THE ADVISOR OF THE FUTURE

Separating the Best from the Rest

By Christine Gaze, CIMA®

recently talked to a multibillion-dollar advisor who faced a grim task. He had to fire a key employee. Someone who helped him build his firm. Someone he counted on to deliver.

It’s not as bad as it sounds. The advisor fired himself—the “old self” who had brought him to his current level of success but wasn’t prepared to elevate his firm to the next crucial stage. It’s a mental exercise other advisors can learn from if they want to successfully navigate the industry’s turbulent currents. One of the secrets to sustainable growth for the advisory business of the future is adaptability. The best advisors are adapting their practices to capitalize on changing demographics, to stand up to fee compression, and to thoughtfully add services and expertise that clients value.

When Glenn Kautt was growing his original firm, The Monitor Group, he found it helpful as the firm reached a new stage of growth to fire himself so that he could free himself up to work on mastering a new role. As Monitor expanded and eventually merged with Savant Capital Management, the figurative firing helped in many ways. First, it enabled an expanding advisory business to morph into an entirely new and more complex organism with a leader at the helm who was prepared to master the new level of leadership expertise and management systems required. Second, it allowed advisors to meet new and different demands as the industry and client preferences grew and changed. In both cases, advisor leaders and their teammates confront a challenge: “What got you here won’t get you there.” Some, like Kautt, recognize and accept this challenge and proactively shift thinking and practices to meet it.

Many refuse to acknowledge it or are paralyzed by it, and they position themselves to continuously lose ground.

Advisors who don’t get ahead of changes now are like polar bears clinging to a shrinking ice floe, and they may not survive the following:

The rise of mega advisors. There is an increasing prevalence of billion-plus-dollar practices that are highly attractive to high-net-worth clients and represent formidable competition for the average advisor.

The demands of millennial employees. The millennial generation represents the future of our industry, but millennials require more feedback, guidance, and coaching than many lead advisors are accustomed to providing.

Increasing fee compression. Current and future clients are questioning whether fees are commensurate with the service they receive. Advisors who wish to maintain pricing power will ensure fees are transparent and reasonable.

Understanding women’s planning needs. Women represent an increasingly powerful economic force. Financial advisors who find ways to help women navigate the complex web of emotions, finances, and investments will be best positioned to compete to win in the future.

Desire among many clients to match investments to social beliefs. Clients are increasingly interested in ensuring their investments reflect their values. Advisors who ignore the needs of this growing group of conscientious investors do so at their own peril.

Let’s examine these trends one at a time and look at successful responses.

THE RISE OF MEGA ADVISORS

Cerulli Associates defines a mega advisor as one with at least $500 million in assets. Only 23 percent of advisors fall into this category. It’s not as bad as it sounds. The advisor fired himself—the “old self” who had brought him to his current level of success but wasn’t prepared to elevate his firm to the next crucial stage. It’s a mental exercise other advisors can learn from if they want to successfully navigate the industry’s turbulent currents. One of the secrets to sustainable growth for the advisory business of the future is adaptability. The best advisors are adapting their practices to capitalize on changing demographics, to stand up to fee compression, and to thoughtfully add services and expertise that clients value.

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category, but they manage 54 percent of assets.1 The median assets under management for these teams differs by channel, but it’s about $1.4 billion at wirehouses and about $1.8 billion among registered investment advisors. Twenty years ago, a team with $1 billion in assets was rare. Today, they are common and grabbing market share.

If you want to compete with them and win, you must shift your focus from simply growing to changing the way you think about yourself and your people. Figure 1 illustrates a simplified version of the typical journey from advisor to mega team.

In the early days, the advisor is the practice. The founding advisor drives everything and typically makes all key decisions. Success means lots of clients and a big test: Finding the right people for key roles, managing and growing as a team, and, if all goes well, graduating to the business phase, where new management skills are required to ensure the business remains healthy and continues to grow. If consistent growth can be achieved, the practice could graduate to the enterprise phase, in which the business starts functioning like an institution with specialized areas of expertise. This big leap requires an even greater focus on future growth and maintenance of disciplined processes that ensure continuity. Many firms get stuck in the growth chasm. Managing the change is too complex, and the team flounders in a stalled growth pattern.

Advisors who have steered their firms through these stages say the key was letting go of their old responsibilities and goals to learn new skills and take their businesses to the next stage, casting aside doubt along the way.

Of course, those old jobs don’t just disappear. One of the most important moves an advisory team can make is hiring dedicated management to focus on running the business. As teams grow, so does the prevalence of dedicated management (see figure 2). With dedicated management comes a greater focus on process and increasingly specialized roles.

