Charitable Fund, to which the firm pledges a percentage of its revenues, said Weiand. The fund, which started in 2018, gives out grants to charities, non-profit groups and important causes dear to employees.

What's unique about the fund is that every employee at the firm can make a grant proposal that would lay out why this cause is important and how it aligns with RTD's values, said Giman. The Values Committee looks over these proposals and metes out grants.

"We are passionate about giving back," said Weiand. "It's great for morale because people within the firm feel their work has added value. But it's also a chance to be connected with the city and the larger public in ways that are beneficial and socially responsible.

Giman said grants have been given to various charitable groups such as Covenant House, a non-profit devoted to providing care and shelter to

"IT'S GREAT FOR MORALE BECAUSE PEOPLE WITHIN THE FIRM FEEL THEIR WORK HAS ADDED VALUE. BUT IT'S ALSO A CHANCE TO BE CONNECTED WITH THE CITY AND THE LARGER PUBLIC IN WAYS THAT ARE BENEFICIAL AND SOCIALLY RESPONSIBLE."

- Jeff Weiand,
CEO and chairman, RTD Financial

young people who are homeless. One such group that was a fund beneficiary was Pockets of Hope, which one of Blom's cousins started.

"It's wonderful what RTD has done for Pockets of Hope," said Blom. "It shows that the firm cares."

Besides the fund, RTD incentivizes charitable giving within the firm by matching a portion of employee donations, said Giman.

Also, starting last year, RTD started a "Day of Service," an extra day off that employees can use for volunteer work, said Giman. For flexibility, they can do their volunteer work on a weekend so that the day off is used for rest or running errands during the week.

For group volunteer outings, RTD people have lent a hand at area soup kitchens and prepared meals at Gift of Life Howie's House in Philadelphia, which provides housing for relatives of people waiting for organ transplants, said Giman. RTD people have also cleaned up at the John Heinz National Wildlife Refuge, a relatively quiet oasis of woods and marshes beside the Philadelphia International Airport. The June event at Pockets of Hope was one such group outing.

Other community-oriented work at the firm includes pro-bono financial planning for people who may not afford it and have fallen on hard times, Giman said.

Another related initiative still in the planning stages is providing financial literacy to local children, from kindergarten to high school age, said Weiand.

"RTD'S COMMUNITY-ORIENTED INITIATIVES INCLUDE GRANT-GIVING TO VARIOUS ORGANIZATIONS, PRO-BONO WORK AND VOLUNTEER OPPORTUNITIES."

- Maureen Blom,
Retiring chief operating officer, RTD Financial

"Financial literacy is empowering," said Giman. "Financial literacy is knowledge, and knowledge is empowering. And that knowledge leads to less fear around money and economic insecurity. Teaching this to school-age children seems like the perfect time to introduce these concepts."

In addition, many of RTD's staff are active in charitable organizations – efforts that RTD encourages.

For example, Blom has not only helped Pockets of Hope but has also served as chairperson of the Board of Trustees for the Catholic Business Network of South Jersey and as a board member of the Business Leadership Organized for Catholic Schools.

Weiand has lent help to Philadelphia Futures, which mentors high school students who want to go to college, and he has served on the board of Hosts for Hospitals, which strives to provide deeply discounted lodging for individuals and families coming to Philadelphia for treatment.

"The hidden cost of healthcare is very real and we never want anyone to not have access to the best healthcare there is because they can't afford lodging," he said.

Giman is active in several volunteer organizations in the area and is currently on the Leadership Council of Impact 100SJ, having served as chairperson of the Grant Review Committee for the past several years. Impact 100SJ is a women's collective giving group that gives high-impact grants to local organizations.

Giman said she feels buoyed that RTD encourages her charitable efforts through Impact 100SJ or the various initiatives via the Values Committee. All together, they exemplify a culture of fellowship, camaraderie, and social responsibility, she said.

"This is by far the kindest culture I have ever worked in," she said. "We all care about each other, care about our clients, and care about the community. That's remarkable."

