The Future of Advice

A blue print for building the practice of the future

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The Future of Advice

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The Future of Advice

About this research series

Before we established our research roadmap for 2014, we paused to ask ourselves a series of critical questions here at *InvestmentNews* Research. Most importantly, several years after acquiring the research and benchmarking studies from Moss Adams LLP, how have we both succeeded and failed to enable a broader universe of financial advisers to take their businesses to new heights?

From there, our opportunities and objectives became clear. Our emphasis and expertise, at its core, has focused on the business of your business. Structure, staffing, compensation, financial performance – the fundamentals of building a vibrant and viable business. The core of your business, however, is universal and singular: The client.

This research series represents our first attempt to better understand the needs and demands of your current and prospective clients, both now and over the next decade. We partnered with several of our sister publications here at Crain Communications - Crain's New York, Crain's Chicago, Crain's Detroit and Crain's Cleveland Business - to gather responses from roughly 1,000 of their readers. We surveyed them to better understand their needs for investment and financial advice. We then cross-referenced with a companion survey of roughly 500 advisers to see how your businesses and plans are truly positioned for future growth, relative to the demands of investors of all needs, ages, and overall levels of wealth.

With the help and support of Cambridge Investment Research, a truly thoughtful and strategic partner on several of our core research projects, we proudly present "The Future of Advice" series. This report represents the second of three research papers examining how clients, business models and advisory firms are expected to evolve over the next decade. We hope you find our research to be insightful, informative and engaging – and we hope it provides you with another tool to enhance your practice, build your business and make meaningful connections with a future generation of clients.

Mark Bruno
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About this research series (cont'd.)

We, as industry leaders and champions of objective advice, are facing a time of great opportunity. We are positioned perfectly to create innovation and build flexibility into the model of the delivery of professional financial guidance. Success in embracing and leveraging automation within our technology platforms will be judged in coming years by the investing clients, on their terms, and will need to be conveniently integrated into the financial professional's value proposition.

You will find as you read this second study in the series of three on the topic of the Future of Advice, that the data is clear that investors do and will value the importance of professional, personal financial guidance. But, a converging force of Next Gen and Boomers is calling for all of us in the industry to rethink and redefine service and business models given continuing advances in communications, lifestyle, and technological preferences.

Further, we must expect forward thinking financial professionals will seek broker-dealers RIAs, custodians, and product partners that demonstrate the ability to listen fully, effectively interpret possibilities, and inspire rewarding change. Collaboration with innovation will be critical.

The building interest focused on the 'Future of Advice' is exciting. Part one of the series focused on the future expectations of the investing client, while part two is a look into how advisors are anticipating their future position in the delivery of personalized professional financial advice. Across the industry the reception has been outstanding for this series. Please enjoy the second of the three-part series on the 'Future of Advice' titled 'The Advisory Firm of the Future'.

My goal for leaders of the industry is that we fully consider this insight and evolve our business and service models with an eye towards the future needs of financial professionals and their clients.

Amy Webber
President
Cambridge Investment Research, Inc.

The business and services models to support the changing needs of clients and investors

As technology changes the way advisers and investors work, communicate and invest, the business and service models of advisory firms, like those of most industries before them, are beginning a radical evolution.

The financial advisory industry is embarking on a generational shift. The Baby Boomers—who make up an overwhelming portion of independent financial advisers—are approaching retirement age and many of them are seeking successors. Younger advisers are fewer in number, but have the advantage of being "technology natives"—individuals as comfortable with manipulating digital technology as Boomers are with driving cars. These "next-generation" advisers are using technology to make their practices more efficient and scalable, and are leading the way for the industry as a whole.

At *InvestmentNews*, we wondered: How is the industry evolving to reflect changing technology and the working styles of a new generation? **Is it, in fact, evolving?** To find out, we surveyed more than 500 advisers about their expectations for their businesses, both now and in the future. One of our goals was to determine whether the attitudes and habits of younger advisers were different from those of our older peers—and we hoped to document whether they would lead the industry toward new means of delivering services.