One example of specialized talent is dedicated investment management professionals, who are increasingly prevalent among mega advisors. Nearly half of mega advisors have dedicated investment staff overseeing client assets (see figure 3).

Many advisors feel that bringing portfolio management in-house helps the team better serve more sophisticated clients, setting it apart from the competition.

**The Demands of Millennial Employees**

Lead advisors of top advisory teams are constantly thinking about talent. They know attracting top talent is a requirement for future growth. They understand that to thrive in this new era, they need to understand what team members need and help them to deepen their skills and expertise.

Much has been written about millennials, those born between 1982 and 2004. They make up the largest portion of today’s workforce. It’s wise to avoid overgeneralizations, but there is some truth to the image of millennials who were raised to believe they are “unique snowflakes.” They grew up with a lot of praise and expect it in the workplace.
They are the most-educated workforce in history. They are not big on paying dues. They want to learn and contribute from day one and they demand ample feedback. My firm’s research shows that both millennial advisors and advisory team leaders believe that leaders have an important role to play in developing the next generation of advisors. However, advisor leaders’ actions did not match their words. Millennial advisors want four or more hours of coaching every month, but most get less than half that. Nearly one in five get no coaching at all (see figure 4).

Too many teams have a drive-by approach to coaching. Senior advisors offer quick tips or set up an occasional training session, leading to average results. High-performing teams, in contrast, coach constantly. They view coaching as an investment in their people and in the team’s future.

Create a Career Path That Links Advisor Development to Firm Goals
But how do you build the team that delivers sterling service to clients and creates a world-class firm while meeting the career expectations of a generation you may not understand?

The Colony Group has a good answer to that question. A Barron’s Top 100 firm with more than $5 billion in assets, The Colony Group places a great emphasis on training its elite team. One key to its success is a clear path to partnership (see table 1) that distinguishes the firm from the competition by doing the following:

- Laying out five distinct levels for advisors, each with clear accountabilities and increasing responsibility for client management, revenue generation, technical expertise, and leadership tasks
- Highlighting the attainment of competencies through designations and demonstration of skills
- Outlining the gradual progression from supporting to producing advisor to partner
- Demonstrating skills through designations and leadership tasks
- Outlining the attainment of competencies through designations and demonstration of skills
- Setting clear expectations for what is expected of each level

Michael Nathanson, chief executive officer of The Colony Group, says this path has helped his team compete for top talent, and especially with clarity-seeking millennials, because it links advisor development to client and firm outcomes. It goes well beyond the vague future that other lead advisors describe for young hopefuls and the overly simplistic and often unrealistic asset and revenue milestones.

Dive into the Richest Talent Pools
Many firms, however, struggle to find employees who can achieve goals like those that Colony identifies. When my firm asked advisory team leaders about their greatest challenges, many described the difficulties of finding millennial talent that is motivated, driven, and able to connect with clients. It’s such a sore spot that of the 350 advisors who responded to our survey, 267 took the time to complete the optional write-in box about this issue.

Where do high-performing teams find the best talent? Universities offer some of the

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Table 1: Creating Clear Expectations for Employees

<table>
<thead>
<tr>
<th>Level</th>
<th>Client Responsibilities</th>
<th>Technical Expertise</th>
<th>Management Skills</th>
<th>Business Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associate</td>
<td>Support X clients</td>
<td>Pursue advanced designation</td>
<td>Actively participate in staff professional development</td>
<td>Attempt to identify new business opportunities</td>
</tr>
<tr>
<td>Senior Associate</td>
<td>Support X clients</td>
<td>Pursue advanced designation</td>
<td>Share technical information and learning with team</td>
<td>Actively develop new business opportunities</td>
</tr>
<tr>
<td>Financial Counselor</td>
<td>Primary for X+ clients</td>
<td>Complete advanced designation</td>
<td>Make presentations to associates</td>
<td>Utilize network to source referrals and new prospects</td>
</tr>
<tr>
<td>Senior Financial Counselor</td>
<td>Primary for X+ clients</td>
<td>Maintain advanced designation</td>
<td>Lead seminars and coordinate presentations</td>
<td>Generate X% in new annual revenue</td>
</tr>
<tr>
<td>Partner</td>
<td>Primary for X+ clients</td>
<td>Maintain advanced designation</td>
<td>Assume leadership role in one or more functional areas</td>
<td>Assume responsibility for annual revenue growth and profitability</td>
</tr>
<tr>
<td></td>
<td>Support $X revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Support $X$ revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The Colony Group

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Figure 4: Millennials Need Coaching and Development