HOW TO BUILD A COMMUNITY-ORIENTED CULTURE

Irene Giman's shortlist for setting up volunteering opportunities:

- → First, spark the conversation and have a firm-wide discussion on what the company should do in order to bring this to fruition. Bring your employees into this discussion and not just leave it to leadership. That way, everybody feels heard and that their suggestions are valued. This also creates an atmosphere that is team-oriented.
- → Decide collectively what your firm can donate, such as time, money, or both to the community. Examine your firm's capacity and also the passions and interests of your employees.
- → If time can be donated, think about how you can encourage your employees to volunteer or give back to the community. For us, we create group activities and also give people a day off for philanthropic efforts.
- → If your firm chooses to donate money, think about different ways you can go about doing this. For example, you can donate a certain percentage of profits or revenue to community programs.
- → Have employees help direct where the firm can focus their efforts, whether time, money, or both. Most financial firms sponsor events, but if you get your employees involved — such as having them give input on where grants or volunteer time should go — you create a connection. It's a way to make employees feel connected to the firm and to the larger public.

Navigating the life cycle of a financial advisor

CHARLES PAIKERT

EVERY CAREER HAS A LIFE CYCLE WITH DISTINCT STAGES, EACH WITH ITS BENCHMARKS AND CHALLENGES.

Financial advice's complexity and fast-changing nature present advisors with a uniquely demanding career path. Here are some guidelines on how to navigate this rigorous but rewarding journey.

Stage One: Gaining Traction

Gaining experience – and clients – is fundamental. The challenge is the best way to do both. Learning as much as possible about the industry is clearly the starting point. "AI is changing the way advisory firms do business, from the back office to operations, services and the way we communicate with clients," says Andrew Altfest, president of New York-based Altfest Personal Wealth Management.

"Slurp up as much knowledge as possible," counsels Jonathan Bergman, president of the New York-based wealth management firm TAG Associates. "Read annual reports, analysts' reports, the Wall Street Journal and Barron's cover to cover. Listen carefully to senior advisors and clients. Ask questions.

"Ensure you're working for a firm that will help you, not just employ you.

"Use the firm as a resource," says industry consultant Phillip Palaveev and CEO of The Ensemble Practice. "You are building your career and this stage is the foundation. Find a firm that offers coaching, mentoring and many opportunities. At this stage, don't look for the highest level of compensation. Look for a firm that will give you the highest level of experience."

> **"Slurp up as much knowledge as possible."**
>
> **- Jonathan Bergman**
> President, TAG Associates

Building a client base is trickier, and industry opinion is divided on the best route to take. One school of thought advocates casting a wide net, while the other counsels more prudence and selectivity.

"It's a land grab in the beginning," says Mark Tibergien, the former CEO of Pershing Advisor Services. "There's a degree of desperation that's required at this stage, and it's OK to recognize that. Focus on whoever will do business with you."

Colin Higgins, CEO of the San Francisco-based wealth management firm Summitry, agrees. "Do everything you can to get out of your comfort zone," Higgins says. "Make cold calls. Have difficult conversations now—they'll be easier later in your career. Don't be afraid to fail."

But initially targeting friends, family and generational peers is also a time-tested launching pad, notes industry consultant Mike Byrnes. "Strangers aren't going to trust you at this stage," Byrnes says, "Lean on people who already have that trust." Either way, young advisors shouldn't be afraid of sales, says consultant J.D. Bruce, the former president of Abacus Wealth Partners. "Many firms will say there are no business development requirements for associates," Bruce says. "But bringing in business is the lifeblood of the industry. You don't have to make cold calls, but you do have to be able to talk to people and be helpful in the community and trustworthy. The sooner you learn not to be afraid of sales, the better. If you can service, you can sell."

Stage Two: Hitting Your Stride

Mid-career is all about TCB – taking care of business. Now is the time to build out and solidify your client base. Ask your existing clients for referrals. Use state-of-the-art marketing. Build your brand. Get involved in the community.

For growth, consider buying a book of business, a solo practice, or a local firm with a similar client profile and philosophy if your firm is big enough. Use resources from custodians and platform providers, including referral services and marketing. Take advantage of testimonials, which are now allowed by the SEC.