We also gathered survey responses from nearly one thousand investors across the United States on their expectations from financial advisers. Included in the survey sample are 490 do-it-yourself investors; we were curious to see what services or circumstances might convince them to turn to an adviser for help.

This comprehensive survey gave us the opportunity to test advisers' and investors' assumptions about their future needs and goals, and also to seek out how they matched up—or didn't. Our findings were surprising, exciting and occasionally revealed some disconnects that are important to explore.

This is the second of three separate reports, all part of the "Future of Advice" series. The first examined clients' evolving profiles as well as their desires and expectations. This one will cover how advisers are planning to develop and position their practices for future growth, and how they expect their business and service models to adapt to changing times. The final report will pull the Investor and Adviser findings together to recommend Avenues for Growth. Together, the three reports will provide essential insights for building a practice with long-term growth potential – and an increasing, meaningful and established enterprise value.

The Growing Demand for Technology-Enabled Communication

Clients of all ages—not just the young—are asking advisers to integrate technology more completely into their service model. Today, Grandpa is uploading pictures to his Facebook account from his smartphone and texting with his grandchildren. Major surveys of individual investors, including this one, show that the majority of investors are comfortable with the mobile Internet, and use smartphones as well as laptops, tablets and desktop computers to access financial information. Some surveys, including the RBC/Capgemini World Wealth Report, state unequivocally that high-net-worth investors are likely to consider dismissing advisers who do not provide digital access to their accounts.

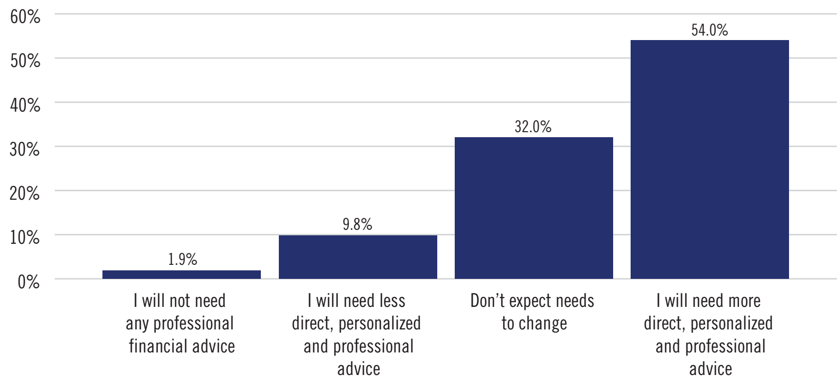
The investors we surveyed reported that they expect advisers to expand their value proposition, especially in terms of communication. In particular, they expect more information to be available online, and would like to have a portal that would consolidate all their financial-services information. They also would like a complete range of services from their adviser and expect him or her to have a team of experts on tap.

And yet, surprisingly, the majority of advisers are not updating their service model and do not expect to do so anytime soon. The majority of survey respondents reported that they have no plans to expand their current level of service for the foreseeable future. They do not anticipate enhancing the web-based services they currently offer.

In many essential areas, however, advisers are completely aligned with their clients. The financial planning industry has focused on retirement and retirement-income planning—and that's just the type of advice investors want. They have focused on referrals, and that's still how many clients find their adviser. Nevertheless, they may need to do some work on their value proposition. When asked what characteristics they valued most about their adviser, investors were most likely to choose the "ability to translate my personal needs into a strategy." That is a high bar, and requires different skills from advisers' traditional value proposition of investment prowess. Clients as a group are demanding more advice-oriented services, particularly retirement income planning and debt management, which may require advisers to experiment with new business models to support them.

However, the growing desire for advice may be advisers' greatest opportunity. One survey finding blew us away: 54% of clients and 54% of do-it-yourself investors said that, five years from now, they would need more "direct, personalized and professional advice."

Figure 1 How do you believe your needs for financial advice will change over the next five years?



