SEI New ways. New answers.®

The Next Wave of Financial Planning how to compete in an endlessly changing advice marketplace

Raef Lee, Managing Director and Head of New Services and Strategic Partnerships, SEI Advisor Network John D. Anderson, Managing Director and Head of SEI Practice Management Services, SEI Advisor Network

Michael Kitces, CFP[®], Partner and Director of Research for Columbia, MD-based Pinnacle Advisory Group, and publisher of the *Kitces Report* and the popular financial planning industry blog, *Nerd's Eye View*



Table of Contents

Introduction	1
The Evolution of Financial Planning How the audacity to challenge the status quo has altered the investment services landscape A perfect storm: The catalysts of change Timeline — Key events that shaped the financial planning industry	3
Mapping the Evolution of Advisors and Planners — Perception vs. Reality Shift to wealth management Articulating a value proposition and delivering on it	7
Generation Gaps: Serving the Needs of Multifaceted Market Segments	
Technology Disruptors: Innovative Financial Planning Financial planning and software moves to the core of the offering. Different price points. Goals-based planning and reporting. Painless data gathering and aggregation Co-planning: Collaboration between advisors and investors Financial plan delivery User interfaces and new client engagement techniques	
The Effect of Robo-advisors What's in a name?. The robo-advisor market The robo-advisor landscape. Robo-advisor obstacles Robo-advisor impact on fees?	
The Next Wave Financial Planner: Eight Things Advisors Should Do Now	

Introduction

From tenuous beginnings in 1969, the financial planning industry struggled to name, define and defend itself against cynics and competing forces for decades. Now, as the industry approaches its 45th anniversary, the narrative has changed dramatically and the digital revolution has finally caught up with wealth management.

Today, new technologies are emerging at such dizzying speeds, they are outpacing their adoption. From enhanced aggregation to do-it-yourself automated investment advice solutions, the field is changing in ways the founders of the financial planning movement never imagined 45 years ago.

Changing advisor and investor demographics are also shaping the way advisors deliver their services. Advisors of the future will serve a far more technologically literate and diverse clientele, which will necessitate fundamental changes in their business models, technology platforms, hiring and training practices, and communication strategies.

We believe demographics and technology will drive the next phase of the advice industry's evolution. In this paper, we reflect on financial planning's first 45 years and consider the realm of possibilities for the future. We survey the landscape, explore the implications and offer insights from some of the country's leading innovators focused on both the investor and advisor markets. We conclude with "Eight Things Advisors Should Do Now" to ensure their survivability and long-term enterprise value.

Highlights

- While CRM is the client hub of an advisory business, financial planning is now the value hub.
- Goals-based planning is on the rise, but advisors need to be prepared to report on progress to goals instead of investment benchmarks.
- > Multigenerational firms are well positioned to attract younger clientele.
- Most advisors identify themselves as financial planners today, while analysis of advisory firms often shows that they are not.
- > Advisors' value propositions should be reassessed in the light of today's competition.
- > Collaboration between client and planner/advisor is transforming relationships.
- > Technology innovation is outrunning advisor adoption.
- ightarrow Investors of all ages are more technically inclined and computer literate.
- There is a lot of talk about fee pressure, but is it real?
- Investment-only advisors, employing a passive investment approach, are at risk in today's market.

A guide to this paper



Michael Kitces Weighs In

Throughout this paper, thought leader Michael Kitces weighs in on a variety of trends and technology innovations. Explore his thoughts further by following his popular blog, *Nerd's Eye View*.



Financial Planning Survey

We have incorporated responses to our online survey conducted from July 31 through August 14, 2014, about financial planning innovations. We offer insights from the 1,019 respondents to help advisors/owners better understand the state of the industry and to assess their business agenda.



Industry Insights

Some of the industry's most respected company leaders also contributed to our paper, offering insights about technological trends, advisor adoption and consumer priorities, including:

- > Jon Stein, CEO of Betterment
- > Edmond Walters, CEO of eMoney
- > Oleg Tishkevich, CEO of Finance Logix®
- > Alex Murguia, President and Founder of inStream Solutions
- > Bob Curtis, CEO of MoneyGuidePro™

The Evolution of Financial Planning

How the audacity to challenge the status quo has altered the investment services landscape

The confluence of multiple events in a single year — 1969 — would unleash a new era for the world of investing. A newly elected President, Richard M. Nixon, would sign into law the 1969 Tax Reform Act, closing tax loopholes and introducing the alternative minimum tax, as 400,000 Baby Boomers gathered at a farm in Bethel, NY, for the Woodstock Festival. Before the year came to a close, a network created by the U.S. Defense Advanced Research Project Agency (DARPA) would link the first nodes to University of California, Los Angeles (UCLA) and the Stanford Research Institute, giving rise to the Internet. And in a hotel room near Chicago's O'Hare airport, 13 men would gather over two days to contemplate the creation of a new profession.

Financial planning services by the mid-20th century primarily meant one thing: sales. Apart from a few dozen investment "counselors," whose activities were regulated by the Investment Advisor Act of 1940, those who offered advice were indistinguishable from those who peddled their employers' products. A financial planner then was "an insurance man ... [who] estimated estate tax payments for wealthy customers and sold insurance to fund those payments."¹ The pioneers who gathered in Chicago in 1969 sought to make "financial consulting, rather than salesmanship, the driving force of their industry."² They were determined to create a new profession; one that could stand on equal footing with the accounting and legal professions and help ordinary Americans manage their financial lives. From the two-day meeting would emerge a new membership organization and an educational institution that, over the next four decades would define the term financial planner and embrace four essential tenets:³

- Education: Completion of a comprehensive course of study approved by the CFP Board.
- **Examination:** A comprehensive CFP[®] Certification Exam.
- > Experience: Three years' minimum experience.
- > Ethics: A strict code of professional conduct, acting in the best interest of their financial planning clients.

Ultimately these principles would form the prerequisite for granting the Certified Financial Planner (CFP®) credential.⁴

In the early years, no common terms existed to describe the profession. In addition to bankers and "insurance men," who offered products specific to their industries, the wealthy bought stocks from "customer's men," who became "stock brokers" and "registered representatives." By the 1980s, anyone could use the loosely defined financial planning label, which essentially served as a path to facilitate product sales.⁵ But many "planners who didn't want to be perceived as product salespeople"⁶ adopted a different model. The National Association of Personal Financial Advisors (NAPFA) was founded in 1983 on the premise that planners should be product neutral, without the influence of commissions. The fee-only planner emerged, but the model didn't become popular until the 1990s, accelerating in the 2000s as technology rendered the stockbroker and transaction-based compensation obsolete. Over time, the collective industry has steadily moved along the spectrum from commission-based sales to feebased advice.⁵

The financial planning profession introduced novel concepts to the investing public and the larger investment community. Today, the financial planning profession is thriving in a rich landscape of practice models encompassing fee-only, commission-and-fee, RIA, broker-dealer and hybrid wealth managers.

A perfect storm: The catalysts of change

In the span of two generations — 50 years — demographic and market conditions, along with financial and technological innovation, conspired against preserving the old regime. As Loren Dunton — generally regarded as the father of financial planning, a one-time vacuum salesman who never sold financial products but understood their possibilities — later observed, "One of the misconceptions prevalent in the 1970s was that people turned to financial planners in growing numbers because a growing number of people were calling themselves financial planners. While that may be partially true, people actually started turning to financial planners because of the growing complexity of their financial lives."⁷

Timeline — Key events that shaped the financial planning industry

1940-1960

1940: Investment Advisers Act of 1940.

1952: Harry Markowitz publishes "Portfolio Selection" forming the basis for modern portfolio theory.

1969: ARPANET – predecessor of the Internet, connects UCLA & Stanford.

1969: Loren Dunton forms the Society for Financial Counselling Ethics; he and 12 others gather in Chicago to contemplate a new profession that could help ordinary Americans manage their financial lives.

1970s

1970: Gus Hansch, CFP®, creates Financial Profiles, Inc. an early financial planning solution.

1971: The first money market fund launched.

1972: First CFP examination; 150 essay questions prepared by volunteer education committee.

1973: IAFP separates from the Society for Financial Counseling.

1974: Employee Retirement Income Security Act (ERISA).

1975: Deregulation of brokerage commissions.

1976: The first retail index fund launched.

1979: Mike Vitkauskas, CFP®, creates Money Tree software.

1980s

1983: National Association of Personal Financial Advisors (NAPFA) is created; IAFP promotes six-step process for planners to follow when working with clients.

1985: Creation of the CFP Board that signified the transition of the CFP designation from an education credential to a professional certification.

1986: Tax Reform Act dramatically altered the limited partnership landscape.

1987: January – DJIA closes above 2,000; October – DJIA drops more than 22% on Black Monday.

1988: IAFP/ICFP unification package proposed.

1989: IAFP/ICFP unification package voted down by IAFP members.

1990s

1991: IBCFP introduces comprehensive exam for global CFP certification.

1993: The first exchange-traded fund launched.

1995: Chuck Jones, CFP[®], launched one of the first financial planning websites for his Portland, OR, firm.

1996: DJIA tops 6,000 – up 100% in four years.

1997: DJIA closes above 7,000.

1998: U.S. District Court rules that the CFP marks are "distinctive and famous."

1999: IAFP and ICFP boards and members form the Financial Planning Association.

2000-2006

2000: Birth of the 30,000-member Financial Planning Association; Bursting of the dot. com, or technology, bubble; First PhD program in financial planning is offered at Texas Tech University.

2001: Enron.

2001: September 11 Terrorist Attacks.

2002: Stock Market Crash; U.S. Patent and Trademark Office approves registration of CFP as a certification mark; Sarbanes-Oxley Act passed.

2004: NexGen holds first gathering at FPA conference in Denver.

2006: Journal of Financial Planning celebrates 25 years of publication.

2007 - 2014

2007: Sub-prime Housing Crisis and the Housing Bubble; FPA's successful lawsuit against the SEC, was a major driver in the regulation of financial planning, including the explosion of hybrid RIAs over the past decade.

2008: U.S. Banking system falters – collapse of financial giants Lehman Brothers, AIG and Washington Mutual.

2007–2009: The Global Recession and the collapse of Wall Street.

2009: Bernard Madoff pleads guilty to running \$65 billion Ponzi scheme.

2013: Early roboadvisor solutions roll out.