Start to specialize. "You want to be the clear and obvious choice in a particular niche," says Palaveev. "Pick an area you know and like and become an expert." Leverage your self-knowledge, Bergman adds: "By this point, you should know what you like and what you don't like. What roles do you like to play? What clients do you work with best? Just be honest with yourself and don't pretend there's a match where there isn't."

"Becoming an equity partner should absolutely be a priority."

- Bradley M. Kowalczyk
Principal, Ascent Wealth Partners

Go after equity. You've earned the right to get a piece of the action and now is the time to secure it. "Becoming an equity partner should absolutely be a priority," says Brad Kowalczyk, principal at Ascent Wealth Partners. "If you're not on an equity track, there's either a problem with the owners or a problem with you."

Get out there, digitally and physically. "Use videos on social media," Byrnes says. "It's a good way to broaden your reach. Prospects feel like you're meeting them personally."

Don't be afraid to use a variety of social media. Younger prospects will be on TikTok, Instagram and YouTube and use these sites as a search engine. Look at the most viewed financial topics on those platforms to see what younger people are interested in. Avoid jargon when reaching out.

Millennials, Gen Xers and Boomers use LinkedIn. You can identify prospects by profession and determine if they are the right fit for you. And let them know as succinctly as possible what you can do for them.

If you're comfortable where you are at this stage, settle down.

"Avoid hopping from firm to firm chasing a higher income," counsels Higgins. "Adding value to the depth and quality of your relationships with your existing clients is more important and will be more beneficial in the long run."

Consider going into management, but make sure you want to do it full-time.

"Taking on management roles is a great step if you want to be part of management," Bruce says, "but it is a giant waste of time if you don't want to do it full time. Advisors tend to get bored by mid-career. I advise them to pick up a hobby outside the business. Taking up a hobby inside the business will result in fewer clients."

Stage Three: Winding Down

Above all, be realistic.

"Age and health are the great variables, and things can change very quickly," says Tibergien, who had a 'reverse-mentor' relationship with a millennial Pershing employee when he was in the final stage of his career. "It's not easy, but the sooner you acknowledge your mortality and begin to transition responsibilities to younger executives, the better."

Transitioning to the next generation is imperative at this stage, but Bruce is convinced advisors in leadership roles must step back earlier than most would like. Leadership is ideally for people between 35 and 55, Bruce believes. He argues that partners should relinquish leadership roles five to ten years before executing a succession plan.

Aging advisors should focus on sharing wisdom and mentoring, Bruce maintains. "Let go, stop leading and start mentoring," he tells his clients. "Don't be afraid to give NextGen team members their titles when they're ready."

Along those lines, "Don't underestimate your younger colleagues," Tibergien adds.

While securing equity is an important mid-career move, advisors who have become partners should prioritize distributing shares internally.

As partners look to the future, broad internal ownership helps ensure the firm's "long-term health," according to Sean Stannard-Stockton, president of Ensemble Capital Management in San Francisco.

"The most valuable elements of an organization are its people," Stannard-Stockton says. "We want to offer employees an opportunity to buy in and have skin in the game. Ownership reinforces having everyone pulling the oars in the same direction."

Ensemble employees can begin to purchase equity after three years of employment up to two times their base salary, with a minimum of $50,000. Valuation is based on a multiple of cash flow and Ensemble provides 50% of the financing with a 10-year, low-interest, promissory seller's note. Employees finance the other half either through personal assets or borrowing from other sources.

Succession planning may also involve selling shares to external buyers, either as minority or majority stakeholders. In that case, partners should start due diligence as soon as possible.

If outside firms have already made inquiries as potential buyers, find out as much as you can about them. Review their SEC Form ADV. Talk to their advisors and clients. If you're considering putting your firm up for sale, get your house in order. Ensure your technology is current and prune clients who are more trouble than they're worth. Review advisor and staff productivity and freshen your website. Then go out and find a good investment banker who can find you the best deal terms possible with a buyer offering the best cultural fit.

Finally, don't tarnish your legacy.

"Your number one goal should be making sure your clients are in good hands when you're not around," says Bergman. "Don't sell out your clients or colleagues for a higher price to enrich yourself."

