Lessons from the US advice market

BT USA Study Tour 2022

Introduction

In October 2022, BT hosted ten successful financial advisers on a study tour of the United States. The five-day tour included in-depth sessions with industry leaders such as Barron's, NMG Consulting, Invesco, Capital Group, Merchant Investment Management, Ethos, Lumiant and GM Advisory Group. In this paper we share the key lessons from the US advice market and how practices can get ahead of the game here at home.

Summary

The 2022 BT USA Study Tour revealed many insights into financial planning in the US and Australia. The group of ten Australian advisers met with senior leaders of the US industry and compared notes.

Topics ranged from attracting and interacting with clients and the best ways to grow businesses, through to the use of technology to develop processes and portfolios, and the growing importance of environmental, social and governance (ESG) factors.

The following is a summary of the learnings from the tour, as provided by tour members.

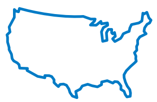
Gearing for growth in the USA

For decades Australian advisers have typically provided a more holistic approach than their US counterparts. But the industry in America is changing rapidly, and over the past five years there's been a shift away from transactional services to broader ongoing advice.

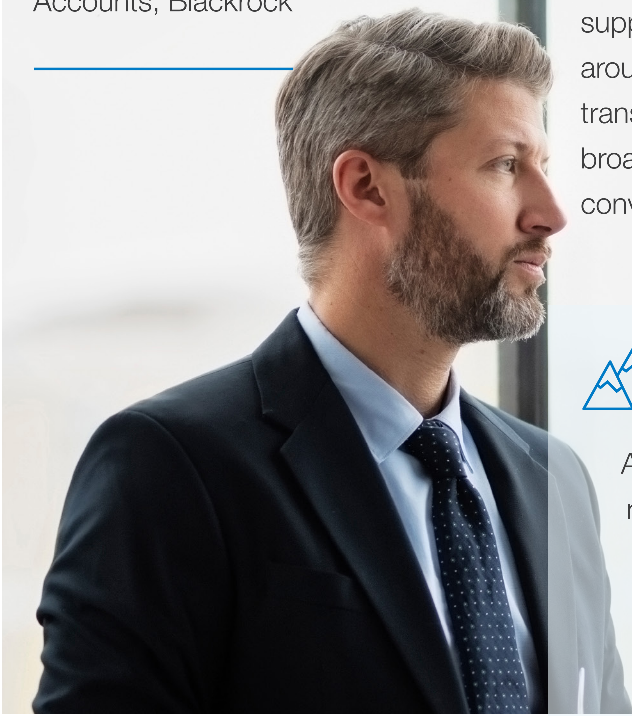
The best US firms are growing, adding more services outside of pure investing and increasingly working as a team rather than as a group of individuals.

Working in teams shifts a business away from key person and key relationship risk and develops multiple contact and touch points between a firm and client and allows team members to develop dedicated specialist expertise that benefit the broader team and their clients.

Clients are attracted to these firms, because of their ability to specialise in a broad range of areas and at the same time offer greater specialist expertise. Ultimately this deepens and strengths relationships, increasing client satisfaction and in turn client referrals.

Market comparison		
# Advisers	140,000 (stable)	14,500 (declining)
$ of investable market	$35T US	$4T US
% Advised (households)	> 35%	> 15%
% Advised (market)	~50%	20%
% Discretionary	80% of invested monies	80% target. Actual 30%
Profit margin target	4x cost of salaries	20 - 50%
Business valuations	8x > 20x	6-8x (EBITA)
# Clients per adviser	3 - 3000	80 - 110

> Advisers realised they can do a better job at managing clients' wild emotions than managing their money.
>
> Greg Weiss, Head of Managed Accounts, Blackrock



In the US, fund managers are playing a growing role in the advice sector with firms like Invesco and Capital Group establishing practice management expertise and capability. Often those larger asset managers provide coaching and support to advisers, particularly around shifting conversations from transactional investing to more broader goals and values-based conversations.

Key take away

Successful practices of the future will be personalised to the needs of investors, serving them a broader range of solutions. There will be greater ability to deliver scaled, customised model portfolios. Teams will have broad capability but each team member will be a subject matter expert in one of more areas on behalf of the whole team.

Future challenge

As advisories grow into enterprises offering a broader range of services, running the business rather than just advising becomes more important. With that comes challenges around culture and a common vision, talent acquisition and development, and managing individuals' strengths and weaknesses.