2014: SEC issues guidance permitting advisors greater use of social media.

Source: SEI, Brandon and Welch, www.cfp.net.

By the 1980s, computerization had penetrated every corner of the securities and financial industries and would soon permeate consumers' lives. Inevitable regulatory changes would materialize along the way. Across the industry, four significant forces would converge, altering the investment landscape and shaping the broad financial planning and advice industry through the present day:

- Rise of the investor: Passage of the 1974 Employee Retirement Income Security Act (ERISA) drove the growth of the defined contribution and 401(k) plan market. Combined with the deregulation of stock commissions less than a year later, individuals could participate as investors in greater numbers than ever before. It helped to fuel the explosive growth of mutual funds, which increased significantly from 1970 to 2013 to \$15 trillion in assets.⁸ Concurrently, the largest demographic cohort in American history—the Baby Boomers—was approaching its prime earning years. The rise of the individual investor would shift the focus from Wall Street to Main Street, creating unprecedented demand for independent financial advice.⁹
- 2. Organizations/certification: Practice standards and educational requirements framed by the CFP Board and professional certification, such as the CFP® designation, solidified financial planning's relevance and acceptance.
- **3. Innovation and theory:** Financial and technical innovations have always been inextricably linked, but a firestorm of ideas created an explosion of new investment products and a proliferation of planning and advice models. A more sophisticated body of knowledge gave way to a broader range of tools integrating advice about taxes, retirement savings, employee compensation and benefits along with investing. Life planning, behavioral finance, asset allocation and other theoretical underpinnings contributed to financial planning's evolution.⁷
- 4. Technology: Advances in computing power and technological applications would transform financial planning and facilitate the planners' progress. The emergence of personal computers in the 1980s and 1990s, and now the use of the Internet and cloud technology, has changed the delivery of information to investors as well as the ways in which investors act on that information. It also helped to lower both the fixed and marginal cost of producing and delivering financial services and enabled newer, smaller companies to challenge established providers of these services.¹⁰

Undeniably, several other significant catalysts propelled the planning movement forward. Tax and retirement policy reform contributed, but among the most significant was the abolition of fixed brokerage fees in 1975, which marked the decline of the traditional stockbroker and the transition of wirehouses into financial planning. Product proliferation, including the introduction of the first money market fund in 1971, the rise in popularity of mutual funds, and the launch of exchange-traded funds (ETFs) all transformed investing. And finally, a tarnished reputation for the traditional brokerage channel would create opportunity for independent advisors and planners who promoted strict adherence to the highest ethical standards.

Mapping the Evolution of Advisors and Planners — Perception vs. Reality

The financial planning industry struggled over four decades to name, define and defend itself against cynics and competing forces. Eventually it would build consensus, and finally achieve acceptance for a new way of delivering financial services to clients. Their efforts would also have a lasting impact on the industry at large and the definition of financial advice.

Across a growing field, the lines that once distinguished financial planners from their peers have blurred. Today, full-service brokerage firms, independent advisors, insurance agents, retail banks and upscale channels, such as family offices, often share common values and methods, and in some cases, co-exist within the same organization.

Shift to wealth management



Today's financial advice landscape ranges from pure money managers to wealth managers, with various hybrids emerging across the spectrum. These developing roles have caused consternation and confusion among practitioners and consumers as individual firm's position and offer an evolving suite of financial products and services.

Though there are some noteworthy distinctions, there is also considerable overlap between these roles. With the convergence of labels, advisors often seek out new descriptors, sometimes even outpacing their actual services. For instance, research conducted by Cerulli Associates reveals that a lingering disconnect exists among the ranks of financial planners who increasingly perceive themselves, and market their firms, as wealth managers. As illustrated in the table on the next page, most advisors define their *practice type* as financial planning and wealth management firms, (64%).

Yet, based on job function, firm description and professional certifications, only 26% of survey respondents meet the qualifications described by Cerulli. Moreover, what an advisor perceives as his or her advisory *practice type*, falls short in many cases and overstates its capabilities.

The evolution of advice channels

Emphasis on Advice vs. Investment Management	Practice Type	Definition	Planning Services Offered	Advisor Perceived Practice Type	Cerulli Actual Practice Type
Less Advice	Money Manager	Build portfolios of individual securities for clients and focus exclusively on asset management	Investment manager and asset allocation	9%	9%
	Investment Advisor	Typically advisors that emphasize asset management as their primary service, but may offer modular planning services such as retirement planning or education funding	Primary focus on investment, retirement and education planning	27%	64%
	Financial Planner	Develop complete financial plans for clients based on extensive analysis of their assets and liabilities	Full range of planning services including income tax and insurance	54%	21%
	Wealth Manager	Specialize in comprehensive wealth management and transfer issues, including stock option planning, executive compensation, complex trust and estate planning, and charitable giving	Complete range of planning services; emphasis on complex estate, charitable giving and business planning	differe changi than th	5% rs seeking to ntiate themse ng their label rey are adopti es and practic

Source: Cerulli Associates, RIA Marketplace 2013, "The Changing Landscape of a Maturing Industry."

In "The Future of Practice Management," an inaugural study by the FPA® Research and Practice Institute, nearly 2,400 professionals were surveyed in late 2013 to assess current and future trends for financial advisors. Their findings resonate with those of Cerulli Associates.

The research shows that the largest percentage of respondents identifies themselves as financial planners, while at the same time reporting a strong shift toward wealth management as both a business model and a service descriptor. By way of implications, the authors conclude that advisors who offer financial planning or wealth management services will face increased competition and will need to find ways to clearly differentiate themselves.¹¹

Michael Kitces Weighs In

The growth in the number of planners and wealth managers has outpaced the number of available high-net-worth (HNW) clients, which puts further pressure on differentiation and minimums. For insights on the size of \$500,000+ housholds per CFP, read more at *http://www.kitces.com/blog/why-most-financial-planners-will-soon-be-forced-to-lower-their-minimums/.*

Articulating a value proposition and delivering on it

A central and recurring issue that arises from this paper is how the next generation of planners and advisors will compete in this evolving landscape. Many struggle to articulate their unique value proposition (UVP) or simply rely on an outdated one that has lost relevance. For decades, the value proposition for most advisors centered on the sale of investment and insurance products. While it has since evolved to include investment management, some advisors are delivering less value by focusing on passive investing or not looking beyond determining an asset allocation and rebalancing to it. That won't work today as we are now on the cusp of another evolutionary age. Far too many advisors mistake a marketing slogan or a tagline for a value proposition. In its simplest form, a value proposition — a sentence or two — describes the service and benefit you offer to clients. It's not really about you or your firm; it's about your clients' experience. Ideally the UVP identifies and describes your target buyer, the problem you solve, and why you're distinctly better than the alternatives. It's one thing to state your value proposition in marketing materials to attract new clients; it's quite another when advisors perceive themselves (or hope the market perceives them) as one thing, when in fact they are something else. The value proposition is the basis of your firm's business model and, increasingly, the evidence suggests it should be based on meeting clients' goals through financial planning and advice.

From SEI's Practically Speaking Blog

"How to define your value proposition." To differentiate yourself from your competitors, define your **what, how, why** to communicate your value proposition, and engage with both reason and emotion. Think about what you do that is unlike any other provider, and how you can help clients reach their goals. Dig deep for your why statement; this is where you'll need to reflect passion for your profession to create an emotional connection.¹²

A key ingredient of any business plan is a clear definition of the business model that explains the range of services an advisor provides. Closely related is the ability for advisors to clearly articulate and communicate their value proposition. Again, citing the FPA research findings:¹³

- Fifty-seven percent of the responders suggest that they somewhat or completely agree that they have a clear value proposition, but only a small majority of advisors say they have documented it. The gap is likely based on the formality of the plan (i.e., documentation).
- > When in place, 84% of advisors generally feel their team can both understand and communicate that proposition.
- Eighty-two percent of advisors feel that a clearly defined value proposition helps advisors to effectively communicate their story to employees as well as current and prospective clients.



Generation Gaps: Serving the Needs of Multifaceted Market Segments

Advisors have used market segmentation for years to target and attract new business prospects. While each client presents unique circumstances, challenges and opportunities, many investors share common demographic characteristics based on their age. Analysts at the Pew Research Center explain that at any point in time, "age group differences can be the result of three overlapping processes."¹⁴ These factors are essential to understanding age-defined market segments:

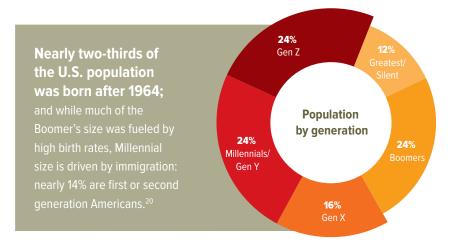
- **1. Life-cycle effects:** Young people may be different from older people today, but they may well become more like them tomorrow, once they themselves age.
- 2. Period effects: Major events (wars; social movements; economic downturns; medical, scientific or technological breakthroughs) affect all age groups simultaneously, but the degree of impact may differ according to where people are located in the life cycle.
- 3. Cohort effects: Period events and trends often leave a particularly deep impression on young adults because they are still developing their core values; these imprints stay with them as they move through their life cycle.¹⁴

Looontratiat		lacistalla	in age actified t	nurket segments
Generational Cohort-Market Segment	Born	Life Cycle	Top Financial Resources ¹⁵	Top Fears ¹⁵ and Other Characteristics
The Greatest Generation	Before 1928	Already retired	 Financial advisor (78%) Websites (33%) 	 Another financial crisis (83%) Healthcare costs becoming unmanageable (66%)
The Silent Generation	1928 to 1945	Already retired	 Traditional media (31%) 	 Savings lasting through retirement (48%) Biggest challenge: generating current income
Baby Boomers Leading Edge	Leading Edge: 1946 to 1955	Retiring	 > Financial advisor (50%) > Websites (45%) > Traditional media (40%) 	 Another financial crisis (86%) Healthcare costs becoming unmanageable (76%) Savings lasting through retirement (74%) Largest generation in American history, about 76 million
Baby Boomers Trailing Edge	Trailing Edge: 1956 to 1964	Approaching retirement; Prime earning years	media (43%)	 born in the U.S. plus 2 million immigrants¹⁶ Most affluent consumer group ever; Boomers own 78% of America's financial assets, and 80% of all money in savings accounts, amassing \$41.5 trillion in wealth¹⁶ Many caught in expensive "sandwich dilemma," supporting their own children at some level, while caring for aging parents. HNW clients over the age of 58 are most likely to visit the website and interact with their advisor¹⁷
Generation X	1965 to 1980	Working; raising families	 > Websites (48%) > Financial advisor (43%) > Family (41%) 	 Another financial crisis (85%) Savings lasting through retirement (78%) Retiring with desired lifestyle (78%) Gen X and Gen Y investors seek benefits of technology in their advisor relationships: communication, collaboration and accessibility¹⁸
Millennials (Gen Y)	Those born after 1980	Working; pursuing advanced degrees	 Websites (58%) Financial advisor (51%) Family (49%) 	 Financing children's education (80%) Another financial crisis (79%) Savings lasting through retirement (78%) Most concerned about their student loan debt¹⁹ More risk averse than Boomers when it comes to investing.¹⁹ Not averse to working with a financial advisor but are skeptical about working with financial institutions¹⁹ More ethnically and racially diverse than older adults; on track to become the most educated generation in American history¹⁴ History's first "always connected" generation. Steeped in digital technology and social media, they treat their multitasking handheld gadgets almost like a body part—for better and worse¹²

Essential factors to understand in age-defined market segments

*Gen Z: There is no universal agreement on the name or exact range of birth dates; most sources define as those born after 2000.