Providing generational planning and adding value to cement clients' loyalty will strengthen the business, says Kowalczyk. A successful firm doesn't need to compromise its reputation to get more money from the highest bidder. "The way drugs can be an occupational hazard for a pharmacist," he says, "money can be the same for a financial advisor."

Democratizing alternative investments Why now?

TONY DAVIDOW

ALTERNATIVES STRATEGIST FOR FRANKLIN TEMPLETON INSTITUTE, TONY DAVIDOW, SHARES INSIGHTS ON THE ROLE AND USE OF ALTERNATIVE INVESTMENTS IN CLIENT PORTFOLIOS WITH *ACTION!* MAGAZINE.

Institutions and family offices have historically allocated significant capital to alternative investments, while high-net-worth investors have had limited options due to product availability, investor eligibility and access to certain markets like private equity, private credit and private real estate. Also, the first generation of liquid alternatives provided mixed results.

Consequently, financial advisors have often sought other options to capture alternative-like characteristics.

However, we believe a confluence of events has made alternative investments more appealing for advisors and investors – the markets are demanding broader strategies. Product innovation has made these elusive investments available to a broader group of investors with more flexible features. Now, you can access institutional-quality managers with deep and dedicated resources. We will cover these issues in greater detail in future articles.

What can we learn from institutions?

Legendary investor David Swensen famously stated, “The intelligent acceptance of illiquidity, and a value orientation, constitutes a sensible, conservative approach to portfolio management.” [1]
Swensen and many other sophisticated investors recognized the illiquidity premium available by allocating capital to illiquid investments like private equity, private credit and private real estate.

In fact, throughout Swensen’s tenure as the chief investment officer of the Yale Endowment, he often allocated between 70-80% of his portfolio to alternative investments broadly, with illiquidity budgets of up to 50% of their total allocation. The illiquidity bucket is a technique institutions use to identify the amount of capital they are willing to tie up for an extended period (7-10 years).

Of course, endowments are very different from individual investors. Yale has certain built-in advantages, including unique access to private markets, dedicated resources to evaluate opportunities, and long-term horizon. If Yale needs capital, they can reach out to their well-heeled alums and donors for additional capital.

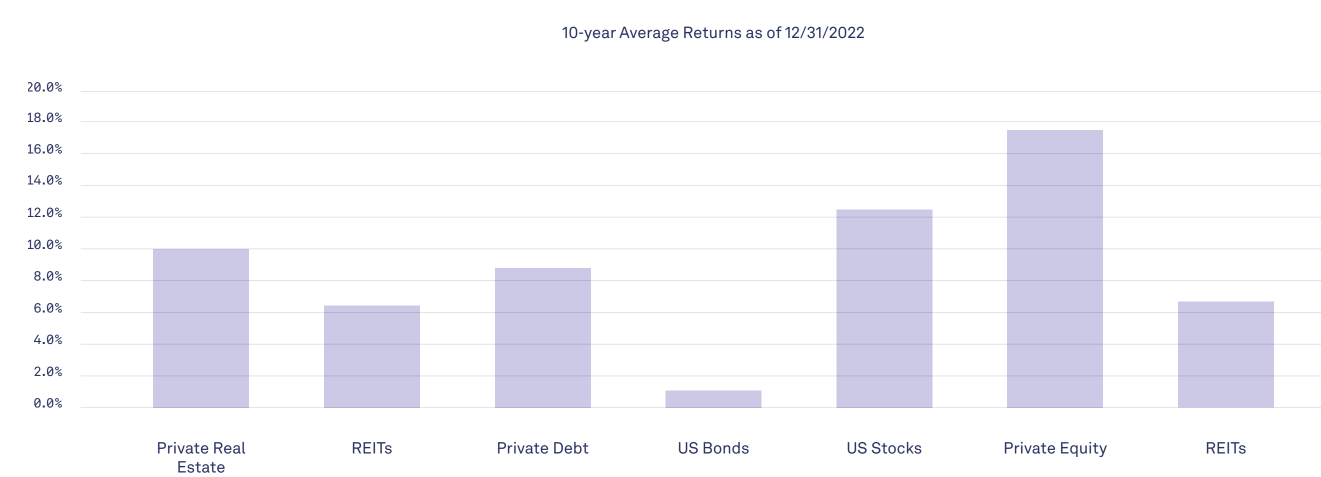
Most high-net-worth investors would be uncomfortable locking up so much capital – but the concept of an illiquidity bucket would certainly apply. While a high-net-worth investor may not have donors to call upon, they often share something with Yale – a long time horizon for some of their goals.