Changing advice and practice management

A strong investment function is critical to an advisory business but the conversation with clients is increasingly shifting from a focus on investing to long term goals and values.

While clients often perceive that they are paying fees for the investing function, that part of an advisory business is becoming commoditised. Advisers understand that clients are instead paying for their time, perspective and coaching.

But making clients understand that isn't always easy.

Capital Group has a 'lifetime of value' flyer which shows a prospect all that an adviser does for them and their family, and outlines what a long-term relationship between a client and Capital Group looks like.

Lumiant says values and goals rather than products drives better relationships between adviser and clients. Advisers need to build businesses that use technology, are scalable and controllable, so that they can spend more time discussing values and goals with their clients.

8 questions make all the difference

Create a relevant questionnaire that includes some or all the questions below.

- How did a client make their money?
- What are their best and worst experiences with financial professionals?
- Who do they care about?
- What's happening in their life now that could impact their financial future?
- Who (besides the adviser) do they rely on for financial advice?
- How involved do they like to be in financial decisions?
- Why do they want their money to grow – what's their motivation?
- How much money do they think they need in order to stop worrying about finances?

Being able to use customised models at scale will be important in the future. It has the dual benefits of being more efficient for the adviser and client and moving conversations away from performance-based discussions, towards values and issues that are strategically important.

Advisers should assess potential and current clients continually and determine their 'fit' with their firm.

Tips on assessing potential and current clients:

- On the way in, an adviser should assess if they want the client. Are they a good fit? Are they good people? Can the adviser add value?
- Ask a client why they left their last adviser.
- Be analytical about hourly rates. Measure honestly. Discover if advisers and support staff are spending time with the least valuable clients and not accruing that cost.
- Allow everyone in the firm to cross clients off the firm's list. Reprice and re-engage terms of what is in scope and who clients deal with.
- Difficult clients are often okay if there is an ability to help them and there is mutual respect. It's the small clients who are nice who are tougher to deal with because they can't pay enough.
- Handle 'sacking clients' professionally and directly because your biggest asset is your reputation.

Food for thought: client cohorts

Women are significantly better referrers than men – and generally live longer. Blake Wood, the chief executive officer of Lumiant, says the non-financial spouse refers more than two-and-a-half times as often as the financial spouse, and 47 per cent of female advisers say client referrals is a cornerstone of their practice.

Research from Lumiant also highlights the lack of women in the advice industry (about 20 per cent compared to 50 per cent in accounting) and half of female clients say their adviser fails to connect with them.

Winning the trust of future generations is also important. The more an adviser connects with clients beyond just investments, the more they can

Future challenge

Broadening conversations and touch points with clients and their families, to include partners and the next generation. Your best clients want their children to be successful and are likely open to you helping them.

manage their relationship across the generations.

A key selling point with larger clients is comfort with a succession plan for the advice business, because their wealth will likely outlive them, according to Morgan Stanley Wealth Management managing director, Kevin Peters. Peters says half his clients are already engaging with his business across two generations of their family, and a growing number are extending to three.

Successful advisers of the future will use communication to drive deeper and more frequent engagement. The most effective communication simplifies complex ideas and is tailored to its audience.

Portfolios of the Future

Successful advisers need to look beyond the 60/40 rule of thumb to compete. This was true before the pandemic and is even more critical in 2022 and beyond.

COVID has acted as a time machine, bringing forward the 2030s to the 2020s in terms of crypto-currencies, alternative investments, artificial intelligence, virtual work and health.

Portfolios will increasingly reflect values preferences and investment convictions. Those advisers that can best align a client's values and preferences to monetary outcomes are going to be best placed to have enduring, long-standing relationships. Advisers must be able to incorporate environmental, social and governance factors (ESG) into portfolios.