This is great cause for optimism for the financial advice industry. As individuals have been armed with scores of self-help tools and web-based personal financial planning resources in recent years, many advisers have cited the "rise of the machines" as a potential threat to the traditional financial advice business. **Our research has found, conclusively, that while the type of advice and the delivery**

of these services to individuals has and will continue to change, the demand for personal financial advice and one-on-one advisory services has the potential to increase significantly over the next five years.

Those advisers who can take full advantage of the efficiencies technology can offer, who can use advanced communications to stay in touch with clients at their convenience, and who can offer truly personalized, high-value advice will be positioned to prosper in the years ahead.

Additional Key Findings

This research verifies, with real data, many ideas that have been percolating through the advisory world in recent years. In fact, the survey findings pointed clearly to a set of best practices for the industry as it moves forward.

1) Business Models and Service Models Continue to Evolve.

Advisers' move from commissions to fees is far from complete, and is made complex by regulation. The emergence of the hybrid business model is evidence of the difficulties of charging fees alone. Alternative business models, such as retainers and hourly fees, have been slow to take hold.

Service models have been morphing along with technological development, and now face new pressures owing to the "robo-adviser" movement. A majority of advisers still view investment management as their primary service—and computer competition is likely to spur a squeeze on fees (and therefore on profitability). Five years from now, though, advisers predict that retirement income planning will become their primary service offering, and this is an area where personal understanding is distinctive and paramount.

2) Advisers Need to Deliver Information to Clients' Smartphones.

66% of those under 45 want their advisers to offer more services online in the future, and their primary device for accessing information is their smartphone. These same younger clients expect that, in the future, they will communicate with their advisers by text message, the same way they communicate with family and friends today. Regulation or regulatory concerns may be the drag here, but it is clear the up and coming investors expect the industry to move with society norms for communication tools.

3) Advisers Need to Reach Out to Youth. The future of the advisory business depends on its ability to attract new talent. This is not happening in great enough numbers. In our survey, only 5.6% of respondents were under thirty. Similarly, according to a recent survey by Accenture, only 5% of advisers working today are under 30. These numbers signal more than a talent drought—it's more like a talent desert.

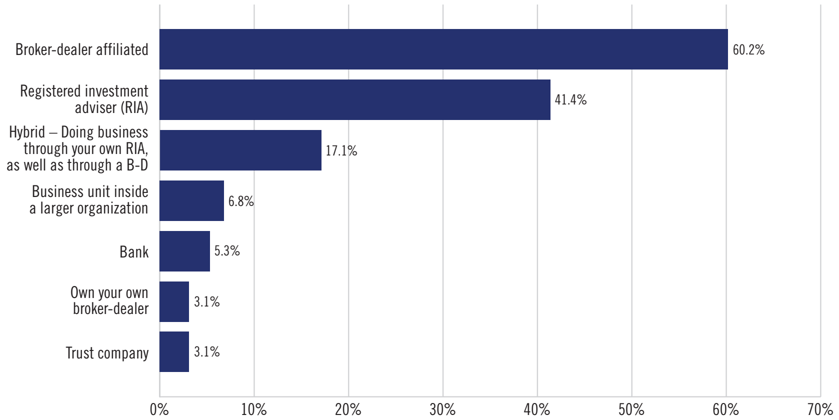
Advisers also need to reach out to relatively young investors. When we asked advisers whether they were making special efforts to recruit young clients, more than half (56.8%) said no. The ideal clients for 51.5% of advisers are pre-retirees, aged 55 to 65. Even advisers under 35 preferred pre-retiree clients by a wide margin.

4) Advisers Need to Seek Out Up-and-Coming Niches. The Internet has taught clients to expect hyper-personalization: from targeted advertisements to tailored Google searches. They will expect similar focus and refinement from financial providers. If you haven't yet found a way to specialize, now's the time to start.

ADVISERS OF THE FUTURE: STAYING THE COURSE

The advisers who responded to our survey were a good match for the industry's overall demographics. Of the 552 respondents, 58.7% were between the ages of 45 and 64. Another 15.4% were age 65 or older. Only 25.9% of the respondents were under age 45. Almost 83% were male and 17% female.