What does the data show?

Academic research has shown the historic persistence of an illiquidity premium[2] – the excess return received for tying up capital for an extended time. This makes intuitive sense because you are providing the private fund manager ample time to source opportunities and unlock value. The fund manager isn’t beholden to investors and shareholders, like their public market equivalents, who view results over shorter intervals.

While the magnitude of the illiquidity premium will vary over time, depending upon the market environment and the fund, the data shows that private equity, private credit, and private real estate have historically delivered a substantial illiquidity premium relative to their public market equivalents (see below).

Average 10-year Annual Returns of Private vs. Public Markets



Source: Franklin Templeton Capital Markets Insights Group; Private Debt = Cliffwater Direct Lending Index, US Bonds = Bloomberg US Agg Bond TR USD, Private Equity = US Burgiss Private Equity, US Equities = S&P 500 TR USD, Private Real Estate = NCREIF Fund ODCE Index, REITs = FTSE Nareit All Equity REITs TR USD.

Until recently, high-net-worth (HNW) investors had limited access to these elusive investments due to investor eligibility and high minimums. However, due to product innovation and the willingness of institutional-quality managers to bring products to the wealth management marketplace, HNW investors now have a growing array of options to select from.

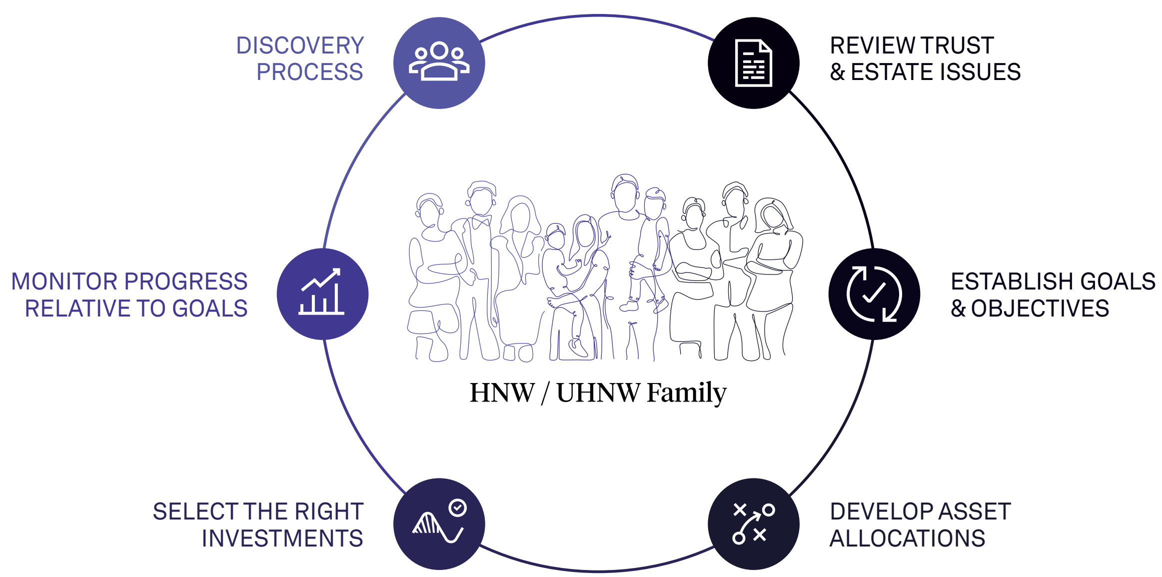
How much should advisors allocate to illiquid investments?