Serving different generations: It's not just about Boomers



Source: Nielsen Pop-Facts, 2013.

Industry Insights: Joe Stein, CEO of Betterment

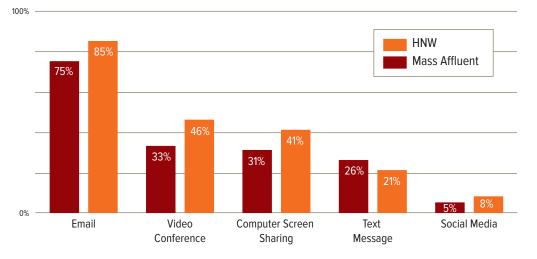
Technology is playing a bigger role in the way that investors interact with the world—everything from smartphones and tablets to social media. This is accelerated by a new generation of user interfaces that greatly improves the experience and actually delights the investor.

So what do all these demographic statistics mean for the financial planning industry and your practice? Tomorrow's successful advisors will serve a far more technologically literate and diverse clientele—in terms of age, ethnicity, gender and aspirations. Furthermore, the numbers point to the need for thoughtful business planning across the spectrum—from business growth to market focus, hiring and training, tailoring services, and communications based on client segmentation.

The first order of business, though, is to dispel three of the most common myths surrounding younger and older investors.

Myth #1: My 55+ clients aren't interested in technology.

Contrary to what you may believe, it's not just younger clients who want to engage electronically. Investors over the age of 55 are increasingly tech-savvy and seek not only to communicate with their advisors, but to collaborate with them as well. Understanding how your clients of every age interact with technology and how they want to interact with you—their advisor—is essential. They might surprise you.



Clients are increasingly open to digital channels

Source: CEB TowerGroup Wealth Management Client Experience Survey, 2013, n=[~]128.

Among the most revealing statistics, a recent survey from CEB TowerGroup Wealth Management shows both mass affluent and HNW clients over the age of 50 are open to interacting with their advisors by email, video conferencing, computer screen sharing and texting. While high-net-worth clients have embraced mobile technology, many wealth firms do not have the mobile offerings commensurate with clients' mobile experiences.²¹

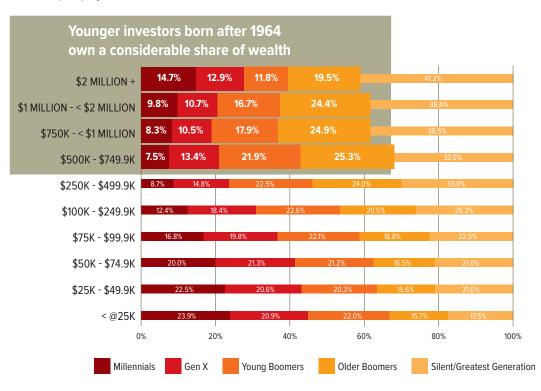
Industry Insights: Bob Curtis, CEO of MoneyGuidePro™

Investors are now out-running their advisors in terms of technical adoption. Advisors must keep up or be left behind.

Myth #2: Young investors don't have any money.

A recent Nielsen report, "Millennials — Breaking the Myths," notes that Gen Yers are 77 million strong, on par with Baby Boomers, and constitutes 24% of the U.S. population. At some point, these young investors stand to inherit sizeable assets in addition to their own economic success. While most Millennials haven't amassed much wealth yet, some have done exceedingly well. Nielsen reports that they make up 14.7% of those with assets in excess of \$2 million, just behind Boomers. The authors explain that the wealth of affluent Millennials is "fueled by their penchant for investing in new startups and entrepreneurial opportunities." This also means their net worth is often illiquid, compared with Baby Boomers who have liquid wealth to manage.

Millennials are more focused on investing and doing social good, and they're seeing a return on their investment. Despite their young age and limited resources, roughly 8% of Millennials have their own businesses, which is on par with their older counterparts.²² Research from Pew and Nielsen reveals that Millennials are more racially and ethnically diverse than any previous generation. You might be surprised at the many ways your services can help younger investors achieve their lofty goals.



Wealth (IPA) by Generation: Some Millennials Are Well-off

Source: Nielsen Income Producing Assets (IPA), 2013

Nielsen research on the Millennial generation concludes that while they are connected 24/7, they seek a personal touch:

Technology defines Millennials. When interacting with companies via social media, they value authenticity—they want to feel like they have a personal, direct interaction with the brand— and in return, they'll advocate and endorse that brand.²⁰



Michael Kitces Weighs In

Given how underserved the younger generations are right now, simply differentiating yourself by establishing a niche practice focused on Gen X and Gen Y clients may itself be an effective marketing cornerstone for growing a successful business to serve them. Read more at http://www.kitces.com/blog/three-financial-planning-business-models-to-effectively-servegen-x-and-gen-y-clients/

Myth #3: Everybody knows that the next generation fires the parents' advisor once they inherit their wealth.

That may have been true in the past, but it isn't the case for many of today's enlightened wealth management practices. Financial advisors who proactively engage the family—including the spouse and children of their HNW clients—are better able to meet their needs and retain valuable assets.

Developing a strategy to attract younger clients

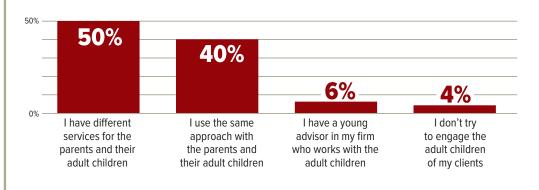
Much has been written about aging financial advisors -42% of whom are over the age of 55.²³ Their clients are aging, too, which means that advisors who fail to develop a multigenerational strategy for their clients' adult children – or other young investors – stand to lose out on a significant future wealth transfer opportunity.



Financial Planning Survey: My approach to multigenerational wealth is ...

When asked about the ages of their clients, our survey respondents revealed that 46% are over the age of 60, while Gen X (18%) and Gen Y (9%) clients comprise one-fourth of their client base—the former far outnumbering the latter.

Advisor respondents are split nearly equally when it comes to providing service to the adult children of their clients. Nearly half (50%) have different services for the adult children of their clients, while others (40%) use the same approach with parents and their adult children. **Only 56** advisors of the total 1,019 survey respondents (6%) report that they have a younger advisor in the firm who works with the adult children of their clients.



Source: SEI Survey, Next Gen Financial Planning, August 2014, n=1,019.



Michael Kitces Weighs In

It's worth noting that our fellow contributor, Michael Kitces, doesn't believe that firms focused on Baby Boomers/retirees should pursue a business strategy that caters to their clients' adult children, unless the firm is really serious about working with an entire clientele of that demographic, staffed and serviced appropriately to their needs.

If the goal is to serve a younger clientele, advisory firms should really focus on serving younger clients, taking the necessary steps of segmenting the advisory firm, its pricing, its staff and its services, to meet the needs of that clientele, and not simply pursue them because that's where their (former) client's pot of money landed. Read more at http://www.kitces.com/blog/why-its-a-bad-idea-for-most-advisors-to-pursue-their-clients-next-generation-heirs/

Shepherding the next generation of financial planners

Even as the number of investors seeking professional advice increases, Cerulli Associates forecasts industry headcount to continue to decline through 2016.²⁴ Firms across all channels have identified recruiting and hiring next-generation talent as a strategic priority, yet industry consolidation and cutbacks in training programs during the financial crisis have resulted in an anemic pipeline for younger advisors.

Most of today's experienced financial planners started their careers as insurance and brokerage sales professionals; the next generation of planners, though, will likely be graduates of a CFP Board registered financial planning undergraduate degree program. For many firms, hiring recent college graduates presents a new set of challenges—namely the lack of both a book of business and sales experience.



Michael Kitces Weighs In

This is an important trend. The first generation of "planners" were salespeople who later became technically proficient planners. Today's second generation of incoming planners are actually the first generation to ever start out as technically proficient planners, and then figure out how to get clients and build a business. Read more at *https://www.kitces.com/blog/the-new-challenge-in-training-the-next-generation-of-financial-planners/*

A number of initiatives have been launched in recent years to address the talent shortage, encourage new entrants to the financial planning profession and support development of next generation advisors:

- Recruitment programs that link academic programs to industry, such as New Planner Recruiting (newplannerrecruiting.com), specialize in placing students enrolled in CFP Board registered programs, candidates for CFP certification, and CFP practitioners, for professional positions with less than five years' experience.
- > Wirehouses, such as Merrill Lynch Wealth Management, have launched extensive salary-based training programs where new recruits are hired directly into teams to act as Junior Advisors.
- NexGen, a community of 2,000 next-generation financial planners, age 36 and younger, was established in 2004 and later merged into the FPA as a "Community of Interest."
- > The CFP Board is launching a Career Center portal on its website in 2015 where college graduates and aspiring planners can look for jobs.
- > NAPFA Genesis is a peer-to-peer networking group designed to encourage professional growth and development among NAPFA members and affiliates who are 33 years old and younger.
- > XY Planning Network (xyplanningnetwork.com) aims to connect Gen X/Gen Y clients with Gen X/Gen Y advisors.