Figure 2 Adviser firm registrations and affiliations (respondents could select more than one answer)



The majority of advisers—60.2%—were affiliated with a broker-dealer, whether a wirehouse, regional or independent; approximately half of those affiliated with a broker-dealer worked for a wirehouse (28.4%) or a regional (19.1%). Another 41.4% of advisers described themselves as Registered Investment Advisers—and yes, those numbers add up to more than 100%, because advisers could denote more than one affiliation. Nearly one in three adviser respondents selected more than one affiliation, and 17.1% selected both RIA and B-D – powerful evidence of the growing popularity of the hybrid model among advisers.

Along with the hybrid model, the fee-based business model has won hearts and minds. Fifty-five percent of advisers overall charge their clients this way, dwarfing the next-largest group, fee-only advisers, who comprise 22.8% of respondents. Classic commission-based brokers made up only 14.2% of the group, with another 8% describing other ways they charge their clients for services, such as retainers.

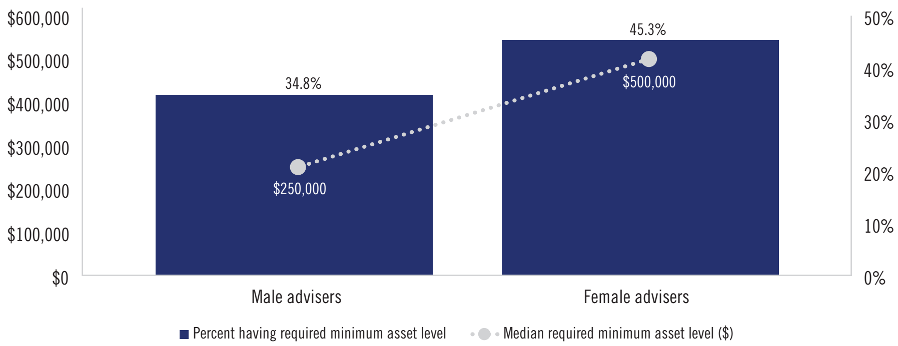
As advisers have moved away from the commission-based model, they also have expanded their services. The most popular description for their firms' offering was "wealth management," defined as "serving as a holistic adviser to clients, offering integrated tax, estate, and personal financial planning in addition to investment advisory services." A plurality of advisers, 39.1% now describe their companies this way, followed by "financial planning" (19.3%), "investment management" (17.6%), "investment advisory" (13.9%) and "family office/multifamily office" (2.2%).

More Mass than Class

Wealth management is a surprising category leader, for the simple reason that nearly half the respondents in the survey (43.9%) reported that they work at a firm with a single principal, and 80.4% of respondents work at a firm with 10 principals or fewer. So the holistic services implied by this definition, in many cases, are likely to come from outside sources, such as strategic partners. In addition, approximately three-quarters of the respondents (73.7%) reported that they personally serve more than 50 clients or households.

Nor is the typical adviser catering exclusively to high-net-worth clients. Among the 36.7% of advisers who say that they or their firms require a minimum level of assets from their clients, the median is a mere $250,000, hardly to the manor born. This was true even of advisers at the largest firms, with 100 or more principals on board. Female advisers are more likely to set a high bar for prospective clients: 45.3% of women advisers do set a minimum asset level, and their median is $500,000—twice as high as that of male advisers.

