Key Insights for a Changing Industry

Demographics in Wealth Management

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Key Insights for

Asset Development in A Changing Industry

Introduction

The financial industry and the financial advising community are rapidly changing. Changes in the broader financial community today are being reflected in the financial advising services industry. Uncertainty in the markets is reflected in the uncertain investor.

In Canada, financial advisors to the small and medium business segment (SMB) today comprise 80,000 professionals, with a potential customer base of 12 million households.[1] SMB Financial advisors also make up approximately 80% of all financial advisors in Canada. [2] This includes independent full-service securities brokerages such as Mackie Research, and mutual fund and securities dealers, insurance agencies, and exclusives agents of insurance companies, not associated with “Big-Six” banks and credit unions.[3]

The ability to survive is dependent on the awareness of the environment and circumstances, and the ability to keep an open mind proactively create change in your business: “Here in Canada, financial advisors in the SMB segment are already under pressure to consider new business models, products, customer segments and channels to maintain their unique value proposition and be sustainable in the future.”[4]

According to an Advocis report published in July 2014, stated that “Recent periods of low savings rates and the trend away from defined benefit pension plans have heightened anxiety about preparedness for retirement, especially within the baby boomer generation. Customer preferences, particularly those of younger segments of the population, are shifting toward a desire for increased knowledge and control of a household’s financial situation and investment status.”[5] Debt levels of Canadians are at record highs, and individuals need to know that there is a value in the professional service you provide. Financial Advisors at private firms such as Mackie Research are poised to collect on the current situation. Identifying problem areas in service delivery, as well as the critical needs of clients which are not being met, will create huge opportunity by Mackie Research Investment Advisors can profit greatly. The ability to actualize success in this realm, however, will depend on the firm and the individual advisor’s willingness to see clearly the way the tide is turning, and ultimately the level of motivation one can muster to rise to the challenge of meeting the real needs of those they serve. Compensation and profit will follow accordingly.

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[1] *Sound Advice: Insights into Canada’s Financial Advice Industry*, Advocis report, PricewaterhouseCoopers LLP, published in July 2014
[2] Investor Economics Strategy Consulting. *Financial Advice Industry Statistics – Draft*, Section 1&2, quoted. In *Sound Advice*. Page 1. Ibid.
[3] Ibid.
[4] Ibid.
[5] *Sound Advice: Insights into Canada’s Financial Advice Industry,* Advocis report, PricewaterhouseCoopers LLP, published in July 2014

The Regulatory Climate for Financial Advisors

A breakdown in fiduciary trust, uncertainty in markets, and an ever-increasing number of financial advisors in a growing financial services market has created concern within the financial industry regulatory bodies.

Transparency requirements are increasing as we see the introduction of the CRM2 and the POS. Compensatory regulation and the consolidation of the varying streams of accreditations by one large government education regulatory body, such as the model in Quebec, "where a government body oversees the whole of the financial advisory profession,"[6] could create new challenges for the independent advisor.

> "**Potential and in-progress regulatory reforms may have a profound impact on this industry"**[7]

We have already seen the impact in the UK and Australia on the financial advising sector. Newly implemented regulations in the UK had the result of a 25% drop in the number of financial advisors – roughly 10,000 advisors. Advisors are moving away from providing affordable comprehensive advice, leaving lower and medium income clients in the market to "do-it-yourself" service providers.[8] Chair of Advocis David Juvet says that indeed "the most challenging issue…[to] arise is the regulatory push to ban commissions in an effort to protect consumers – a move that would actually reduce consumer access to advice".[9]

[6] "Alphabet Soup" Forum Magazine. June/July 2015 p. 12
[7] Advocis. P. 4
[8] "The Changing Face of Financial Advice: 2015 and Beyond"
[9] "The Final Word; Reflections on Progress." Juvet, David. Forum, June/July 2015.