From Paper and Pencil to the Digital Age:

Technology Disruptors: Innovative Financial Planning

With the exception of planners who worked for large institutions with mainframe computers, the tools of financial planning professionals' first decade "comprised typewriters, adding machines, pens ... and reams of paper."²⁵ The work was timeand labor-intensive, limiting the number of clients a planner could effectively service. Most professionals created their own analytical tools using spreadsheets and, over time, proprietary software. Today, the number and type of tools available are outpacing their adoption.

Over the last 10 years, some of the most significant advancements have occurred in financial planning software—innovations that are changing the business of financial planning. Financial planning is an important service that enables advisors to demonstrate their value to their clients. As the CRM is the "business hub" of the advisory firm, financial planning has become the "value hub."

Financial planning software companies understand this opportunity and have conceived new paradigms and greatly improved the existing ones. Current financial planning software is ahead of what advisors have been able to absorb. It is a great time for advisors to review what is available and what is already on their computers. This innovation will only accelerate as financial planning companies create new and better ways for advisors to interact with their clients and operationalize the financial planning process.

Ļ

Industry Insights: Jon Stein, CEO of Betterment

Everything is happening faster, with information available so quickly that decisions can be made more effectively. And it's accelerated by the move to mobile. Investors are looking for personalization—to access the information they want to see. More relevant real-time data is helping investors make better decisions.

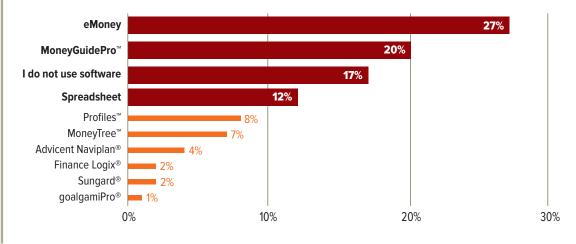
Financial planning and software moves to the core of the offering

In the wealth management arena, a position claimed by most financial advisors, financial planning has become the new value hub.

Financial planning software typically has the most loyal following of any front-office application. Advisors tend to work with the same software for years, adapting it over time to meet their own needs and those of their clients. As proof, 87% of SEI's survey respondents indicate that they are satisfied with their current financial planning tool, and only 11% indicate they are planning to change. Still, a surprising 29% of respondents rely on spreadsheets or do not use financial planning software, which indicates the market is far from saturated.

Financial Planning Survey: What is Your Primary Financial Planning Tool?

In a sign that the financial planning software market is maturing, our survey reveals that market share is concentrated between two firms, eMoney (27%) and MoneyGuidePro[™] (20%), that together comprise 47% of the market. Smaller companies in our poll represent a combination of older established firms, like Profiles[™] and NaviPlan[®], who have loyal and stable customer bases, and newer entrants, such as inStream, that offer innovative solutions.



Source: SEI Survey, Next Gen Financial Planning, August 2014, n=1,019.

Industry Insights: Bob Curtis, CEO of MoneyGuidePro™

Originally, advisors tried to show their value by exposing the complexities of how planning worked. This has changed; goals-based planning is inherently simpler and more intuitive for planners. And, as integration becomes deeper and held-away data is aggregated, you are seeing goal information integrated from planning tools to the custodian's statement.

Different price points

The cost of financial planning software is changing even as the functionality increases, giving advisors more options than ever before. Established companies such as eMoney have held their prices and maintained their market share. However, the wholesale adoption of planning software by the broker-dealer community has meant that software is available at reduced rates and/or further subsidized by broker-dealer affiliated advisor firms.

New companies are offering cost-effective solutions as they strive for market share. Some are unbundling their solutions, making software available in modules or widgets and selling them separately, so that advisors can purchase only the functionality they want. The most innovative software companies realize the importance of aggregation to the planner community and are making it available at prices that should accelerate adoption.

Goals-based planning and reporting

Until 2000, most planning tools were cash-flow based. Today, the trend of building strategies around specific goals has taken hold and offers multiple benefits, not the least of which is the ability to manage irrational investor behavior. SEI was one of the pioneers of goals-based investing more than a decade ago and continues to lead with specific investment strategies designed for goal achievement and award-winning statements that reflect various investor goals. The approach improves upon traditional portfolio construction and risk management by incorporating cutting-edge insights from behavioral finance. What we've learned is that goals-based investing gives advisors a powerful framework for customizing investment approaches while helping investors remain focused on their most important financial objectives.

Industry Insights: Alex Murguia, President and Founder of inStream solutions

Being able to proactively guide a client through a life cycle of financial decisions is what wealth management is all about. It's what lets a client know that you are delivering on your value proposition—helping them achieve their financial goal.

MoneyGuidePro[™] was one of the first financial planning software companies to incorporate goals-based planning. Today, many advanced software innovations facilitate the ability to establish and monitor multiple goals. Some, such as inStream, send advisors alerts when goals are near completion and advise whether or not the client is on track.

Industry Insights: Edmond Walters, CEO of eMoney

Interactive software is changing the way advisors construct plans with clients. The advisor facilitates the discussion using technology to make changes to assumptions and present different what-if scenarios. The financial plan is built immediately and can be sent to the client as a document, or as an interactive link that can be modified any time. What is more, the plan can be updated anytime, anywhere via the Internet allowing the investor the utmost in convenience and flexibility.

While the planning and software have moved to focus more on goal achievement, traditional implementation and reporting have not evolved simultaneously. After a deep discovery process and plan creation, three fundamental challenges happen that hinder the adoption:

- Failure to match multiple client goals to multiple investment strategies. Clients are forced to determine percentages of an overall portfolio allocated to specific individual goals.
- > Failure to construct portfolios that match the risk and return needs of each specific goal. When multiple portfolios are created, typically the same asset classes are used, just in different percentages.
- > Portfolio performance reporting is limited to performance vs. industry benchmarks, such as the S&P, Dow or Barclay's Aggregate. Market performance over the last decade has led investors to realize that they can't rely on the market to always to move up. Investors today are placing a greater focus on achieving their goals rather than fretting about how the market performed.

A recent survey by the Corporate Executive Board (CEB) showed that HNW individuals preferred to judge the performance of their portfolio based on their own financial and life goals over financial markets and benchmarks.



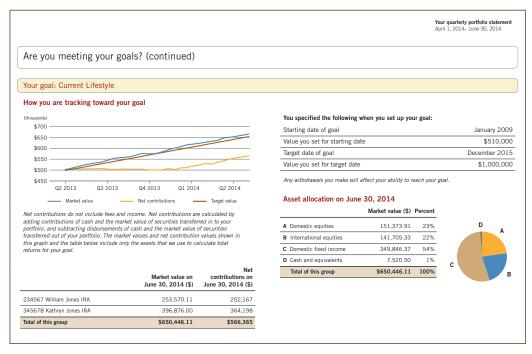
HNW Individuals' Preference for Assessing the Success of Their Portfolio Percentage of Respondents, Global, 2013

Source: CEB, Windows on the Future 2014, March 27, 2014.

The SEI goals-based statement was one of the first statements to illustrate "progress to goals" in an easy-to-understand format that enables investors to judge if they are on track. Whether paper-based or interactive, advisors should adopt goals-based reporting to provide an end-to-end solution for clients in the planning process.

Industry Insights: Oleg Tishkevich, CEO Finance Logix®

The next software growth phase is all about widgets. Financial planning firms are making their software in widget sets that can easily be integrated into client portals, custodial or multi-custodial platforms.



SEI Progress-to-Goals Reporting Example

While framing a portfolio around goals can be helpful to keep clients focused, it's important to be cautious about the expectations that are created by such an approach. From the client's perspective, benchmarking to the progress toward a goal that includes a year-by-year growth assumption can suddenly look a lot like benchmarking to a high absolute return target that may just make the shortfall after a bear market look even worse.

Painless data gathering and aggregation

One of the most welcome changes of the digital age is the significant reduction of data gathering for the plan-update process. The arduous task of gathering current values for multiple types of assets and accounts (a responsibility that historically has fallen mostly to clients) has improved dramatically thanks to automation and account aggregation solutions. Aggregation facilitates the plan-update process in ways previously unimaginable. Without it, cash-flow analysis was virtually impossible owing to the labor-intensive information gathering effort.

The new frontier for aggregators is moving beyond simply enabling an advisor to see assets held beyond their custody and control; now advisors are in a position to charge for counsel related to those held-away assets. Advisors today have access to the broadest view of the client's net worth, including cash flow and expense details frequently underreported by clients, which permits them to give clients more accurate and holistic advice.

Aggregation

Position-based

- Client's net-worth (positions and balances only)
- > A must-have feature
- > Inexpensive

Performance-based

- > Client's total performance
- > Typically for A-tier clients
- > Expensive

There are two forms of aggregation: **position-based and performance-based aggregation**. The former is used primarily for financial planning. The latter is often used by investment advisors to pinpoint where performance has been weak and to suggest alternatives. Over the last five years, aggregation and financial planning software solutions have been bundled together, enabling advisors to monitor performance of assets both under and beyond their management and control, while proactive alerts help guide the advice process. Clients that have experience with and take advantage of Personal Financial Management (PFM) solutions, such as Mint[®], will expect the same level of service from their advisors. Interestingly, there is a newer form of aggregation emerging for advisors that is cash-flow based. It focuses on cash flows in and out of an account and allows a client to budget. This has evolved from the retail aggregation platforms.

Michael Kitces Weighs In

As PFM tools become more widespread, eventually the need for upfront data gathering will be eliminated. "Gathering data" for clients will be as simple as having clients grant their advisors permission to access their own PFM information to initiate the collaboration process.

Co-planning: Collaboration between advisors and investors

Without a doubt, investors are becoming more technically astute. With much more financial information available, they are becoming more investment savvy as well.

These factors are changing the dynamic of how advisors work with investors. Today, the new model is for the two to co-plan—that is, they create a plan together.

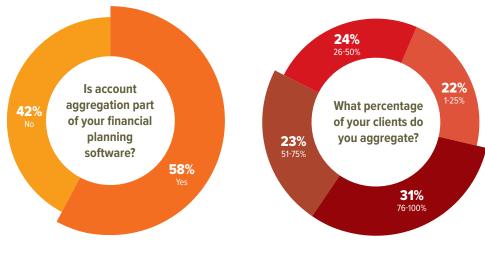
Increasingly, better informed clients want access to their accounts and to engage their advisors on a collaborative basis. This is likely to accelerate over the next decade as the client generational shift continues and tech-savvy clients become the norm.