Figure 3 Client asset minimums by adviser gender

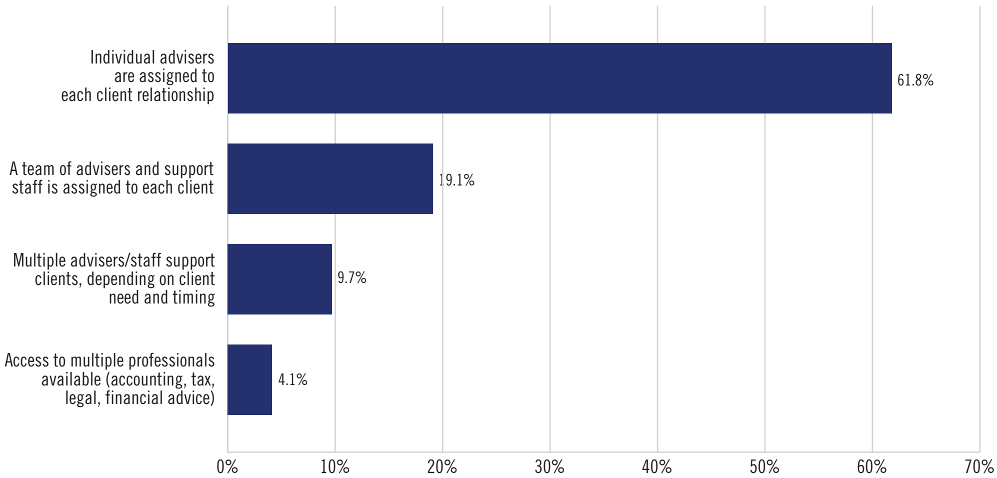


Business-Model Evolution

The financial services world has been evolving from a sales culture, compensated via commissions, to an advisory culture, compensated by management fees, retainers and project fees, for some time now. Every adviser seems to have his or her own take and this bears out in the survey findings. The largest compensation category was the "mixed" category, with 47.2% of advisers reporting that they are paid both fees and commissions. Next came the 24.7% of advisers who said they were paid a single, flat fee based on total assets managed or under advisement. A few advisers, 11.9%, reported that they charged variable fees, depending on the specific services provided. Overall, only 10.6% of advisers reported that they are solely compensated via commissions, and the overwhelming majority of them are age 55 or older (74.5% of commission-based respondents). Despite the complexity of advisers' business models, 83.7% believe that all their clients understand how they are compensated.

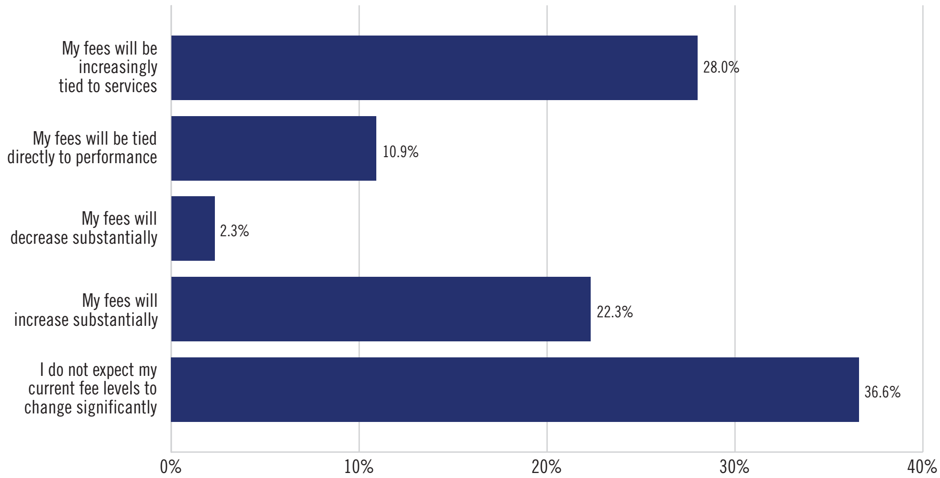
Teams: The majority of practices (61.8%) assign each client to an individual adviser, followed by a team of advisers and support staff (19.1%). This pattern holds true among firms of all sizes, and with advisers of every age, but the single-adviser model is most entrenched among advisers age 45 and above. Only 4.1% of firms offered access to multiple professionals, such as accountants and attorneys. An emerging model, of multiple advisers and staffers serving each client according to need and timing, has been adopted by 9.7% of advisers, and is most popular among advisers under 45.

Figure 4 How are clients serviced at your firm?