<table>
<thead>
<tr>
<th>Hours</th>
<th>Next Gen advisors want</th>
<th>Next Gen advisors are getting</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 hours</td>
<td>MOST</td>
<td>0 hours</td>
</tr>
<tr>
<td>2 hours</td>
<td>4 hours</td>
<td>Less than HALF that</td>
</tr>
<tr>
<td>4 hours</td>
<td>The majority</td>
<td>Nearly 1 in 5 are getting NONE</td>
</tr>
</tbody>
</table>

Source: Breakthrough for Growth Study 2015
When we reviewed these university programs, we were impressed that so many found innovative ways to help students develop client relationship skills. At Texas Tech, students counsel peers on topics that include student debt and budgeting. At the University of Georgia’s Aspire Clinic, students work in teams to help economically disadvantaged clients. Clinic advisors offer much more than budgeting and financial planning. Students coordinate care with other students trained in family therapy, nutrition, and the law, and graduate with real-life experience providing holistic advice and acting as a quarterback in a relationship.

Here’s an insider strategy for attracting the best talent from the university system: Get to know the head of the financial planning department at your preferred school. Offer to do a “day in the life of an advisor” and see first-hand the level of engagement. Provide the most-promising candidates with internship opportunities and pay attention to their performance.

**Fighting Fee Compression**

Hiring the highest-quality talent you can find, that fits well on your team, is the best way to fight fee compression. Advisors who have been trained to consult with clients about financial plans the way the recent crop of financial-planning graduates are trained can expand revenues even in an era of fee compression. They are poised to offer services that computers and human beings doing business the old-fashioned way can’t. But to succeed, they must understand that the client of the future will demand transparency about fees and constant proof of the value you provide for them. This will be true regardless of what happens to fiduciary rules in the new presidential administration because the idea that consumers can fight back against high fees and find lower-cost alternatives already pervades news coverage and popular culture. For proof, look no further than your television. Schwab features a commercial in which a father offers to introduce his millennial son to his broker.

Son: “How much does he charge?”
Dad, pausing: “I don’t know.”
Son: “Do you get your fees back if you are not happy?”
Dad: “That’s not the way the world works.”
Son: “The world is changing.”

That is only one of many examples. In June 2016, comedian John Oliver, whose HBO show has more than 1-million viewers, Hammered the financial industry’s fees. The video now has more than 5.7-million views. Demanding quality advice at a reasonable fee is now a viral idea. Research backs this up: In a recent Cerulli Associates study, consumers ranked transparency as the most important quality they sought in a financial advisor.

**Make Sure Clients’ Children Can Explain Your Value**

Think of it this way: Your client is now George Banks, the character played by Steve Martin in the movie *Father of the Bride*. Exhausted by writing checks left and right for a $1,200 cake, swans, and all the usual wedding expenses, Banks melts down in the grocery store over hotdog buns. Hot dogs come in packages of eight; buns, in packages of 12. Banks refuses to pay for the four superfluous buns, plucking them out of the package. Banks is today’s consumer—exhausted by high fees and seeking value in a gig economy.

The question you must ask yourself is: How can you ensure that your best clients’ children can explain the value you provide? Figure 5 offers a visual representation of a holistic advisory offering. If clients of the future think the gray-banded offering of pure investment advice is worth 25–30 basis points, then the additional services that add up to about 1 percent may be worthwhile for some clients.

Advisors must be thinking about two challenges:

1. To command a premium fee, you and your team need to be able to vividly articulate the pinwheel of support you offer beyond investment advice.
2. Consider to what degree the average client uses those services and feels that support on an annual basis. As our George Banks example highlighted, no one likes paying for “superfluous buns.” How can you ensure that the base level of comprehensive service is delivered, recognized, and appreciated?

When you have a ready answer for both challenges, you will put yourself in the best
position to tackle the ultimate challenge: making sure your clients' children understand why you are worth 70 basis points more than what they may view as the prevailing value you bring.

Why do you need to make sure your client's children understand why you are worth paying? Because current clients are aging. More than one-half are older than age 60. The great wealth transfer of $30 trillion that will occur over the next 30–40 years marks the largest such transfer in history and represents a game-changing force that will alter the faces of our clients and our offerings. It's an immense opportunity for advisors who can provide advice and solutions that a digital interface can’t. The victors in the competition for wealthy clients will be able to clearly articulate the value they bring.

Understand Women’s Planning Needs
Increasingly, your clients will be women, because women live longer than men and are the fastest-growing wealth segment. By 2020, at least two-thirds of the nation's wealth will be in the hands of women because:

- The number of women-owned businesses has grown 74 percent in the past 18 years
- Women now earn 60 percent of college degrees
- Three in 10 newly married women are the primary breadwinners
- The average woman outlives her husband by 14 years

By now, you’ve heard version 1.0 of how to work with women. You already know that you need to invite women to planning meetings, ask them questions, and look them in the eye, so let’s talk about version 2.0. The key to connecting with women is to engage them on issues that pose a threat to them or that they care deeply about. Often, clients can’t see these threats, and you can do some of your most important work by helping female clients identify problems most likely to affect their finances, such as longevity.