Industry Insights: Edmond Walters, CEO of eMoney

Historically there has been a tug-of-war between software vendors to match features. Now it's more about improving the collaboration between the advisor and the investor. The advisor is now moving beyond the realm of finance, acting as the quarterback for all services that someone may need.

Financial Planning Survey: Account Aggregation

While more than half of survey respondents (58%) report that their financial planning software offers account aggregation—only a little more than half (54%) use aggregation for 50% or more of their clients.



Source: SEI Survey, Next Gen Financial Planning, August 2014, n=1,019.

CEB TowerGroup Wealth Management found that the majority of financial advisors selected the client-facing portal as the most important tool in their arsenal when it comes to improving service quality.²⁶ The investor is more actively involved in the planning process, more invested in it, and more knowledgeable about the decisions that emanate from the discussion, leading inevitably to a deeper connection with the advisor.

A parallel move is developing in automotive sales where the co-buying model is winning consumer approval. The traditional car-buying experience and the well-known negotiation ritual are being challenged by the emergence of haggle-free car buying where the price is fixed, based on a transparent algorithm. User-friendly websites enable car buyers to conduct preliminary research on their own, then continue the discussion and purchase with the car seller at a centralized location.

Financial planning software companies understand the co-planning movement. Although the software of today has simple co-planning capability, it is clear that it will be more robust in the next generation. Innovations often include a client portal that permits an investor to interact in real time with advisors. Document repository tools, for example, let clients and advisors work on documents together, and collaboration capabilities allows either to change financial planning scenarios. Mobile technology is facilitating the effort—from the moment of engagement when information is entered into a mobile device to interactive conversations between the investor and the advisor using tablets.

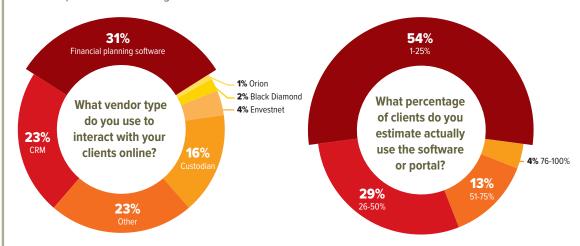
Financial Planning Survey: Client Portals

Access to client portals

Of those that do offer a client portal, about one-third (31%) of survey respondents provide clients online access through their financial planning software vendor; CRM vendors (23%) and custodians (16%), and a significant percentage (23%) use a different portal solution all together.

Client Portals: Client usage

When asked about client portals, 85% of advisors that responded to the survey report offering some form of a client portal; of these, 54% report that less than 25% of their clients actually use the portal.



Historically the portal has been used to show accounts and positions, but the trend is to enable truly interactive plans. This is a significant change. Although interactive technology and client communication is currently available, the low usage can be attributed to two factors. The first is that interactive technology is new and in its early stages. The second is that advisors have to change the way they work with clients to take advantage of it. Any change in client interaction is, quite appropriately, approached cautiously. In addition, advisor offices have changed to support this model. Many offices now have a conference room with a large flat screen. With the advisor driving the process typically from a laptop, the advisor and the investor work together on their plans.

Industry Insights: Alex Murguia, President and Founder of inStream solutions

Operationalization is advancing from portfolio management to financial planning. Today's advisor has dashboards that show their clients' investments in many different ways. What is coming is the ability to see where they are with their financial plan.



Michael Kitces Weighs In

The real value of a technology-driven plan monitoring process in the digital age is the ability to configure the financial planning software to monitor key metrics and notify the planner (and/or the client directly) when something relevant to the plan has occurred—say, when a client's saving goal is coming up short or a drop in interest rates can trigger a refinance opportunity. Another application is to monitor the financial plan for risks—the software would prompt a meeting or phone call with the client to discuss whether action should be taken. Read more at *http://www.kitces.com/blog/monitoring-a-financial-plan-in-the-digital-age/*

Financial plan delivery

The CFP Board describes the financial planning process as consisting of six distinctive and sequential steps:

- **1.** Establishing and defining the client-planner relationship
- 2. Gathering client data including goals
- 3. Analyzing and evaluating the client's current financial status
- 4. Developing and presenting recommendations and/or alternatives
- 5. Implementing the recommendations
- Monitoring the recommendations

Refer to: http://www.cfp.net/for-cfp-professionals/professional-standards-enforcement/ compliance-resources/frequently-asked-questions/financial-planning Yet technological innovation and co-planning are redefining the process. The delivery of a financial plan is becoming even more complicated with the emergence of mobile technology and tablets. While many advisors have tablets, few are using them in the planning process. Today, co-planning is typically conducted via video-conference or in front of a big screen television in the advisor's office.

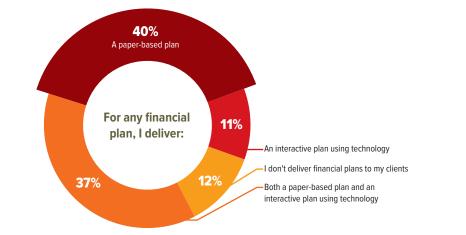
In reviewing the CFP Board's financial planning process in context with today's technology, the first way that tablets have been incorporated is in the plan presentation stage. It is easy to create a PDF or document and then view it on a tablet. Ultimately the six steps will merge into a single experience that supports full co-planning. The new co-planning process, though, dispenses with the static financial plan. Rather, it creates a live, ever-changing plan, driven by market data and the changing needs and circumstances of the investor. This evolving planning environment will enable advisors and their clients an opportunity to continually review, update and tweak the plan in real time.

One of the most significant advantages of co-planning is deeper client engagement. As with any other activity, if someone plays an active role in the process he or she is more likely to be invested in the outcome.



Financial Planning Survey: Paper vs. Interactive Plans

When asked about the format of financial plans, 40% of advisors still produce and deliver paperbased plans only, but 37% of respondents deliver both a paper and an interactive plan. Eleven percent of survey participants are early adopters and only offer clients an interactive plan, while 12% of respondents don't deliver a plan of any type to clients.



Source: SEI Survey, Next Gen Financial Planning, August 2014, n=1,019.

Industry Insights: Edmond Walters, CEO of eMoney

Technology is more investor-centric today. Investors are demanding technology that can show their financial life in one place. Most software has the functionality, but the trend now is to make it easy to use.

User interfaces and new client engagement techniques

In addition to the client portals, one of the biggest improvements in financial planning is the way that information is being provided to the investor. Established, larger firms have invested a great deal of their technology budgets on improving user interfaces. Newer firms are using the latest interactive technologies and making equipment choices based on the ability to interact on a tablet or a website.

Another important factor is that new technologies offer more intuitive ways to engage clients. In many ways, software companies have broken new ground by incorporating gamification — a technique that integrates elements of gaming, such as point scoring and competing with others — into their software. An example is FlexScore[™] (flexscore.com). A score, based on a 1000-point scale, increases as users identify achievable goals and enter more information about their financial lives. They can then compare their score to their peers. A score of 1,000 represents full financial independence.

Other tools help present complex information in ways that may be easier for investors to understand. Mind mapping — a series of diagrams that visually organize information — is a good example of this technology (mindgenius.com). Another is HiddenLevers (hiddenlevers.com) that offers portfolio stress-testing tools. Advisors use the correlations engine and easy user interface to help clients understand portfolio risk, showcase hedging strategies, and compare portfolios in context with macro-economic themes.

Industry Insights: Bob Curtis, CEO of MoneyGuidePro™

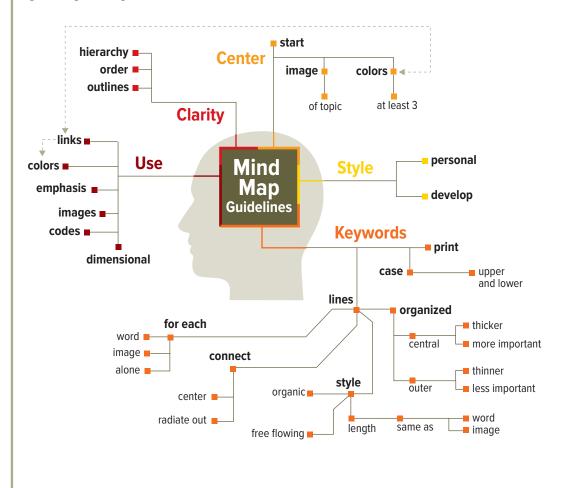
Gamification is a trend that will play out in more functionality, but most advisors don't understand the concept; it's not a "game," it's serious fun.



Michael Kitces Weighs In

The Benefits of Mind Mapping

What's significant to me about mind mapping in the financial planning context is that the data gathering meeting shifts from a one-sided interview process into a more interactive and collaborative financial planning experience. Clients aren't just answering the planner's questions. Instead, they're working together to build something that takes shape before their eyes. Read more at *http://www.kitces.com/blog/mind-mapping-your-way-through-the-data-gathering-meeting/*



Source: http://en.wikipedia.org/wiki/Mind_map,

The Effect of Robo-advisors

An explosion of digital wealth platforms and technology solutions have surfaced in the last 18 months and are capturing the attention of advisors, the trade and general media as well as consumers. Many of these new technologies are being developed by private company startups with venture capital funding. They offer a host of solutions ranging from algorithm-based portfolio construction and account aggregation to simple online financial planning.

Industry Insights: Jon Stein, CEO of Betterment

Investment management and financial planning is becoming more delineated. While investment management can be automated, financial planning for high-net-worth individuals, and estate and trust planning is harder to systematize; it makes sense for advisors to offer those services with the help of specialized software.

What's in a name?

The term robo-advisor is considered derogatory by some as it suggests that the platform performs its services like a robot, mindlessly executing tasks. This is both a key benefit and a key perceived fault. The benefit is that a well-programmed, algorithm-based platform will execute complex tasks without any possible human failure. The perceived fault is that the platform does not have human flexibility and the ability to react to broader issues that affect portfolio construction. However, others like Betterment's CEO Jon Stein embrace it as it brings attention to the growing industry.