Fees: When they were asked about how they thought their fees might change in the future, advisers seemed to predict that their evolution towards advice, and away from sales, will continue. Although 36.6% said their fees would not change significantly, another 28% projected that their fees would be increasingly tied to services. A surprising 22.3% thought that their fee levels would rise significantly—surprising because most industry observers assume that advisory fee levels are likely to fall in the future, owing to competition with online advisory services. It is the youngest cohort of advisers, those under 35, who are most likely to say that their fee levels will increase. Perhaps this is purely optimism talking.

Figure 5 Advisers: How fees are expected to be different in 5 years



Much has been written about newer forms of compensation, including hourly fees and retainers, which are often thought to be more accessible for beginning investors with too few assets to qualify for a retained relationship. A few advisers (2.9%) are charging hourly fees—including 4.4% of female survey respondents. Much fewer, just 0.7%, are charging retainers and project fees, making their compensation model more aligned with consultants than brokers or money managers. It remains to be seen whether these emerging business models will gain traction.

Figure 6A Fee-based advisers, by age

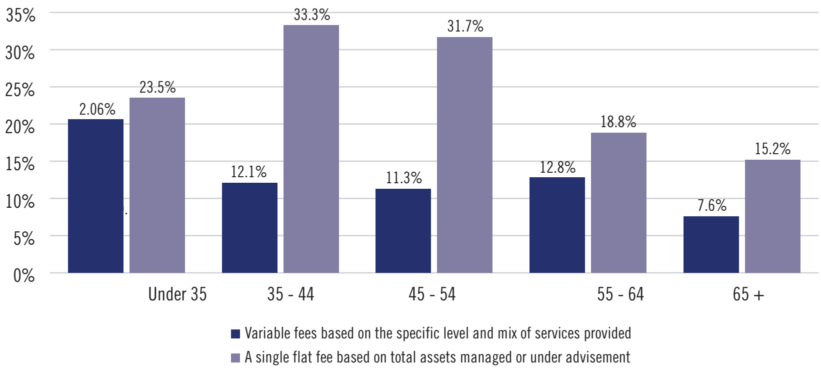


Figure 6B Commission-based advisers, by age

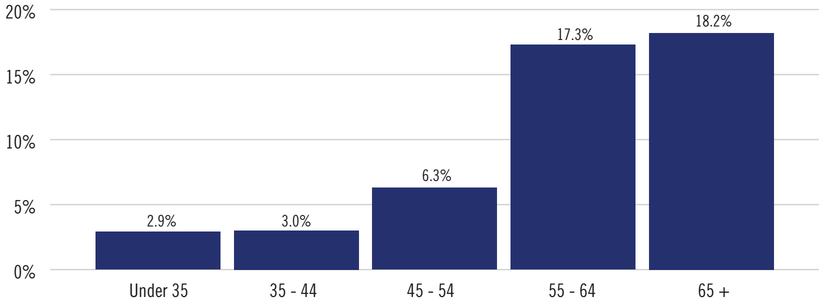


Figure 6C Advisers charging a mix of fees and commissions, by age

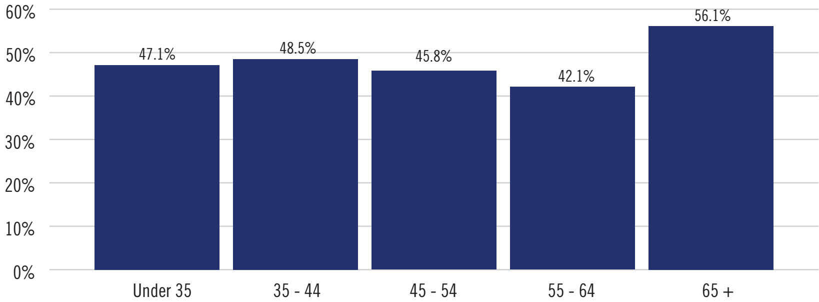
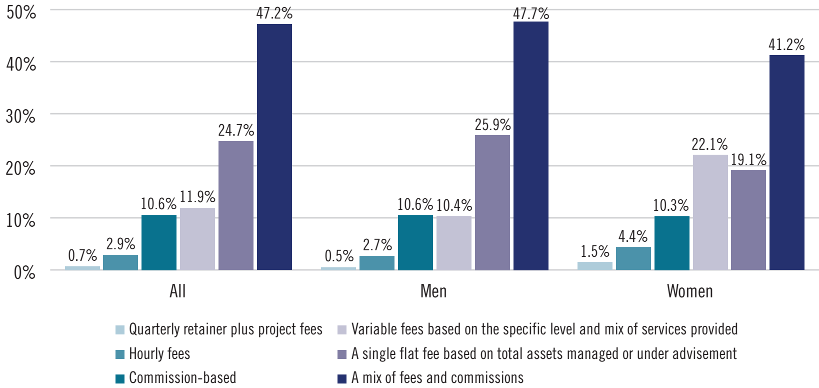