The Regulatory Climate in Ontario

Recently the Ontario government commissioned an independent expert panel to examine how financial advice should be regulated.[10] By early 2016 they will deliver a report on their recommendations for a formal consolidation of industry standard professional designations. The intention is to clear up some of the confusion and over-lapping nature of the myriad of financial advisor regulations. Some sources recommend the Quebec model, in that it "restricts the use of the title financial planner in law."[11]But restricting the title of financial advisor to those with a CFA designation would alienate the 100,000 Canadians with financial advisors serving them – which means that consumer protection would not be at the core of this move. The important point is that consumers will be able to distinguish who is qualified and who is not, and whether they are acting in their best interests, and if they are being overseen and regulated.[12]

In interviews with users of financial advisors, many admit they are less concerned with industry designations and more concerned with whether the advisor possesses the requisite knowledge.[13] Founder and President of the Knowledge Bureau ™, Evelyn Jacks, says the real question she sees as of concern to advised investors is, "do the knowledge, skills, and competencies that are available in this industry, or collaboratively with other industries, meet the needs of sophisticated clients in a changing environment?"[14]

[10] Forum. "Alphabet Soup". June/July 2015
[11] Ibid. Alphabet Soup.
[12] "Alphabet Soup" Forum Magazine. June/July 2015 p. 11
[13] "Alphabet Soup" Forum Magazine. June/July 2015 p. 11
[14] "Alphabet Soup" Forum Magazine. June/July 2015 p. 11

Competition for Financial Advisors

As younger demographics progress in their careers and professions and begin to collect assets, their respective Schedule 1 Banks are likely to offer them their investment advising services to sell them investment products and services. They are offered to clients who have acquired and maintained a certain net worth. Typically, only once they have achieved the specified status of net worth, they are seen as inherently valuable, and assigned to a “relationship manager”.

Big six banks rotate relationship managers throughout bank branches, to prevent their representatives building meaningful relationships with the client. The trust that is built becomes associated with the bank “brand” rather than the person who is serving the client. This is a more advantageous relationship to the bank than to the client. At best a client may have the same advisor for a few years. This may be one reason for steady decline in fiduciary trust in the financial services sector.

As a firm of trusted advisors since 1921, our service is incomparable to that of a Schedule 1 bank. With meaningful client relationships spanning four generations, there is some of your unique value position in the sheer length of time you are able to commit to clients. This is a definite edge over almost all other financial advisors within the 20% who are available by the “Big 6”.

Still, competition from bigger banks is increasing. Investors have a multitude of options:

> “Firms like Charles Schwab, Fidelity and Vanguard have moved beyond asset management and self-directed brokerage to a hybrid model that combines managed accounts and guidance with cutting edge technology, all delivered at an exceptionally low cost. Powered by hundreds of millions of dollars in venture capital, startups like Betterment, FutureAdvisor and Wealthfront have vowed to disrupt the investment industry and bring advice and managed money to the masses. Improved technology and low-cost index ETFs have made it easy for such startups to produce customized low-cost portfolio recommendations for consumers. This represents a compelling value proposition to younger investors who are skeptical of traditional wealth managers and demand strong but inexpensive self-service functionality.”[15]

The Andras Group narrative and the legacy this firm is one of the strongest selling points of this premium investment firm. It makes you first in your class. In addition to your story, you have the added value of the whole life-cycle services you can provide. In every stage of a client’s life, they can come to you for advice – with managed accounts, clients are never charged for the number of times they use your service. We must stress the sheer volume of potential services available. Much of your added value lies in the range of services you can provide, your level experience, the range of clients you could serve, and the value you provide to those clients through these services.[16] The fact that Mackie Research does all of its own settling and clearing alone gives it maneuvering

[15] “The Changing Face of financial Advice: 2015 and Beyond.” Corporate Insight. 2015. http://bit.ly/1NLhZBc
[16] “Sound Advice” Executive Summary; P. 2. Advocis, July 2014.

capabilities that many other financial services provides simply do not possess. Before you meet with your clients you should review the services that could match your clients' needs at the present time and in the short-term future, and bring the appropriate newly printed Andras Group marketing booklets.

The strong foundation of character is what has allowed the Andras Group to flourish without being uprooted. This is one of the best strengths of the group, and character development needs to be an ongoing process because character has a profound impact on the health and wealth of an organization, "because the institution is usually the length and shadow of its founders and leaders. That's both good news and bad news; it works both ways. But if people are proactive and progress from dependence to independence and then develop the maturity to balance courage and consideration, character and competence, they can achieve high states of interdependency and set up win-win agreements and partnerships with stakeholders. And their influence will expand, and their legacy will last."[17]

Opportunities for Growth

The Canadian government has been trying to find ways to increase financial literacy among the general public as well as encourage them to save more. The reality is that debt levels among Canadians are at an all-time high. As generations have lived beyond their means and created this reality, younger generations are creating meaningful changes in these trends. As financial advisors and portfolio managers, you are poised to help clients who are ready to become savers, increase their financial literacy, and work together to achieve their long-term financial goals.

