Laser App Industry Content Series

The 5 MEGA TRENDS in Wealth Management

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Introduction

Welcome to the first in a series of industry content from Laser App designed to help advisors succeed in a more challenging operating environment.

It's no secret these days that wealth management is undergoing dramatic change and transformation, driven by massive "Mega Trends" that will forever alter the trajectory of a growing industry.

These trends range from the evolution of the US wealth market to a shifting regulatory landscape to changing client expectations and the impact of technology, along with the continued movement of advisors towards independence, all compounded by an aging advisor force.

The importance of understanding the impacts of these Mega Trends cannot be understated. Just as other long-standing industries have been disrupted and changed forever by society, government and technology forces that created big-time winners and losers, so to, is wealth management being similarly impacted.

In order to better understand how these Mega Trends will play out in wealth management and to prepare the industry for the coming changes, we have conducted recent research by borrowing the "content analysis" methodology of famous author and social scientist, John Naisbitt.

Naisbitt, in his seminal book "Mega Trends" published in 1982, used content analysis to predict what the future would look like by researching newspapers, magazines and other publications (remember, this was before the Internet!) to identify what was bubbling up. He identified 10 new directions that were transforming society, such as the movement from an industrial society to one based on information, the shift of the US population from the north to the south, globalization, and a "do-it-yourself" approach vs. institutional support, among others.

In 30+ year hindsight, Naisbitt pretty much got it right . Accordingly, we are pleased to present the results of our own content analysis applied to the wealth management marketplace to provide a lens into what we have identified are the 5 Mega Trends in wealth management, what they mean for all participants, as well as a view into what the advisor of the future will look like.

We invite you to learn more about our business and practice management resources by logging onto **www.LaserApp.com.**

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1 http://www.buffalonews.com/did_megatrends_pan_out_a_look_back_at_societal_predictions_30_years_later.html

The Five Mega Trends in Wealth Management

Our content analysis of all of the leading wealth management publications, national business press, industry blogs and social media posts point to 5 Mega Trends that will forever impact our industry.

These Mega Trends fall into the following categories:

- **Financial – The Growth and Evolution of the US Wealth Market**
- **Regulatory – The Fiduciary Standard**
- **Technology – The Evolution and Impact of Digital Advice**
- **Demographic – The Aging of Human Advisors**
- **Institutional – The Growing Advisor Movement Towards Independence**

Trend #1 – The Growth and Evolution of the US Wealth Market

While many industry observers and media stories are highlighting negative news about wealth management seemingly just to get eye-catching headlines, these pundits often overlook one of the most compelling good news stories for wealth management. And that is the continued growth of the US wealth market, which will result in increased demand for financial advice.

Currently, the US wealth market represents opportunity. According to a recent study by Pershing , the US wealth market consists of nearly $32 trillion in investable assets, creating a massive opportunity for the wealth management industry.

Further, this number is projected to continue to grow, driven by the powerful US economy, which continues to drive wealth creation, particularly in the high tech sector. As a result, this growth in wealth is expected to create a 40% increase in the number of millionaires over the next 5 years.

Adding to this wealth management opportunity is the demographic driver of aging baby boomers. Based on the numbers for this massive population cohort , roughly 10,000 baby boomers are retiring every day, creating an unprecedented need and demand for retirement planning and income advice.

The increasing demand for financial planning and investment advice to manage this incredible opportunity points to continued growth in wealth management, a welcome Mega Trend for the industry.

2 What Wealth Wants: Refining Your Firm's Approach to the High Net Worth Market" – Pershing, 2016

3 http://www.pewsocialtrends.org/2010/12/20/baby-boomers-approach-65-glumly/

On the other hand, there are additional trends in the growth and evolution of the wealth market points to potential issues. The coming inter-generational wealth transfer as the baby boomers age and the generation before them passes on creates more challenges than opportunities for the status quo in wealth management.

According to global consulting firm Accenture , $30 trillion will be passed down to the next generation over the coming decades. Despite this enormous figure, the wealth management industry is still not prepared. Industry guru and Pershing Advisor Services CEO, Mark Tibergien famously said, “This industry was built by and for baby boomers.”

With this focus on baby boomers, the next generation of investor who has vastly different expectations and service requirements is often being ignored, putting all advisors at risk. According to Fidelity, 90% of inheritors fire their parents' advisor upon receipt of their estate, a more than compelling statistic that should be sounding off alarm bells in every firm's strategy department.

4 https://www.accenture.com/us-en/insight-capitalizing-intergenerational-shift-wealth-capital-markets-summary

Mega Trend # 1 – Key Takeaways

- What is your approach to gaining market share in a growing industry? Have you invested in a scalable technology infrastructure and are automating processes to gain needed operational efficiencies? Are you aggressively recruiting advisors to be able to handle the coming demand? Are you thinking about potential strategic mergers or acquisitions to gain the size, scale and operational excellence needed?