The other common names, such as a digital wealth platform or an automated online financial advice platform, hardly roll off the tongue and can be misleading. A leading alternative is automated investment service, which is what Wealthfront has adopted. In any event, early animosity between robo-advisors and advisors has abated as they have realized the advantages of each other's business models. Today, the term has become commonplace, and from a robo-advisor perspective, it is a popular moniker and a straight-forward Google search name that has achieved a high level of recognition. Consequently, we have chosen to use the term for this paper.

The robo-advisor market

The robo-advisors are true disrupters (see Michael Kitces alternative view on this below). Investors, sometimes from outside the industry, identified opportunities in the advisor market, which they believe create an opportunity for entrants with a different approach. Among the most obvious is the cost of financial advice. As many advisors have moved to the wealth management model, the standard fee for services has averaged about 100 basis points (bps), regardless of what services are actually rendered — from planning and advice, to implementation, monitoring and rebalancing. At the same time, advancements in technology have automated many of these functions, especially rebalancing, which is now available on most platforms.



Michael Kitces Weighs In

Advisors using technology to automated trading, rebalancing, and tax-loss harvesting in portfolios predates robo-advisors by nearly a decade. And asset allocation was around since long before that. Robo-advisors are far more evolutionary than revolutionary.

There are other factors which have limited advisors offering services to the mass affluent. The key one is the relatively high cost of client acquisition. This also explains the current trend of robo-advisors partnering with other sales organizations and with advisors themselves. Read more at *http://www.kitces.com/blog/the-real-hidden-cost-that-has-been-inhibiting-financial-planning-for-the-masses/*

Many of these online solutions target the Gen X and Gen Y cohort that tend to be technically savvy, financially literate and want financial help but are cost sensitive. Add to the mix the market decline in 2008, which enhanced a pendulum swing to passive investment. A passive investment approach to portfolio management is far easier to automate than an active one.

Robo-advisors are still tuning their market approaches. However, their current brightest opportunities are:

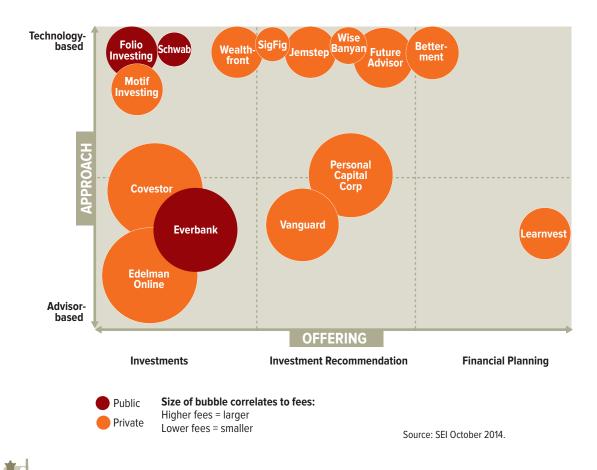
- > Gen X and Gen Y investors focused mainly on accumulation.
- Technology-savvy Millennials. For instance, Wealthfront has focused specifically on this segment in Silicon Valley.
- Small retail accounts that advisors have historically not focused on, as not being profitable.
- > Smaller rollovers from 401(k) to IRAs with an emphasis on first-timers that need investment guidance.
- Investors with smaller accounts. Robo-advisors create a relationship and gather basic information and can provide a lead source to advisors. (Some robo-advisors are already following this model).
- > Direct-to-Consumer (DTC). Banks are searching for a way to provide a portfolio management system to consumers directly. With the banks' strong brand awareness, this would appear to be a good target market for robo-advisors.

Industry Insights: Oleg Tishkevich, CEO of Finance Logix®

Robo-advisors have integrated technology with a good user interface. This is better technology than many advisors have and certainly better than what most advisors offer their clients. Robo-advisors will drive an improvement in advisor technology.

The robo-advisor landscape

Robo-advisors are focused primarily on portfolio management services—not on financial planning. Many would agree that while portfolio management can be automated, the personal context and decision-making related to financial planning is far more complicated. The following outlines the different categories of robo-advisor and includes some stakeholders who are affected or should be affected by them.



Industry Insights: Joe Stein, CEO of Betterment

Advisors will increasingly leverage technology to make them more efficient. Incorporating it into their planning process enables them to spend more time with their clients. All of the back-office functions such as rebalancing are done automatically.

- > Pure technology solution: They provide do-it-yourself investors with a suite of analytical investment and portfolio management tools to assess their financial information online. They involve no humans in the process; it is all technology. Good examples of this type of robo-advisor include Wealthfront, FutureAdvisor and Betterment. These robo-advisors charge from 15 to 30 bps for their services. Schwab is signaling that they are entering this category and are not going to charge for the service, apart from what they recover from the underlying ETFs. An established company like Schwab with deep pockets and established brand will shake up this category that consists of venture capital-backed startups.
- > Technology solution incorporating captive advisors: They also provide investors with a suite of analytic investment and portfolio management tools. However, this category employs advisors who interact with investors through the technology and video-conferencing (not face to face). Good examples of this type are LearnVest[™] and Personal Capital[™].
- > Larger, established firms jumping on robo-advisor momentum: Vanguard is the best example of this category. Vanguard is the online, mutual fund giant who has had their Personal Advisor Services (PAS) group for some time. This group consists of advisors employed by Vanguard[®] who interact with their clients typically over the phone. Vanguard has used the robo-advisor buzz to improve their PAS group, by adding technology and reducing fees and minimums. Vanguard is not a robo-advisor, but they have gained by the splash the robo-advisors are making.
- > Pure technology solutions now focusing on providing advisors with a platform: Some of the robo-advisors who originally started as pure technology platforms aimed at the end-investor are now enhancing their platforms to allow advisors to use them with their clients. As discussed, one of the toughest things for roboadvisors has been in finding clients. This model uses the advisor to acquire the client. Good examples of this category are Betterment, Jemstep[™] and Motif.
- > Advisors using robo-advisor technology techniques with the clients: This is a category, which we dub techno-advisors in a later section. They are advisors who are monitoring the way that robo-advisors use technology to interact with their clients and then using some of the techniques to enrich their own client interactions. Being a techno-advisor is not an easy thing. A lot of the technology is difficult to find or use if you have to assemble it yourself.



Michael Kitces Weighs In

Michael grew up in the (new) Star Trek generation and he has labeled this last category "cyborg" advisors. They are advisors who take advantage of the key strengths of a human: empathy, project management and decision-making, while maximizing the use of technology: rebalancing, portfolio management and tracking progress. Read more at *http://www.kitces.com/blog/the-advisor-of-the-future-is-not-human-nor-robot-but-cyborg/*

Since cyborgs may not have the most appealing persona, let's just call them techno-advisors for the rest of this paper.

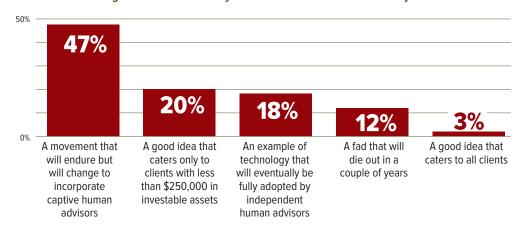
Robo-advisor obstacles

The target market segments outlined on the previous page, do not have a lot of money now, but may attract sizeable assets in the future. However, for a robo-advisor to be successful, it must acquire many tens of thousands of small investors to achieve profitability. Here are some obstacles that the robo-advisors must overcome:

- > The cost of broad-based marketing is very expensive.
- > Currently the robo-advisors have enjoyed a wonderfully long bull market. Will their clients desert them when the market sinks and there is little human guidance to advise the investor to weather the course?
- > When clients need to tap resources during hard times, their taxable accounts with robo-advisors will be the most likely to be liquidated, as they don't include income taxes and penalties that would apply if they raided their 401(k) plans instead.
- Many of the assets they are targeting are tied up in qualified retirement accounts; assessing fees on such accounts is more difficult.
- In an accumulation model, sophisticated software must be created for budgeting. This can be expensive with a return on investment that is difficult to measure.
- > Robo-advisors are venture-capital backed. Venture capitalists will want a return on their investment within the next three to five years. This runway may not be enough for many of the robo-advisors to prove their model at scale.

Financial Planning Survey: Taking the Pulse on Robo-advisors.

When polled, 71% of advisors that responded to our Financial Planning survey do not think their revenue will be affected by robo-advisors. Most industry watchers believe that the group most at risk from the robo-advisors is advisors focused on passive investment management and who do not have other clear value propositions for their clients. In fact, 47% believe that the robo-advisor offerings will mature to include human advisors, and only 3% think that robo-advisors cater to all clients. Additionally, 18% think that robo-advisor technologies will eventually be fully adopted by independent human advisors.



Which of the following best describes how you feel about robo-advisors? They are:

Source: SEI Survey, Next Gen Financial Planning, August 2014, n=1,019.

A glimpse into the way that robo-advisors may be maturing:

- Platforms for advisors: Platforms such as Betterment Institutional and Motif Investing have incorporated ways for advisors to use the robo-advisor sites to interact with their clients.
- RIAs capitalizing on hybrid solutions: A long-term player, Financial Engines[®], (www.financialengines.com) has blended business owners' needs with those of their employees in their retirement plans. More recently blooom.com, the brainchild of Kansas-based advisors' The Retirement Planning Group—which previously ranked #24 on Forbes "Top 50 Emerging RIAs"— is making headway in the defined contribution market by bridging the advice gap for employers and 401(k) participants using state-of-the-art online technology.
- Online brokers and clearing firms: TD Ameritrade announced that it will provide access to select robo-advisers through its trading platform, while Pershing[®], which offers clearing, custody and execution services to a number of digital advisors reports they are among the fastest growing;²⁷ Schwab has signaled it will launch its own robo-advised solution both directly to the investor and to advisors, while Fidelity has announced partnerships with Betterment and LearnVest.