According to managing director of Objective Financial Partners Inc., Jason Heath, there is a "glaring hole in the private sector when it comes to advice and literacy."[18] They have identified many people who are highly skilled professionals but that do not have knowledge or experience in personal finance. These include lawyers and financial advisors in the financial sector.[19] Heath's point is that financial literacy is a personal responsibility that begins in the younger years; mine is that these professionals represent a part of the population that is underserviced by Portfolio Managers, and they are a market we need to target.

[17] "Character First" interview with Stephen R. Covey. May 1994. Franklin Covey.
[18] Globe and Mail, "Class is in session; The plan to help kids prepare for brave new financial worlds". Saturday, June 20, 2015.
[19] Ibid.

Client Demographics, Ages and Generations

Ages 15-35: Millennials: born between 1982 and 2002

Millennials: born between 1980-2000

In Canada, the millennials make up 7 million people. 68% of millennials have a university education –compared to 43% in 1981.[20] The focus of millennials is on living healthier lives, using technology to maximize this experience.[21] A recent survey in Globe Investor revealed that 80% of millennials sleep with their phones next to their beds.

Ironically, as the use of technology to improve our lives increases, people in general are unwittingly becoming trained for 'self-service'. The predominance of the internet and cell phone applications that allow you to 'do everything online', for example, means that companies and so-called service providers can actually get away with doing less to

[20] "Trend," Globe Investor, July/August 2015
[21] Ibid.

deliver their service. This is an area of modern society where financial advisors can seek to benefit.

Ages 35-55: Generation X, born between 1960-1980

When it comes to working with younger clients as investment advisors, experience and evidence show that “younger prospects are more likely to have expectations that are similar to those of self-directed investors.” This is true for Generation X investors as well as for millennials, however, in a slightly different manner for each: Gen-X investor’s life experience and cultural upbringing have them operating on a self-sufficiency paradigm. They came of age in the DIY (Do-It-Yourself) era, and they take a “do-it-yourself approach to their finances. Their first exposure to investing was through discount brokerage firms like Schwab and Fidelity,” such firms that figured out how to deliver “services that were once exclusive to full-service brokerage firms but at a much lower cost.”[22]

Millennials, on the other hand, are so-called tech-savvy, and will use their smart-phones to compare prices efficiently online. They are “digital natives who are used to comparison shopping and who rely on peer reviews and ratings when making major purchasing decisions.” [23]

The important take-away with millennial and generation-X clients is that these demographics are going to question your price structure and even your decisions and rational as advisors. They have the knowledge and capability to find out what is out there, and the veritable deluge of information makes them compulsively curious as to ‘what is behind the other door.’ To deal with these clients well, your job is to prove that you are more knowledgeable, more capable, and ultimately and inherently more sophisticated than any web application, investing blog, talking head, or Globe and Mail writer.

Ages 51-69…. Baby Boomers: born between 1946-64

The general trend among Boomers with regards to civic engagement is similar to the ways they engage with their advisors: “more Boomers are engaged in demanding ways.”[24] According to the National Conference on Citizenship, millennials are also more civically engaged than their predecessors. They are “more engaged than Generation X and engaged in different ways from the Boomers.”[25] Boomers want to speak with their advisors over the phone and often. They will not use technology as often to engage civically or with advisors, but they will ask for phone updates and hard copies of documents, whereas younger generations will want to email and use technologies like

[22] Ibid. “The Changing Face of Financial Advice: 2015 and Beyond”
[23] Ibid. “The Changing Face of Financial Advice: 2015 and Beyond”
[24] Ibid.
[25] “Two Special Generations: Millennials and the Boomers” National Council on Citizenship

VeriSign to sign documents with digital inscription for security, rather than handle paper documents in less time-sensitive manner. The general trend among Boomers with regards to engagement, civic and otherwise, is similar to the ways they engage with their advisors: “more Boomers are engaged in demanding ways.”[26]

Proactive Client Relations

Understanding Client Priorities

A quick glimpse at a random selection of investment advisor websites online will demonstrate to you that reality that advisors don’t think their online presence is a factor in their overall success. Or they do, and they don’t care. Both scenarios are problematic. There is a growing dissonance between the advisor’s perceptions of what quality service means, and the evolving expectations of their clients.[27]

The reality is that for the average advisor, the online client-facing interface is an afterthought.[28] Recent surveys have demonstrated these “differences in how financial advisors and investors rated these technological aspects of the overall customer experience.” The result is that the financial advising industry is failing to meet client expectations.