Figure 6D How advisers charge clients, by gender



Staffing

The talent shortage in the financial-advice industry is apparent when one looks at the respondents' ability to attract young advisers to their firms. Forty-one percent of advisers reported that they had no partners or staffers, other than administrative, under the age of 35; and only 26.6% said they had a formal plan in place to attract young talent. What this means, however, is that these advisers are not training potential successors within their firms. Strangely enough, when asked if they were concerned about the future of their firms, 65.1% of respondents said no.

Figure 7 Percentage of partners or employees (excluding administrative) at advisory firms under age 35

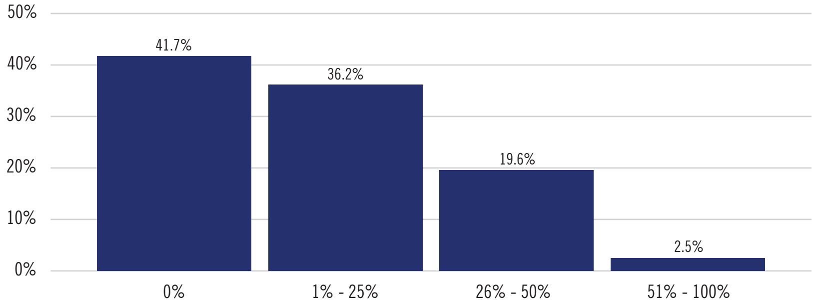


Figure 8 Advisers: Do you have a formal plan for attracting next-generation talent?

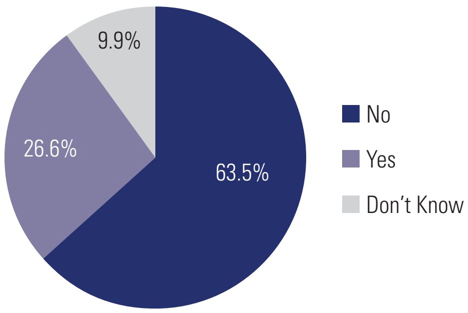
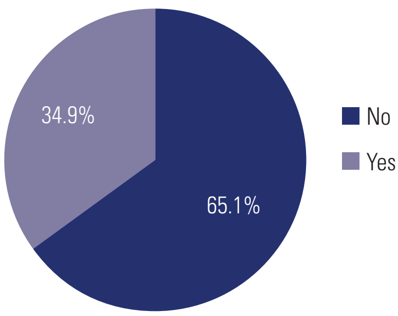


Figure 9 Advisers: Are you concerned about the future of your firm?