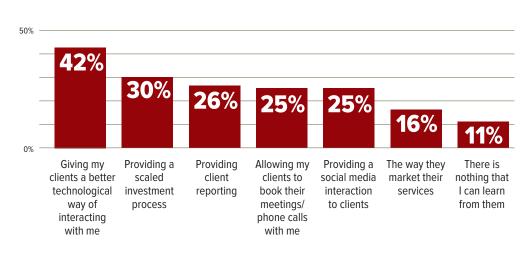
Michael Kitces Weighs In

The most significant fundamental problem with a robo-advisor-driven solution is that it assumes our problems are problems of information; if only we had more knowledge, and better tools, we could all achieve financial success ... The problem is not one of information, knowledge, and technology-scaled execution. The problem is behavioral. And behavioral problems are one thing uniquely suited to human-to-human interaction, as we seem to be hard-wired to feel more accountable to other human beings than we do to a computer. Read more at *http://www.kitces.com/blog/what-is-the-difference-between-a-robo-advisor-and-getting-online-financial-advice/*



Financial Planning Survey: Most Respondents Believe They Can Learn from Robo-advisors

Not surprisingly, most respondents to our survey believe that they can learn from roboadvisors. Those who have taken the time to explore their new competitors quickly recognize the power of their presence and fresh approach to educating investors by explaining complex financial issues in simple terms. For advisors that believe that their own websites don't help in the client acquisition process, it's worth visiting a few online robo-advisors sites to learn just how effectively they position their services and motivate consumers. Their use of impactful graphics and illustrations to explain activity and performance, not to mention the interactive allure of their offering, may lead advisors to question the effectiveness of their own sites and even their value propositions.



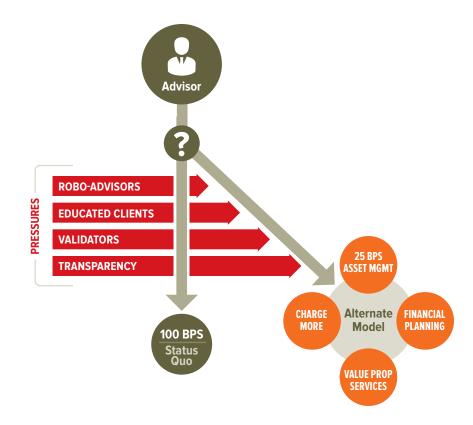
I think I can learn from robo-advisors in the following ways:

Source: SEI Survey, Next Gen Financial Planning, August 2014, n=1,019. Responders were able to select multiple answers.

Robo-advisor impact on fees?

The industry is at a crossroads in terms of the direction of fees and it is unclear whether clients desire or will demand a change in fees for online vs. traditional advice. Pressure to reduce fees will likely remain low until existing clients start pushing back, which hasn't happened yet. However, if robo-advisors offer investors portfolio management for a fee of about 25 bps, and Schwab is willing to offer its automated solution for free as long as it is compensated through either its' own ETFs or mutual funds or through revenue-sharing funds (for clients with \$5,000+). It's not hard to imagine pressure for advisors to charge distinct fees for portfolio management and financial planning services. It would be more transparent and tie fees to specific services that may be attractive to investors.

From the advisor's perspective, it would be the status quo to continue to charge 100 bps for a general service. Those that offer differentiated services are better able to identify how those services could be charged separately. They will also have the most flexibility in terms of delineating specific fees or charging a single fee.



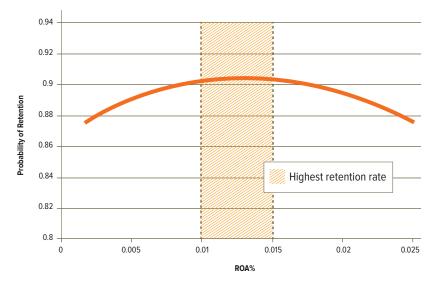


Michael Kitces Weighs In

The industry is at a fork in the road, as seen on the previous page. The two roads are either the current straight AUM model or the alternative that is some form of retainer for identified services and a smaller AUM fee for asset management. It appears that the latter has a lot of benefits but there are also significant problems. Read more at *http://www.kitces.com/blog/why-annual-retainer-fees-wont-overtake-the-aum-model/*. Until investors push back loudly, it is unlikely that the industry will make a broad-based change to the current, simple AUM method of compensating an advisor.

Research by PriceMetrix²⁸ finds a reduced likelihood of retaining very low-priced and very high-priced clients, but relatively little difference in the probability of retention across a broad middle range. They conclude that a range of prices can exist simultaneously in the market, and point to the need to build and execute a pricing strategy to ensure that a firm's pricing and value proposition are aligned and consistently administered. Advisors should know their business model, how their pricing is supported by their value proposition (and informed by market data), and communicate the value they provide to their clients.

PriceMetrix concludes that deeper client relationships imply a higher likelihood of client retention. Where advisors know they manage only a share of investable assets in a household — for example, only one spouse, or only nonretirement accounts — they should work to deepen those relationships. This may work in tandem with efforts to transition transactional business to a fee-based model or to add fee accounts to existing transactional business.²⁴



Retention and Revenue on Assets (ROA)

Source: "Stay Or Stray: Putting Some Numbers Behind Client Retention," PriceMetrix Insights, December 2013

The Next Wave Financial Planner: SEI's Perspective

Eight things advisors should do now

For nearly five decades, the financial planning profession has persevered through periods of economic prosperity and hardship, including one of the most tumultuous eras in recent memory. Financial planning continues its rise. More advisors are obtaining the CFP[®] certification and an increasing number of firms from insurance companies to wirehouses and RIAs are incorporating financial planning into their offering. Today, financial planning is the value hub of wealth management—empowered by some of the most innovative software solutions on the advisor landscape.

We've identified eight ways to help you make innovative financial planning the core of your business and service delivery model that will give you a competitive advantage. These actions don't involve capital expenses, just an open mind and a fresh way of looking at the tremendous opportunities to compete and succeed in today's rapidly changing business climate.

1 Co-plan with your clients

It's a big idea, one that will force advisors to rethink their client relationships and their role.

- Move away from selling product and become a co-creator of interactive plans that are unique for every client. In the true sense of the word *partner*, transition from relationship manager to collaborator.
- > Shift from the traditional *here's your financial plan* mindset to *let's develop your plan together.*
- > Acknowledge that investors are more technically and financially astute.
- > Be your clients' quarterback, expanding the conversation beyond finances and investing.
- Coordinate other experts to provide advice to investors on any topic from accounting and legal services to real estate and healthcare.

2 Fully adopt goals-based planning with goals-based reporting

Goal achievement vs. benchmarks:

- > Use multiple portfolios and multiple strategies addressing the behavioral biases of clients to "bucket" their goals.
- > Lead client conversations toward broader life goals rather than limiting discussion to financial goals.
- Embrace the idea that it's not just about money—it's about planning around people's lives.
- Direct conversations away from investment benchmarks and toward the notion of reducing the risk of not achieving goals by showing "progress to goals."
- > Minimize emotional decisions and manage irrational behavior by focusing on goals.

3 Hone your value proposition

Identify your target audience and the services that they need, financial or otherwise. Specifically:

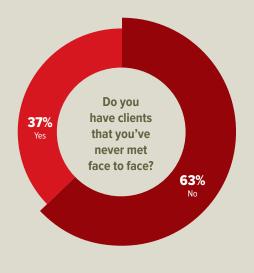
- Focus on developing your niche. For example, specialize in serving entrepreneurs of startup companies. The range of services could include 401(k) and medical insurance; ways to leverage options that are not yet vested; E&O insurance; bookkeeping and bank lending. A startup needs many services and for a busy entrepreneur being able to rely on one source for all these services makes things easy. Moreover, startups tend to be a tight-knit community. (Think referrals!)
- Think beyond the four-walls of your office. Use technology to compete virtually/nationally; you are no longer limited by local geographic constraints.
- > Use active management to add value. If you're an investment-only or passive investment manager, your value to your clients will diminish as they become more investment-savvy and the investment management process becomes more commoditized. Robo-advisors cover this functionality well.
- > Focus on specific services that are hard for other advisors to emulate to grow your reach. It sounds easy, but it is difficult. Development of services takes time and money.
- Consider turning down business that falls outside the niche you're trying to develop. Otherwise, you will be pulled back into general financial planning.

Encourage different advisors to develop their own niches. If your firm is large, develop multiple, complementary niches and identify specific services for them. As your firm grows, consider expanding beyond broad financial services to enhance diversification and reduce risk. If your firm is small, develop one niche and have a differentiated set of services for those clients.



Financial Planning Survey: Interacting with Clients

When polled, 63% of advisors that responded to our Financial Planning survey have clients they never met face to face.



Source: SEI Survey, Next Gen Financial Planning, August 2014, n=1,019.

4 Age-diversify your firm

Larger firms with an eye toward the future should begin to seek ways to capture the opportunity that the coming wave of younger investors presents. Larger firms are uniquely positioned to provide effective advisor training and bear the cost of technology that the investment in the future will take. Smaller firms will struggle to adapt their value proposition, technology and brand to cover all generations making the stretch very difficult. The forward-thinking firms should look to:

- > Hire younger advisors: Investors like to interact with people their own age. By hiring across multiple age groups, your firm will naturally acquire a client base that mirrors the range of ages of your firm's advisors. A consideration here is that you want to be profitable in all segments. This depends on a young advisor, being paid less, still attaining a good profit margin for a larger book of clients with smaller account sizes. To be profitable, it requires scale; hence, good technology and a disciplined approach to service. However, if successful, this can be an effective succession strategy.
- Attract younger clients: A business strategy aimed at attracting a younger clientele is sometimes difficult to justify. However, it is a great way for a young advisor to build a book of business with the support of a larger firm. As clients age and their portfolios mature, your firm will have the services to meet their needs.
- Serve multiple generations: Implementing an agediversified model will also afford your firm a path to serve multiple generations within a family—a strategy that historically most firms have failed to implement successfully.

5 Operationalize financial planning

Just as you've operationalized other aspects of your business through disciplined processes and workflows to achieve the full benefit of system integration, you need to develop a consistent way to track your clients' progress relative to their goals and the plans you collaboratively develop.

- > Move from asset management to financial planning.
- Implement workflows in your office. Workflows are often used as a way of interacting with custodians and their platforms. However, the biggest opportunity to gain efficiency and consistency of client experience is to implement workflows around the financial planning process. This process can be the most hand-offs within an advisor team's personnel; thus, has the most chance of error and inefficiency. By putting these workflows in place you will soon gain metrics on how robust your financial planning process is.
- Implement alert-driven tools and other new technologies from account aggregation to goalsbased alerts that notify you when goals are approaching or a plan veers off track.
- Proactively reach out to clients. This will get easier as the software is more prevalent.

6 Assess your fees

While the industry is at a crossroads in terms of the direction of fees, prepare for a possible shift.