- What is your approach to attracting and retaining the next generation investors? Are you investing in the client facing technology applications this generation has grown up with? Are you bringing on younger advisors to serve them? Are you developing programs and approaches to develop relationships with the children of your current clients?

Mega Trend #2 – The Fiduciary Standard

With the advent of the Department of Labor's new fiduciary, best interest rule, massive changes await for the wealth management industry. According to some industry observers, the DOL's new fiduciary standard for retirement accounts equates to a generational regulatory change, perhaps not this far-reaching since the deregulation of the 1970's that created discount brokerages.

By mandating that advisors offering advice on retirement assets act in the "best interest" of the client, commission-based advisors, broker dealers, insurance companies and investment product purveyors will all need to drastically alter their business models.

Already we are seeing impacted firms such as the largest independent broker dealers LPL and Ameriprise , make changes to their investment products, accounts and managed programs. According to many industry studies and actual firm reports , independent broker dealers are spending up to $16 million to rectify their platforms in order to comply.

The big fear? Lawsuits.

By including the "Best Interest Contract" exemption as a way for commissionable products to be included in recommendations on retirement accounts, firms must get client agreement in the form of a legal contract, opening up firms to down-the-road legal liability exposure that their actions and recommendations were in the best interest of the client.

While the fiduciary standard requirement by the DOL currently only affects a sub-set of wealth management assets in retirement accounts for now, the fiduciary standard is expected to be broadened to all brokerage assets once the SEC enacts its fiduciary rules as mandated by the Dodd Frank Act, signed into law in 2010. Thus, the DOL rule is just the beginning of a wide-ranging need to comply with fiduciary standards across the entire industry.

As a result, low-cost index products and ETFs are expected to become in even higher demand while high-commission products such as variable annuities and non-traded

5 http://www.investmentnews.com/article/20160509/FEATURE/160509939/the-dol-fiduciary-rule-will-forever-change-financial-advice-and-the

3 http://www.pewsocialtrends.org/2010/12/20/baby-boomers-approach-65-glumly/

REITs are rapidly going out of favor. As an example, in advance of the DOL rule, non-traded REIT sales have fallen more than 70% .

Thus, revenues will decline for advisors and their broker-dealers who depend on these lucrative products as the source for a bulk of their profitability, leading to expected consolidation in the independent broker dealer industry. Further, older advisors who have been commission-based are also expected to hang up their shingles and the industry will see a spike in advisor retirements.

Even fee-based, fiduciary independent RIAs will face changes from the DOL's new mandate, particularly in how they handle rollover IRA transactions that may increase compensation to themselves by recommending clients move their 401k's over to their higher fee AUM-based management.

7 http://www.investmentnews.com/article/20160724/FREE/160719937/nontraded-reit-sales-fall-off-a-cliff-as-industry-struggles-to-adapt

Mega Trend # 2 – Key Takeaways

- What is your strategy for changing the technology and product mix? How will your new account opening process change? What training will you need to provide to advisors to ensure compliance? What new systems and workflows are necessary to implement to shield from future liability? Are you thinking about potential strategic mergers or acquisitions to gain the size, scale necessary to survive in a lower revenue world?

Mega Trend #3 – Evolution of Digital Advice

Probably the most talked about and hyped Mega Trend we have identified is the advent of the robo advisor, offering personalized investment advice through online, digital and mobile platforms.

Robo advisors entered the mainstream in 2008, (although one could argue that the first robo advisor, Financial Engines, pioneered the space in 1996) with the introduction of VC backed online firms looking to disrupt wealth management. That era, what we are calling Robo 1.0, caught the industry by surprise, with many predicting that the robos early success would do to financial advisors what Amazon did to booksellers or Expedia did to travel agents.

Beyond the low costs for algorithms that generate investment portfolios of low cost ETFs and then periodically rebalance, the robo advisors did bring needed "client experience" innovation to the industry. This enhanced, automated service model provided elegant, easy to use interfaces, account aggregation capabilities and wealth views, along with advanced mobile access and paperless account openings.

However, as the robo phenomenon has played out, we have seen the power of the wealth management industry in adapting and adopting these new capabilities for itself. Once the giant online brokerages realized that the barriers to entry in launching a robo advisor were very low, the land rush began, ushering in the Robo 2.0 movement.

Now, Schwab, TD Ameritrade, Fidelity, E Trade, Invesco, Blackrock, UBS, Morgan Stanley, Wells Fargo – virtually every major player in financial services – are now all offering robo capabilities. This new form of big brand competition is basically "out-robo'ing the robos" and putting the long-term sustainability of the direct business to consumer robos in doubt. As a result, many of the early robo entrants are now pivoting to becoming business to business platforms for the big firms to white label, acquire or rent out to the industry so that anyone, even the smallest independent advisor, can now offer robo capabilities.