Advisors and their firms need to adapt and evolve if they are going to generate the profits through their business and survive. Client satisfaction is this area is low. While some advisors acknowledge that client-facing technology is important, even fewer acknowledge that mobile access to clients is important as well. Self-directed brokerage firms are still miles ahead of the pack: “Over the years, Corporate Insight’s Brokerage Audit service has found that full-service brokerage firm websites have consistently lagged behind self-directed and hybrid brokerage firms by significant degree.”[29]

The most important point here is the highest net worth clients value online access to accounts and the quality of the client-facing interface experience the most out of all of your potential client groups, regardless of age: “…Nearly two-thirds of the world’s High Net Worth Individuals expect to manage most or all their wealth relationship digitally in five years and would consider leaving their current firm if an integrated channel experience is not provided.’”[30] The attention paid to this area of your business could have the biggest return-on-investment simply because of this fact.

[26] Ibid.
[27] “The Changing Face of Financial Advice: 2015 and Beyond”
[28] Ibid.
[29] “The Changing Face of Financial Advice: 2015 and Beyond”
[30] “The Changing Face of Financial Advice: 2015 and Beyond”

Recommendations

Development Digital Client Access

A newly adapted website will allow prospects and referrals to easily access our service and to become immediately familiar in a time-sensitive way.

The website will showcase the Unique Value proposition of the Andras Group financial advisors, helping target audiences understand your unique service, and also create a call to action on their part. The text of the body will explicitly direct clients to “Call us now.” Online referrals are also an untapped source of asset growth for the Andras Group.

The website operates as an easy-to-use informational portal. For example, clients can login and access their account. It provides a service, which immediately demonstrates the Andras’ Groups dedication to willingly and easily provide affordable services.

The website is a key referral and lead generator, especially for our target new client groups, age 18-40. A smoothly functioning and well-maintained website will increase client retention rate. All segments of clients are now expecting to be able to access their investments or at the very least, to be able to access their investment advisors online. The age of the client does not seem to matter with respect to this expectation. Ndex portal access should be actively promoted, as well as the filling out of section #5 of all New Client Application Forms, the request for online access. Unsurprisingly, while this may require some work up front, there will be an advantage down the road, especially to having newly referred clients.

The website is also a method to provide tools for existing clients, ex: a mortgage calculator, education and information on starting and RRSPs, and allows us to refer clients to other sites, who could in turn cross-promote AG.

Easy Online Access for Mackie Clients

Client Login up needs to be in clear view, up front and center on the Homepage.

Younger clients want to know they can easily and securely access their portfolios and their manager. Access to online balances can be achieved through NDEX on the Mackie website. Although access to account balances could mean that a client may check balances more frequently than before, the upside is that they will be able to see the results of their savings sooner as well. The increasing balances in their bank accounts due to automated savings deposits into their TFSA and RRSP accounts will be a pleasing and possibly addictive occurrence.   Though in down markets clients may grow to dislike seeing balances drop – they will in another way become addicted investing. We must remember that access to savings account may have the added benefit of allowing the client to become addicted to saving.[31] You can also stress this psychological payoff to clients new to online access.

If we can attract younger clients who are promising professionals, they will come to see the value of saving sooner. As promising single professionals, they will have more disposable income than their older and married counterparts to save. They will open investment accounts, now with a substantial amount of savings, and come to want other financial products. It will be up to you to come up with unique options to offer clients – an important part of your unique value (or service) proposition, which justifies your fee structure. Once you explain how you are being compensated, you can stress the many facets of your unique value in your client meetings (especially those that make you distinct and stand out from the “Big 6” banks). An advisor using an embedded fee structure to sell life insurance says he likes to explain his compensation like this:

“Once in a while when clients initiate a meeting for advice, at the end they ask for an invoice to pay for the service. I would explain how we get compensated and encourage them to use our service as much as possible. Many have said, “one of the reasons I like dealing with you is I never get a bill.”[32]

[31] Letters, “Timing Allowances” Forum Magazine, May 2015
[32] Letters: “The Final Word, March 2015, Page 38” Forum Magazine, May 2015