- You can leave your fees in place now, but consider how you might divide fees into component parts for various services; advisors who offer active portfolio management and can justify a larger fee for investment expertise will have more options about how to charge in the future.
- Differentiate your services; advisors that offer differentiated services are better able to identify how those services could be charged separately. They also will have the most flexibility in terms of delineating specific fees or charging a single fee.
- Align your firm's pricing and value proposition and ensure they are consistently administered. Advisors should know their business model, how their pricing is supported by their value proposition (and informed by market data), and communicate that value to their clients.
- Simplify your fees and make them as transparent to the client as possible. You don't want any confusion, in your client's mind, on how you are paid.

7 Become a techno-advisor

Clients are running ahead of advisors when it comes to technology — if you don't keep up, you'll be left behind.

- Focus on the way you use technology to interact with your clients. Let clients decide how they want to interact with you—how, when and where—on Skype, in person or on the phone.
- Review your client portal; ensure that it supports collaboration and is integrated with your financial planning software so clients not only see their accounts, but they can view their plan as well.
- Maximize your current technology, especially your financial planning software. Retrain your staff, upgrade to the latest software version and explore how you can optimize the way technology supports your business.
- Explore ways your software can be used to co-plan with your clients. If you aren't doing it today, select a couple of technically-savvy clients to work with to develop your process.
- > Put consistent workflows in place to ensure that you get the most out of your technology.
- Assess your conference room and flat screen technology; make it as easy to connect to as possible. If you have not done so already, find a way to use the screen to develop plans with your clients. Once this has been accomplished in your office, it can also be done remotely using conferencing collaboration software.
- Look into technical scheduling methods that enable clients to schedule their meetings with you.

8 Outsource

As technology continues to deliver new and more effective ways to run your business and engage with clients, the role of outsourcing becomes paramount to your success.

- Outsource everything except your client relationship and value proposition.
- Focus exclusively on the human connection that differentiates your services, you'll be in a stronger position to grow. From portfolio management to CRMs and account aggregation, outsourcing
- assures you the latest, most competitive solution and the most cost effective way to render excellent service to your clients.
- Don't become a chief technology officer (CTO). Remember, you're in the advisory business not the technology business.



Concluding Thoughts: Toward the Next Frontier

In the post-financial crisis era, financial planning is becoming a respected profession, with the skills and resources at its disposal to realize the mission its founders dared to imagine: To make a meaningful difference in the lives of every day Americans whose hopes and dreams hinge on financial security.

We believe both demographics and technology will drive the next phase of the industry's evolution and financial planning will be both the greatest contributor and beneficiary. Without a doubt, the marketplace will continue to advance; new products, new services, new models, competitors and disruptors will continue to challenge the status quo. Investors will continue to become better educated and, in turn, have higher expectations for the value they receive from their advisors. Planners, advisors and wealth managers of all sizes should ensure that financial planning is a central part of their offerings. Those who stay ahead of the curve will continue to reap the greatest rewards.

As early planners and former CFP Board chairmen Denby Brandon and Oliver Welch conclude in the first comprehensive history of financial planning, "If the final frontier for broader acceptance of the financial planning profession is reaching the underserved mass market, the future course of the profession itself may be decided²⁹" by the next generation of planners.

About SEI

SEI is a leading, global provider of investment management business outsourcing solutions, investment processing, and fund processing that help corporations, financial institutions and financial advisors. As of December 31, 2014, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers \$625 billion in mutual fund and pooled or separately managed assets, including \$253 billion in assets under management and \$372 billion in client assets under administration.

The SEI Advisor Network provides financial advisors with turnkey wealth management services through outsourced investment strategies, administration and technology platforms, and practice management programs. It is through these services that SEI helps advisors save time, grow revenues, and differentiate themselves in the market. With a history of financial strength, stability, and transparency, the SEI Advisor Network has been serving the independent financial advisor market for more than 20 years, has over 6,100 advisors who work with SEI, and \$47.0 billion in advisors' assets under management (as of December 31, 2014).

About Raef Lee

Raef Lee serves as a Managing Director and Head of New Services and Strategic Partnerships for the SEI Advisor Network. He is responsible for the identification of new services and markets for the SEI Advisor Network. He defines new product offerings for advisors either by partnering with bestof-breed companies or shepherding the requirements into SEI's development teams. In addition, Raef identifies ways for the Advisor Network's innovative business model to be leveraged in new markets.

About John Anderson

John Anderson is Managing Director, Practice Management Solutions for the SEI Advisor Network. He is responsible for all programs focused on helping financial advisors grow their businesses, create efficiencies in their operations, and differentiate their practices. John is frequently quoted in publications such as Investment News, Financial Planning Magazine and The Wall Street Journal and is a frequent speaker at broker-dealer conferences, client seminars and other industry forums. He is also the author of SEI's practice management blog, seic.com/practicallyspeaking. Alongside his practice management responsibilities, he also manages a team that provides investment research, case support and analysis to support the efforts of SEI's advisors.

About Michael Kitces

Michael E. Kitces, MSFS, MTAX, CFP®, CLU, ChFC, RHU, REBC, CASL, is a partner and Director of Research for Pinnacle Advisory Group, a private wealth management firm located in Columbia, Maryland, that oversees approximately \$1.3 billion of client assets. In addition, he is a co-founder of the XY Planning Network, the practitioner editor of the Journal of Financial Planning, and the publisher of the e-newsletter The Kitces Report and the popular financial planning industry blog, Nerd's Eye View, through his website Kitces.com. A 2010 recipient of the Financial Planning Association's "Heart of Financial Planning" award for his dedication to advancing the financial planning profession, Michael is a thought leader, author and speaker dedicated to advancing the financial planning profession.

Special thanks to our contributors

> Jon Stein, CEO of Betterment

With a mission to democratize financial advice and management, Betterment believes it can deliver personalized, optimal advice, which is immediately implementable, and can manage client portfolios continuously. While it offers its services directly to consumers, it also offers outsourcing solutions to advisors.

> Edmond Walters, CEO of eMoney

Wealth-planning solutions for financial advisors that offers superior transparency, accessibility, security, and organization for everything that affects their clients' financial lives. A technology envisioned and created by advisors for advisors, eMoney's award-winning software and resources are tailored to transform the advisor's ability to implement comprehensive financial plans and prepare clients for a secure financial future.

> Oleg Tishkevich, CEO of Finance Logix®

Established in 1998, provides scalable financial planning software solutions to financial services firms, including Broker-Dealers, Banks & Trusts, Insurance, Registered Investment Advisor (RIA), technology and services providers, and Asset Managers.

> Alex Murguia, President and Founder of inStream solutions

A cloud-based wealth management platform that provides advisors with robust financial planning capabilities, advanced wealth management calculators, proactive, tailored client alerts, and a robust suite of practice management solutions, including account aggregation and mind mapping tools.

> Bob Curtis, CEO of MoneyGuidePro™

Dedicated to helping advisors use financial planning to more effectively motivate each client to create, implement and maintain an investment strategy that best meets their lifetime financial goals. MoneyGuidePro's client-centered approach supports a sophisticated, goal-oriented planning process that is more meaningful to the client and more productive for the advisor. Contact an SEI representative for more information, insight and guidance about things you can do to maximize financial planning, spend more time with clients and less time managing technology.

Visit seic.com/advisors or call 888-734-2679.

¹"The History of Financial Planning" (2009), Brandon and Welch (2). ²Brandon and Welch (3). ³http://www.cfp.net/become-a-cfp-professional/cfp-certification-requirements New ways. New answers.® SE ⁴Brandon and Welch (148). ⁵Michael Kitces. ⁶Brandon and Welch (144). ⁷Loren Dunton, "The Financial Planner: A New Professional" (Chicago: Longman Group USA, 1986), 7. ⁸Investment Company Institute Fact Book 2014. ⁹"The Age of Independent Advice: The Remarkable History of the Independent Registered Investment Adviser Industry," Charles Schwab 2007. ¹⁰"The Internet and the Investor," Brad M. Barber and Terrance Odean, *Journal of Economic Perspectives* — Volume 15, Number 1; Winter 2001, pp. 41-54. ¹¹"The Future of Practice Management," Member Briefing FPA Research and Practice Institute, December 2013. ¹²http://seicblogs.com/advisor-practice-management/referrals/top-5-things-advisors-change-business/ ¹³ "The Future of Practice Management," FPA Research and Practice Institute, 2013, n=~2,400. ¹⁴"MILLENNIALS: A Portrait of Generation Next," Pew Research Center, 2010. ¹⁵Harris Interactive/Nationwide Consumer Study, October 2013; N=783 adults with \$100,000+ investable assets. ¹⁶http://www.advisor.com/story/boomer-snapshot ¹⁷⁺2013 Client Experience Survey: Drilling into Digital Channels for the High-Net-Worth," CEB TowerGroup Wealth Management. ¹⁸www.financial-planning.com/news/technology/review-fidelitys-office-of-the-future-2689398 June 2014. ¹⁹2013 Wells Fargo Millennial Survey. ²⁰"MILLENNIALS — BREAKING THE MYTHS," Nielsen February 2014. ²¹CEB TowerGroup Wealth Management Client Experience Survey, 2013. N = 1268 ²²"MILLENNIALS — BREAKING THE MYTHS," Nielsen February 2014. ²³http://www.thinkadvisor.com/2014/06/30/4-next-gen-advisors-reshaping-the-industry ²⁴Cerulli Quantitative Update, Advisor Metrics 2013, "Understanding and Addressing a More Sophisticated Population," Cerulli Associates. ²⁵Brandon and Welch (124). ²⁶CEB TowerGroup Wealth Management, "Using Portals to Enhance Client Engagement," January 2014. ²⁷http://www.reuters.com/article/2014/10/15/us-betterment-roboadviser-idUSKCN0I41HM20141015 ²⁸"Stay Or Stray: Putting Some Numbers Behind Client Retention," PriceMetrix Insights, December 2013. ²⁹"The History of Financial Planning" (2009), Brandon and Welch (202). This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice. This information is for educational purposes only.

There are risks involved with investing, including loss of principal. Due to the ever changing nature of investments and retirement objectives, it is critical that the advisor revisit an investor's retirement investment plan at least once a year, and more frequently if possible. There is no guarantee that the investment objective will be fulfilled.

Information provided by SEI Advisor Network, a strategic business unit of SEI. Services provided by SEI Investments Management Corporation (SIMC), a wholly owned subsidiary of SEI.