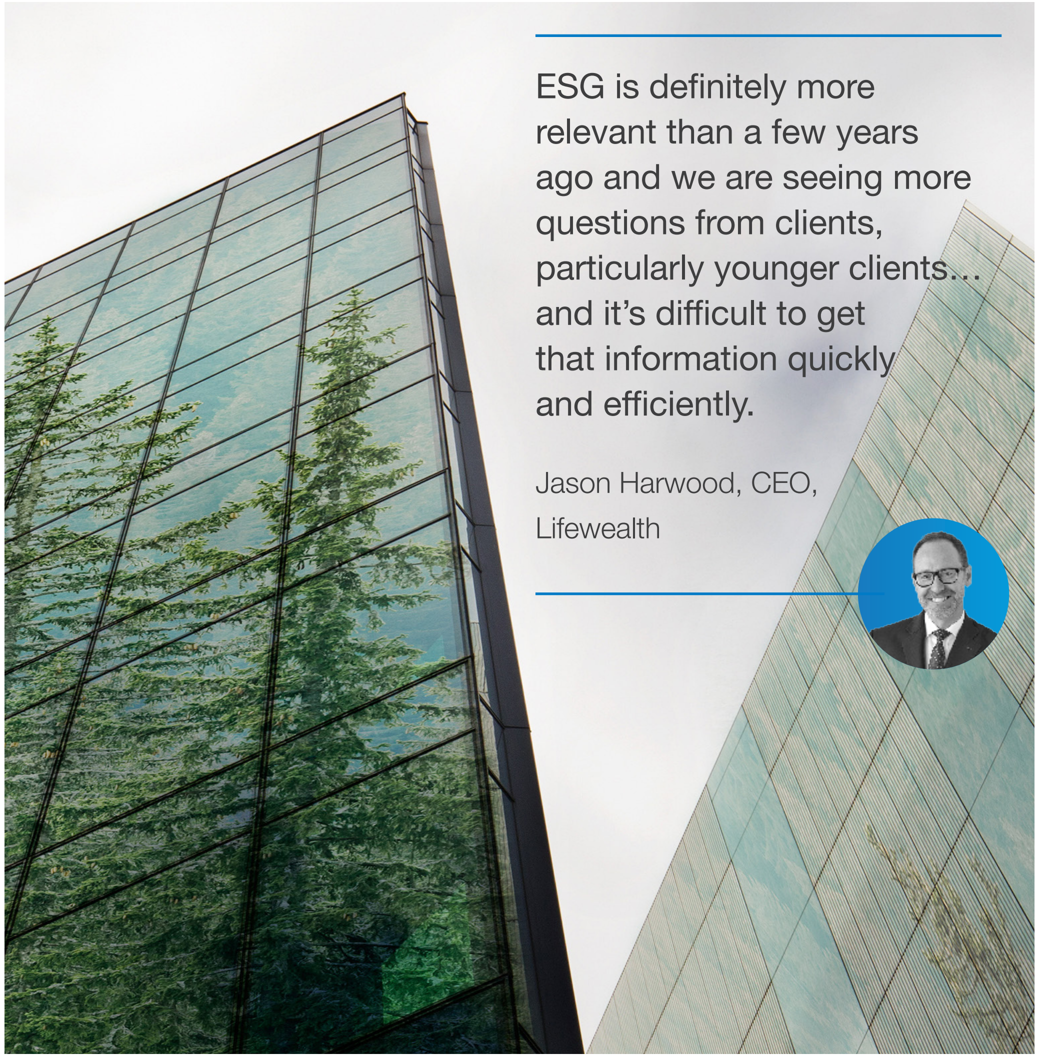
Key take away

Work hard to make clients understand that they are paying for the adviser's time, perspective and coaching and focus conversations on long term goals and values.

According to NMG and Morgan Stanley, advisers think very little about ESG, notwithstanding the financial industry is constantly discussing it. This is a mismatch because the evidence suggests that the theme and values associated with ESG investing are important to consumers, but this is not yet reflected in the adviser/client conversation nor is it translating to portfolio construction.

Where ESG will have most impact is with multi-generation clients. Most ESG models are currently about excluding assets, but the next generation of investors will think more about ESG, moving to more sophisticated models, and that cohort will be worth tens of trillions of dollars in the next 25 years, according to Capital Group.

For advisers, that introduces the challenge of being able to rank funds, companies and other investments in terms of ESG attributes. That will be a growing focus in coming years. Beyond ranking, future solutions will increasingly map clients' portfolios to their values and the impact the portfolio has on the things they value.



> ESG is definitely more relevant than a few years ago and we are seeing more questions from clients, particularly younger clients… and it's difficult to get that information quickly and efficiently.
>
> Jason Harwood, CEO, Lifewealth

The attractive Australia

Participants heard that there's a global bull market for advice and being 'attractive' for overseas money is more about scale than profit.