The amount of capital allocated to illiquid investments varies by investors and their underlying liquidity profile. Many investors believe they should be 100% liquid – but there is an opportunity cost, especially in today's market environment. Traditional liquid market investments will likely deliver returns below their historical averages, and advisors may need to consider private markets to help investors achieve their goals.

One way of determining the appropriate percentage to allocate to private markets is to develop an illiquidity bucket. Like the Yale example covered earlier, the illiquidity bucket should represent the amount of capital an investor is willing and able to tie up for 7-10 years. It can be determined via the discovery process and advisors should designate these investments as long-term.

Goals-based Investing Process

What are we solving for?



> "MANY INVESTORS BELIEVE THEY SHOULD BE 100% LIQUID – BUT THERE IS AN OPPORTUNITY COST, ESPECIALLY IN TODAY'S MARKET ENVIRONMENT."

As the advisor is determining the family's needs and requirements, they should inquire about their short and long-term liquidity needs. Do they have significant capital expenditures in the next few years (college funding, purchasing a second home, boat, etc.)? How much of their portfolio needs to be short-term to meet these needs? What portion are they comfortable putting aside for the next 7-10 years?

For many HNW investors, a 10-20% illiquidity bucket may be appropriate given their wealth, income and cash flow needs. Once the advisor has determined the illiquidity bucket, they can define which asset classes are suitable to achieve their goals.

Allocating to private markets

Once the illiquidity bucket has been established for a particular client, you can determine the appropriate allocation to private markets. There are several factors to consider before allocating.

1. What are the family's goals and objectives?
2. What is the optimal combination of asset classes (traditional & alternatives)?
3. What types of investments provide the highest likelihood of achieving goals?
4. Given the investor's wealth and liquidity profile, what is the most appropriate type of fund?
5. What is the appropriate amount of capital to allocate per strategy?

As with any investment, advisors must understand and evaluate the many dimensions of a fund before recommending (structure and strategy). Because of the specialized nature of conducting due diligence on private markets, advisors may rely on due diligence conducted by their firm or a third-party provider.

[1] David F. Swensen, Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment, Fully Revised and Updated
[2] The Illiquidity Premium and the Market for Private Assets | Portfolio for the Future | CAIA March 17, 2022.

How to structure your advisor service offerings

JOHN O'CONNELL

Every business hits a growth plateau and needs to rethink its processes and technology.

I have the pleasure of working with many wealth management firms looking to restart their growth each quarter. All these firms have high standards and provide their clients with fantastic investment management and financial planning services.

What I'm seeing is the emergence of additional service offerings that RIAs use to attract next generation clients and advisors. These new service offerings are accelerating in the market, given the early effects of the great wealth transfer.

Traditional RIA service offerings

The bread-and-butter business of most RIAs is investment management. Many RIAs offer financial planning as part of their sales cycle. For a prospective client not working with a financial advisor, an advisor will outline their value, capture the prospect's information and develop a plan that outlines how he or she can help the prospect achieve their financial goals.

The level of effort invested in creating the financial plan and then servicing the client throughout the year has a cost structure associated with it, spread across an RIA's staff, technology costs and custodian fees. This cost structure causes many firms to create and maintain a minimum investable asset level to consider working with a new client.

To work with the firm, firms with senior and junior advisors tend to have lower minimums, sometimes as low as $250,000 of investable assets. In these cases, prospective clients undergo a screening process, typically through a phone call, to determine their investable assets – then they are routed to an appropriate advisor.

Prospective clients with smaller asset bases are sent to junior advisors who are building their book of business. Prospective clients who are more complex, which is often the case with larger asset bases, are directed to the senior advisors who have more experience. Firms without a junior advisor model or a market penetration strategy targeting high-net-worth clients tend to have minimums of $1 million or more in investable assets.

These minimums are set under the premise that working with a small client has the same level of effort as working with a large client. This is likely to be true if your services consist of financial planning to move the prospective client's assets under an investment management agreement.

The referral dilemma

The minimums lead to a dilemma when a large client refers a small prospect to the financial advisor. This is often a family member of a large client. The financial advisor wants to keep their large client happy and will likely take on that small client to maintain the relationship with the large client. The alternative is to turn away the small prospective client and stress the relationship with the large client.