Because of the wide spread availability of low cost robos, investment management costs are headed to zero (Schwab's robo is "free") basically fully commoditizing investment management services. Thus, advisors will need up their game in articulating the value they provide by highlighting their relationship-based, behavioral finance, financial planning services models. Otherwise, if advisors are purely transaction oriented, then their long-term sustainability is also in doubt as those functions will be replaced by robots who can do those services faster, better and cheaper.

The Three Eras of Digital Advice

- **Past: Robo 1.0** – VC backed, direct to consumer models catch industry by surprise
- **Present: Robo 2.0** – Online, big brand brokerages now deploying robos, early direct to consumer robos pivoting to white label business-to-business platforms
- **Future: Robo 3.0** – Internet Giants (Apple, Amazon) combine massive user bases, artificial intelligence, big data and voice recognition to enter wealth management

Despite the widespread availability and adoption of robo capabilities by the industry currently, there is still danger lurking in the future a few years down the road. As we look to the Robo 3.0 era and what it will entail, we will see potentially, big-time industry disrupting forces unleashed from the Internet Giants – Amazon, Apple, Facebook, and Google.

These colossal online entities make it a priority to use their innovative technology-based service delivery models and massive user bases to eliminate the middleman. Combined with the advent of artificial intelligence, integrated with voice recognition and big data, and it is not too far of a stretch to envision a scenario where investors will be having a wealth management conversation with Apple's Siri or Amazon's Alexa, which will then be implemented through iTunes brokerage or Amazon Prime.

Mega Trend #3 – Key Takeaways

- What is your approach to deploying new "client experience" technology? How are you arming your advisors with the latest robo capabilities? How will you adjust your AUM pricing model to reflect the commoditization of investment management? How are you differentiating and articulating your advice and value add from the robots? How are you preparing to compete with the big Internet Giants? What is your strategy for harnessing big data and artificial intelligence?

Mega Trend #4 – Aging Human Advisors

The vast baby boomer generation that is driving Mega Trends in the US wealth market is also impacting the financial advisor industry in a similar way.

Coinciding with the retirement trends highlighted earlier, human advisors will start to retire in big numbers over the next few years, creating both challenges and opportunities for industry participants.

Mega Trend #4 – Key Takeaways

- What is your strategy for transitioning aging advisors? What programs do you have in place to find a solution to the lack of succession planning? How are you attracting, training and retaining next generation advisors? How are you approaching M & A in a consolidating industry?

According to multiple industry studies , the average age of advisors is getting close to 60 and now there are more advisors over 80 than under 30. Adding to the urgency for the industry to develop a transition plan is the fact that over a quarter of advisors are looking to retire in the next 5 years, yet less than a third have a succession plan in place. The industry has not planned appropriately, creating angst not only among executives, but also for end-clients who worry their advisor may not be there for them long term.

Driving this trend of retirement for advisors, beyond just the age demographics, are the other Mega Trends we have highlighted, such as the DOL fiduciary standard that will shrink commission revenues and the encroachment of technology driven, lower cost competitors. Combined with an aging bull market, and many advisors will be planning to exit the business at top firm valuations.

As a result, trillions of dollars in assets will be up for grabs as advisors retire creating the potential for a rapidly consolidating industry. Already, the industry is seeing an uptick in mergers and acquisitions and this trend is expected to continue as advisors look to monetize their businesses .

Along these lines, the next big question for the industry is where will be the next generation of advisor come from? Historically, Wall St. was the source of huge training classes that taught the business in scale, however, post-financial crisis, those training budgets were cut.

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8 http://www.jdpower.com/press-releases/2016-us-financial-advisor-satisfaction-study
http://www.imca.org/sites/default/files/2016-Q2%20IMCA%20Research%20Quarterly.pdf

9 http://wealthmanagement.com/rias/deals-rise-rias-use-ma-activity-spur-growth

Mega Trend #5 – The Growing Advisor Movement to Independence

Mega Trend #5 – Key Takeaways

- What is your strategy for attracting and onboarding wirehouse advisors going independent? How are you investing in technology to increase capacity and make these advisor and client transitions smooth?

A perfect storm of industry developments has created the Mega Trend of employee-based advisors leaving their mother ships and going independent as either a start up RIA, joining an existing RIA or aligning with an independent broker-dealer as an independent contractor representative.

The financial crisis of 2008-2009 so severely damaged the brands of the venerable Wall St. giants that they may never recover to their former glory. Not only have clients continue to defect from these firms, but also their advisors are now following those clients towards the open architecture of independence and a better advisor/client experience.