Multiples being paid for businesses are rising. Tim Bello, managing partner of Merchant Investments said his investors think of wealth management as an asset class, valuations will rise, and he is forecasting eight times earnings today, to 20 times on public markets.

The advisory sector in the US has a much larger focus on business development than in Australia. Partly that's a function of culture, but also because the cost of bringing on a new client and delivering advice is much lower in the US because of different legislative requirements.

US advisers focus on building businesses with more touch points and providing more frequent interaction. The more interaction, the easier it is for an adviser to ask for more business and ask for referrals. This frequency has resulted in a shift to investment models and managed accounts.

US advisers are using digital means to build advocacy and engagement. They forecast that the majority of interactions will occur digitally in the next couple of years, but at the same time, advisers need to increase personalisation.

All of those factors are opportunities for Australian advisers.

In terms of why clients leave an adviser in the US, customer experience and the onboarding experience are called out as significant reasons.

While client referrals remain a strong source of new business, high growth

> Confirmation that from an Australian perspective we are, in some cases, ahead of the United States but we are just doing it at a much smaller scale.
>
> Steve Fort, Head of Advice, Invest Blue

practices in the US do a better job of strategic marketing than their slower growing counterparts.

Morgan Stanley Wealth Management Managing Director Kevin Peters engages constantly with clients, warning not to assume the client you spoke to two months ago is still OK. He said it's important to be proactive about winning business.

In the US, clients expect more of their advisers and advisers expect more of their partners.

Advisers also need to be curious and ask questions. Questions lead to commonalities which leads to trust. A survey of affluent clients, by Invesco, found that the reason 85 per cent of potential clients opted to go elsewhere was because they didn't feel understood.

Key take away

Global multiples for wealth management businesses are rising and Australian firms can take advantage. Communicate with clients regularly and build practices around teams and culture.

Future challenge

Developing more touchpoints with clients and being in touch more regularly. Don't assume the client you spoke to two months ago is still ok.

Bull market for technology innovation

Hyper-personalisation of processes using technology to focus on what clients truly value is emerging in the USA. In one example provided, data was used to build up to 1200 potential outcomes that could apply to a client's portfolio and model the best of those outcomes.

Advisers using technology to model portfolios are growing twice as fast as their competitors and experiencing a 25 to 30 per cent valuation uplift in their business, according to Blackrock.

There are enormous efficiencies that come out of customised solutions. It's happening today in the United States if firms have the data. Obtaining and interpreting data is a challenge for Australian businesses that will be addressed by those who want to better serve their clients and grow their businesses.

Key take away

Data and technology will change practices, and the best will embrace the changes to grow their practices.

Future challenge

Building data bases to a critical level, allowing local firms to use the information in a meaningful way.

The power of alumni

Ultimately, advisory practices will become bigger and more like enterprises, with a CEO and management structure and a team of employees. Size does matter when clients demand a broad range of expertise. It means owners will have to rethink how they run their business.

Hints on rethinking business models:

- Have a clear sense of purpose, and work to advance a cause bigger than yourself.
- Trust your team because low trust is an anchor on everyone else.
- Acknowledge worthy rivals and learn from them.
- Be prepared to be flexible and make changes, even if it means a short-term loss.
- Have courage to lead.

Key take away

Successful advisers of the future will think more like a firm, with a management structure and a range of expertise.

Future minded advice practices are treating each other as colleagues and as part of a growing industry, rather than purely competitors.

There are a number of themes emerging as common to the sector and individual practices. Technology is an example, as is help solving issues with financial planning software. The best practices will find value in learning from each other, and BT will proudly play a role in that process.

Future challenge

Advisers, in a competitive market, collaborating to solve common challenges, thus enhancing the value of their businesses and the wealth management sector as a whole.

Financial curiosity is the most relevant thing for client meetings, for new and existing clients. It's about how much deeper we can go with clients, and understand their needs, their goals and their objectives.

Tony Vikram, Principal Financial Adviser, Affinity Private Advisers

Quick tips

Successful practices of the future will be personalised to the needs of investors, serving them a broader range of solutions. There will be greater ability to deliver scaled, customised model portfolios.

Look for sensible technological solutions and remember the importance of data.

The best US firms are growing, adding more services beyond pure investing, and increasingly working as a team, rather than as a group of individuals.

Working in teams shifts a business away from key person and key relationship risk and develops multiple contact and touch points between a firm and client.