Making these changes can increase your chances of defying one of the industry's most troubling statistics: About 70 percent of women switch advisors after a husband's death. Women also have planning needs that can cement a family's relationship to the advisor's firm. They are much more likely to feel financial responsibility for their parents or in-laws than their spouses feel. Without planning help, they may be very likely to spend so much of their own money caring for an elderly family member that they hurt their own retirement needs. About one-half of women have said personal financial goals were negatively affected by adult family members.

Helping a woman put her oxygen mask on first is one way that advisors can add value.

One top-performing advisor accomplished this recently when a client called in a panic because her mother, who lived two states away, was incapacitated by a fall. The advisor had anticipated the problem and had prepared answers ahead of time. She calmly offered to consult with the client’s mother to understand her wishes and helped her client hire a geriatric care manager, understand the relevant financial and budget issues, and identify possible housing options. Her team already had investigated costs and provided research suggestions that saved the client hours of googling and phone calls. Most important, the advisor had a plan that transformed a family emergency into a manageable problem.

This advisor’s firm measures everything and it has seen a pattern emerge among clients it has helped navigate through crisis. In addition to thank-you notes, this firm receives two referrals on average in the 12 months following the intervention.

The key to this advisor’s success was in anticipating the problem and understanding that the service she could provide went well beyond traditional financial planning and included well-researched solutions. It also included a willingness to play counselor and facilitate uncomfortable conversations to document—and ideally resolve—family disagreements about what to do.

Match Investments to Clients’ Values
The ability to offer customized investment solutions consistent with client values represents a big opportunity for advisors. Once, these services were available only to the wealthiest; if you wanted to invest according to your conscience, for example, it helped to have a name and a bank account like Bill and Melinda Gates or Bono. But socially conscious investing has become more democratic and easier to access with the assistance of increasingly detailed analytics such as Morningstar’s recently launched globe rating system.

People’s desire to match their lifestyles to their values also has expanded demand for socially responsible investing. They’re eating sustainably raised salmon and sleeping between fair-trade organic sheets. In addition, portfolio managers increasingly are incorporating environmental, social, and governance (ESG) factors into their investment analysis. A recent study of portfolio managers and investment analysts by the CFA Institute found that 73 percent took ESG factors into account when analyzing investments. As a result, sustainable investing is the fastest-growing segment of investing, currently accounting for $1 in every $5 invested and roughly $8.72 trillion of professionally managed assets in the United States.

Research shows client demands related to socially responsible investing are on the rise. Nearly two-thirds of high-net-worth investors want more advice on investing for social impact from their advisors, with demand highest among millennials and women, according to Morgan Stanley. Advisors who don’t make themselves expert in this area risk losing clients. Cap Gemini found that 70 percent of high-net-worth individuals were getting advice on social impact, but fewer than one in four were relying on their advisors as their source.

One reason advisors may be reluctant to provide socially conscious investing advice is the myth that if you add filters for companies that are environmentally friendly, socially responsive, and supportive of the
Separating the Best from the Rest

The conversation is currently client-driven in retail. If clients aren’t specifically asking, advisors aren’t desirous of delving into an arena they don’t understand.

Those advisors who focus on impact investing say it deepens their bonds with clients because it helps clients feel understood. These clients, they say, are more loyal and likely to recommend the advisor to a friend. Because a relatively small number of advisors is focused on impact investing, those who are spending the time to do it now seem to be netting a first-mover advantage. The message of “doing well by doing good” resonates very well in contemporary society and serves as a magnet for the like-minded. To capitalize on momentum, the best advisors are taking the time to define a posture with regard to sustainable investments and they are beginning to have client conversations on the topic.

Conclusion

The winning advisors of the future are on multi-generational teams that manage the complex needs of wealthy families. They have protocols and systems in place to support those in failing physical and mental health. These protocols serve as the all-important bridge to the hearts, minds, and wallets of the next generation of clients.

As our profession matures, advisors who support continuous learning and foster deep expertise will be in the best position to address wealthy clients who have the wherewithal and the inclination to pay a premium fee for superior service. Advisors need to deliver expertise and also clearly articulate the multitude of ways they add value and clearly outline the fees that are commensurate with the service.

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Endnotes
2. See “Retirement Plans,” Last Week Tonight with John Oliver, HBO (June 12, 2016), https://www.youtube.com/watch?v=gvZSpET11ZY.
7. U.S. Census Bureau.
14. See endnote 3.