Advisors: How to Outsmart the Smartphone

By Kerry Pechter *Thu, Feb 11, 2016*

The shorthand message to registered investment advisors at the Technology Tools for Today (T3) conference in chilly Fort Lauderdale this week: Don't end up as a Yellow Cab in an Uber world.

Digital disruption has human voices, and I am listening to one.

“My firm has lost three clients to Vanguard’s financial planning service this year,” said the successful, Wharton-educated registered investment advisor sitting next to me, with just a trace of bitterness. “But Vanguard isn’t telling the truth about its service. That’s not real financial planning. It’s just asset allocation.”

But Vanguard may be feeling the heat too. Its programmers are probably coding as fast as they can.

The RIA and I both attended the “T3” advisor conference in Fort Lauderdale this week, where 500 or so RIAs gathered in a beachside Marriott to learn why the latest in direct-to-consumer financial technology, or fintech, is a must-have for them and not a nice-to-have.

The news at the conference, organized for the eleventh consecutive year by fintech analyst Joel Bruckenstein, is that the future is not coming, it’s already here. Even for advisors, financial services is increasingly customer services. [Editor’s note: I’m in a beachfront Starbucks, and at every table a 75-year-old is on a smartphone or tablet.]

RIAs are already using technology in their back offices and middle offices, to outsource or automate whatever chores can be outsourced or automated. But they were told at T3 that they need much better client-facing interactive technology, especially if they hope to inherit their current clients’ tech-savvy Millennial children.

The 79 tech companies with exhibits at the conference were there to fill that need. Companies like Morningstar, Fidelity, eMoneyAdvisor, MoneyGuidePro and Redtail, as well as Oranj, Riskalyze and Intelliflo pitched, demonstrated or announced the arrival of their newest software or platforms or mobile apps. There are enough options to make even a computer-literate advisor’s head spin—but nobody wants to end up as a Yellow Cab in an Über-driven world.

Morningstar, the robo

Morningstar, Inc., a sponsor of T3, is determined to be a leader of the fintech parade. The Chicago-based fund-rating juggernaut, has been building and buying software and robo-advice firms. Morningstar serves institutions, advisory firms and even individuals, and relies on technology to distribute its vast storehouse of investment data.

Morningstar bought robo-advisor HelloWallet, for instance, in mid-2014, and plans to expand its reach beyond 401(k) plans. “HelloWallet was mainly a workplace product,” said Tricia Rothschild, Morningstar’s head of global advisory solutions and a speaker at the conference. “But we’ll be bringing it out of the workplace and into the broader retail market in the next year or so.”

In 2014, Morningstar also acquired account aggregation tool, ByAllAccounts. Last fall, 2015, it bought Sheryl Rowling’s tax-rebalancing software, Total Rebalance Expert (tRx). Rothschild said Morningstar will be partnering a ByAllAccounts partner, WealthAccess, which provides digital client interfaces. Morningstar also has a relationship with Sustainalytics, a Europe-based firm that which assigns ratings to funds on the basis of their sensitivity to the environmental, social and governance issues.

Rothschild described the next-gen RIA’s role as more data-hub for clients than investment guru. “It’s not your data or my data; it’s the client’s data, and the client has a right to data that’s current, portable, secure, and rich with insight,” she said. “Job One is to make sure the data flows and meets the client’s needs. Job Two is to create an open information ecosystem that’s not vertically integrated.” Within this framework, she said, the advisor’s proper role is to “provide context, overcome emotional hurdles, and to motivate clients to act when necessary.”

Amazon as financial planner?

Bob Curtis, founder of MoneyGuidePro, appeared at the conference to introduce a forthcoming version of his product, G4, and to emphasize the low-friction “on-boarding” strategies that robo-advisors learned from firms like Netflix and Airbnb and transferred to the financial services game.

“The most important contribution of the robo-advisors is that they created a technology bridge to the client,” Curtis said. More than 70% of consumers are afraid to go to a financial advisor, he said, in part because they don’t want to share confidential data. With the robo-advisors, they like the ability to control how much they reveal.

Upstart robo-advisors are not advisors’ biggest threats, in his opinion. The threat to RIAs is more likely to come from big fund companies or banks, he said which already have millions of customers.

“Vanguard is a much bigger competitor for you than the other robo-advisors,” he told the RIAs. Vanguard, traditionally a minimalist with a do-it-yourself client base, now offers more phone assistance from certified financial planners than in the past, in addition to assistance from trained call center operators.

“And what happens if the banks get good at planning?” he asked. “It’s starting. They see the stress on their business models. Big firms are coming to us for new products, and now your clients have the banks pursuing them.” [At this point, a small, buzzing propeller-driven drone hovered toward Curtis, who retrieved a paper scroll that was attached to it.] “It’s a message from Amazon,” he joked. “Amazon isn’t doing financial advice yet, but there’s nothing stopping them. The idea of Amazon and the big banks getting into financial planning keeps me up at night.”

Coming to a screen near you

The general consensus on the future of financial planning at T3 seemed to be something like this: Clients will want to access all of their financial information on the screens of their smartphones. Advisors will ask some clients to input essential information about themselves through these portals. They will be able to upload images of important documents to a lockbox via their portals, which will be as personalized and almost as image-rich as a Facebook page. And, to an unprecedented extent, they will build their own plans.

“You can let the client do the plan entirely on their own, and then review it for them,” said Kevin Krull, president of MoneyGuidePro.

An ability to scale is becoming essential, he said, because the typical advisor will need four times as more customers than they now have to earn the same income. Unprecedented fee compression is coming, thanks to the anticipated DOL fiduciary rule and competition from large institutions. Advisors will need to shift their attention from numbers to clients, and to adopt goal-based instead of performance-based planning styles. Metrics will highlight progress toward client goals, not just performance.

That may not be easy, because the two are hard to separate. One of the speakers noted that when markets go down and clients need to spend less, advisors usually tell them to eliminate goals on their ‘wish list,’ and to leave items on their ‘necessity’ list alone. That’s apparently a mistake. “Don’t cut the wishes first,” Krull said. “Clients want you to show them how they can still get their wishes.” Good luck with that.