As technology has improved, advisors no longer need to have a vast institution to provide them with access to investment products, client service capabilities, money movements, etc. In fact for many independent advisors, they have superior technology as their nimble stature enables them to quickly embrace and adopt the latest developments while the lumbering technology departments of Wall St. are too busy integrating their legacy mainframe systems from government forced mergers vs. being able to innovate on new platforms.

Cerulli, the industry research firm that has been keeping stats on the advisor migration for over a decade, has continued to release annual reports documenting the advisor movement to independence. The most recent now predicts that one quarter of current wirehouse advisors will become independent over the next few years. Additionally, JD Power's annual advisor survey highlighted the fact that the number of employee-based advisors interested in going independent has doubled over the last two years.

Driving this expected migration is the expiration of the billions of dollars wirehouse advisors were paid in the form of "retention bonuses" as their parent firms were going bankrupt, being merged into banks, or having to be recapitalized by the government during the financial crisis. Those retention bonuses were provided in the form of 7-9 year forgivable loans that needed to be paid back if the advisor left before the accrual of their loans.

Now that those loans are nearly fully accrued 8 years later, there is nothing holding those advisors back from leaving and going independent.

10 http://www.thinkadvisor.com/2015/10/08/25-of-wirehouse-advisors-expected-to-go-indie-by-2

11 http://www.jdpower.com/press-releases/2016-us-financial-advisor-satisfaction-study

The Advisor of the Future

Based on the Mega Trends impacting wealth management noted above, the natural follow up question becomes: what will the advisor of the future look like? That future advisor is already starting to emerge as investing becomes more and more of a commodity and technology is playing a bigger and bigger role in the delivery of wealth management advice.

The one constant we have seen with investors is that people are emotional when it comes to money. Our brains are hard wired to make wrong decisions when it comes to volatility or uncertainty, and thus will always seek out human advice for the big issues, goals and aspirations we have and want to accomplish with our financial resources.

As a result, we believe that advisors will gradually transition into becoming "financial therapists" that leverage behavioral finance techniques combined with dynamic financial planning and client experience technology to provide an invaluable solution that robots will never be able to provide. This approach allows advisors to charge premium pricing for the services they actually provide, and not have to bundle them into an AUM fee that will be a focus of commoditization.

This focus on higher value added services and behavioral finance coaching will help clients better manage their wealth and make sense of their financial outcomes vs. focusing on commoditized investment services.

Ultimately, we believe that advisors will become "Bionic" in the sense that they will provide a combination of human advice with technology driven operational efficiencies to deliver content and advice through technology-enabled channels.

This bionic approach will free advisors up to manage more clients and grow their businesses as a true, professional "adviser". Ultimately, creating more capacity in the industry to make up for the decline in the advisor population, as well as being able to economically serve smaller investors.

How Laser App Helps

What is your strategy for transitioning aging advisors? What programs do you have in place to find a solution to the lack of succession planning? How are you attracting, training and retaining next generation advisors? How are you approaching M & A in a consolidating industry?

- **Growth of the US wealth market –** Laser App streamlines back office processes, creates the needed efficiencies and advisor productivity, to provide a scalable infrastructure to manage growth
- **DOL Fiduciary –** Laser App is mission critical to managing compliance with the new account process and BIC contract by automating processes and providing an audit trail to ensure adherence, protecting firms from future liability
- **Digital Advice –** Leverage Laser App to enhance the online client experience with paperless account openings through integrations with digital signatures, CRM and document management to create an automated end-to-end process
- **Aging Human Advisors –** Laser App is a key automated platform to manage the transition of retiring advisors' clients from one advisor to another
- **Movement to Independence –** Laser App is instrumental to the transition of advisors from one firm to another, enabling quick onboarding so that revenues are not lost during transition

Conclusions

1. The US wealth market is huge and will continue to grow, creating unprecedented opportunities for wealth management. The future is bright!

2. Financial advisor is one of the highest rated for job satisfaction and will continue to be a top career choice. The key is to continue to groom the next generation of advisor to drive success.

3. Robots will not replace human advisors, but they will supplement advice delivery in a positive, efficient way. The quicker firms are able to integrate the two in a "bionic" fashion, the more likely they will become industry leaders.

4. Operational and client facing technology will be the key to increasing capacity and meeting new client expectations. The winning firms will be those who increase investments that will have the biggest ROI.

5. The wealth management industry will adapt to the new environment and Mega Trends, however there will be big winners as well as big losers. The key for all industry participants is to start planning and preparing now for the coming changes.

About Laser App Software

Laser App Software creates advisor friendly solutions that combine state-of-the-art forms-filling technology with a massive library of industry related forms. Laser App maintains forms so advisors can focus on their clients, rather than filling out paperwork. Founded in 1995 by financial advisor Ed Beggs, Laser App has pioneered forms filling in the financial services industry. **www.LaserApp.com**