Firms with a junior advisor structure may find this more manageable, given that the small prospective client can be directed to a junior advisor. However, this approach does not account for the remaining fixed costs in the operations team's time to service the account, technology, and custodian costs.

Super-HENRYs

We recommend that our RIA customers consider developing new service offerings for small clients who do not meet the minimums for their firm.

These new service offerings allow firms to work with an emerging wealth client, such as a HENRY or Super-HENRY. A High Earner Not Rich Yet (HENRY) may be a college graduate in a high-earning field, such as in technology or finance.

A Super-HENRY is a HENRY without any college debt. The HENRY and Super-HENRY subsegments of the emerging wealth market segment provide the RIA with a revenue stream likely to be forty-five to fifty years long.

Service models to consider

All these service offerings are standard in other professional services fields. Many of these service offerings are not new to the financial advisor space, but considering them is new to many RIAs we encounter.

The first service offering to consider is financial planning only. This service offering includes developing an initial financial plan for the new client under a flat fee billing arrangement. The financial advisor can bill the client through their existing accounting system and accept check or bank transfer payments. The client can take the financial plan and execute it on their own in a Do-It-Yourself fashion. The financial advisor creates a new relationship with someone who may become an investment management client in the future while covering the costs of their financial planner's time and the cost of the financial planning software.

The second service offering to consider is the subscription model. This service offering includes developing the initial financial plan for the new client under a subscription billing model. This service includes quarterly meetings where the client can ask the financial advisor about their plan and current financial situation. The advisor can determine if the client's financial situation and progress on executing their financial plan have changed – a job change or an orphaned 401K for example. The financial advisor can bill the client an annual subscription fee like the financial planning-only model.

A final service level to consider is the expert service model. This service offering is a derivative of the prior two models. The financial advisor develops the initial financial plan under a flat fee billing arrangement. The advisor offers to provide guidance and advice to the client on an ad-hoc basis through conference calls offered at an hourly rate. The financial advisor can leverage technology such as Calendly to create a meeting link. When they schedule, the client is prompted to pay for the meeting using a credit card. These credit card payments can be tracked directly in your financial system.

WE RECOMMEND THAT OUR RIA CLIENTS CONSIDER DEVELOPING NEW SERVICE OFFERINGS FOR SMALL CLIENTS WHO DO NOT MEET THE MINIMUMS FOR THEIR FIRM.

Adding these service offerings to your firm

Financial advisors need some initial information to develop the price for each of these offerings accurately. The price to develop the initial financial plan should include the cost of your financial planning software and the fully loaded cost per hour for the advisor and their team members. Pricing the offerings without this information may lead to new client relationships at an operating loss for your firm.

These service offerings can provide a gateway for your firm to attract prospective clients who may be small now but stand to inherit their parents' wealth in the great wealth transfer. This allows your firm to work with referrals that do not meet your firm's minimum asset level. These offerings may enable you to attract junior team members who start their careers in financial planning while embarking on a financial advisor career path. Think of the possibilities for your firm.

Service offerings checklist

→ Define Your Target Audience:
- Identify your ideal client personas.
- Understand their financial needs and goals.

→ Assess Your Competitors:
- Research competing financial advisors in your area.
- Analyze their service offerings and pricing.

→ Set Clear Service Goals:
- Define your short-term and long-term service objectives.
- Ensure they align with your client's needs and your business goals.

→ Select Service Offerings:
- Choose the specific financial services you will provide.
- Consider financial planning, investment management, retirement planning, etc.

→ Service Packages:
- Develop service tiers or packages (e.g., basic, premium, customized)
- Outline what each package includes.

→ Pricing Strategy:
- Determine your fee structure (hourly, flat fee, AUM, commission, etc.).
- Set competitive and sustainable pricing.

→ Technology and Tools:
- Invest in the necessary software and tools for service delivery.
- Consider CRM, portfolio management and financial planning tools.

→ Review and Update:
- Periodically review and update your service offering strategy to stay competitive and aligned with market trends.

Action! Items

Feeling inspired? Take down notes here

Feeling inspired?
Take down notes here