Be analytical about hourly rates. Measure honestly. Discover if advisers and support staff are spending time with the least valuable clients.

Allow everyone in the firm to cross clients off the list. Reprice, and re-engage terms of what is in scope and who you deal with. Frame it up as rules, and if it doesn't work that's ok.

Be prepared for client conversations. Before speaking to clients, find out everything you can about them and recent changes in their lives. Have they had grandchildren? Is their mother unwell?

Don’t assume that your clients know about all of your broad services – it’s not their job to know that list, it’s yours to tell them in case they need those other services at a future date or someone they know does.

When your top clients refer someone, it usually works. So, ask your best clients for referrals, not necessarily all of your clients.

DNA – have a language in your team. The words used and the messages delivered are very important.

Segmentation – you are offloading the revenue, but more importantly you are offloading the service work which gives you the real uplift of capacity; it reenergises the support staff and shows that you value them and also the culture of your business.

Every client has a service cost but also an opportunity cost.

Agenda highlights

The five-day BT USA Study Tour 2022 included meetings with the following experts:

Barron’s Hall of Fame Summit

Financial advice is a long game. At its core, it’s about ensuring clients have enough money to fund their needs, wants and dreams through the end of their lives. The best advisers are those who can demonstrate sustained excellence over a long period and whose practices are set up to serve clients well, even after the adviser has retired or otherwise left the business.

Barron’s Hall of Fame is an award honouring a group of advisers who exemplify long-term success and commitment to their clients. Each member of the Hall of Fame has appeared in Barron’s annual Top 100 Adviser rankings for 10+ years, and their long-looking commitment to excellence is a hopeful example for the industry to follow.

For the second consecutive year, we’re recognising the recipients of the Hall of Fame Award at the Barron’s Adviser Hall of Fame Summit. This three-day event is an intimate meeting of these elite advisers and their successors. The goal: allow Hall of Fame advisers to collaborate, share best practices and ensure that their legacy of excellence is passed down to the next generation of advisers.

NMG Consulting (Oliver Hesketh)

Oliver leads NMG's North American operations and is focused on the wealth management, asset management and pensions industries. He works closely with senior management teams and boards on M&A engagements and strategic matters relating to commercial questions of product, marketing and distribution. Oliver is responsible for many of NMG's leading publications on the pension, superannuation and financial advice industries and has over 20 years of industry experience across North America, the UK and Australia.

Invesco

Invesco Global Consulting is the industry's largest communication and consulting services group with a focus on financial professionals. Our research-based resources and actionable insights are crafted to focus on four key aspects of your business: new business development, wealth management, practice management, and client service.

Capital Group

A global investment manager, we've helped investors succeed by remaining true to our values and approach. They include a distinctive way of managing money, an emphasis on research, a long-term view and a recognition of the power of relationships. Helping investors succeed has helped us grow. Today we're one of the world's largest investment management organizations, managing more than USD 2.6 trillion.

Merchant Investment Management

Merchant is a strategic and capital partner to thriving financial services companies that are run by founders and entrepreneurs focused on growth. Our simple approach, people-focused, and long-term capital yields true alignment.

Ethos

The engine for values-based investing. ESG data, analysis, reporting and client engagement.

Lumiant

Lumiant is an advice and client engagement platform that heroes advice. It has been designed to bring to life the intangible value of your advice, allowing clients to see its impact on their lives. Lumiant ensures that both the financial spouse and the non-financial spouse are heard and understood when setting goals.

GM Advisory Group

Frank Marzano is the founder and Managing Principal of GM Advisory Group. With over 25 years of experience, he is a trusted adviser who thoroughly understands the 8 many opportunities and complexities of managing wealth. When Frank founded GMAG in 2004, he knew there was a better way for successful individuals and families to manage their wealth and financial lives. Families needed to work with a line-up of brokers, attorneys, and accountants to put all the pieces together. He realised he could offer a higher level of service to his clients by co-ordinating all of their financial activities.

Today, GMAG is a boutique wealth management firm with a deeply personal, collaborative approach that serves the unique demands of high net-worth individuals and families. Frank Marzano has built GMAG into the dedicated firm it is today, offering comprehensive, customisable services that encompass a full spectrum of financial needs to help clients accomplish what they value most.

For more information

bt.com.au/professional | 1300 784 207

Important information

BT00241-1122