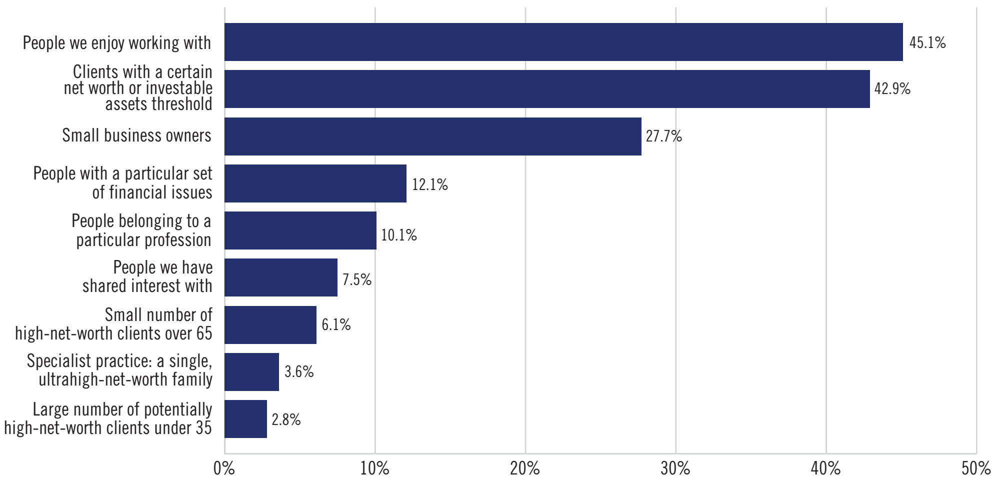


Marketing the Firm

Every advisory firm requires a certain number of new clients each year to remain sustainable, and even more in order to grow. We therefore focused a large section of the survey on marketing and communications.

Marketing wisdom insists that a business's first task is to figure out its unique value proposition and who would best benefit from it—in other words, to define your ideal client and the value you offer to that person. According to our survey findings, advisers have been reluctant to move beyond the most general definition of an ideal client. The old joke, "my ideal client has assets and a pulse" has more than a grain of truth to it: The most common answers to the query, "which of the following best describes your optimal or ideal client base?" were "Clients with a certain net worth or investable assets" and "People with whom we enjoy working."

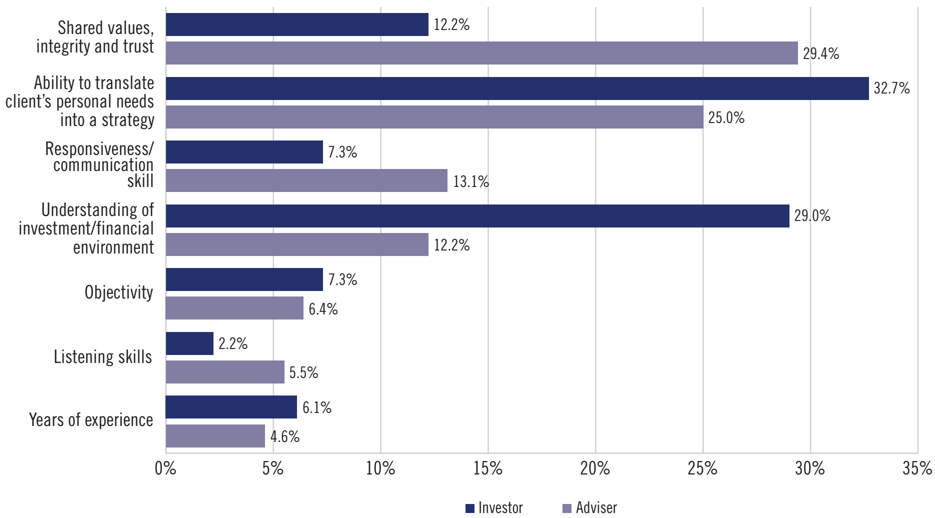
Figure 10 How would you describe your optimal or ideal client base?



Some advisers did have well-defined specialties. For instance, 33.5% of respondents said they focused their services on certain types of professionals, such as doctors—though only 10.1% described professionals as their ideal client. About 5% of advisers specialize in serving special-needs families; another 5% specialize in college financing. As no one expects college costs to become any less astronomical anytime soon, this may be a specialty worth exploring among advisers who want to differentiate themselves.

Advisers also have a good sense of what their clients truly value. Even more than investment prowess or years of experience, advisers named shared values, integrity and trust (29.4%) and the ability to translate a client's personal needs into a strategy (25%) as the characteristics that clients value most. Investors were less impressed by shared values, integrity and trust (12.2%) than by advisers' understanding of investment and financial environment (29%)—but they did treasure their advisers' ability to translate a client's personal needs into a strategy (32.7%) above all other qualities.

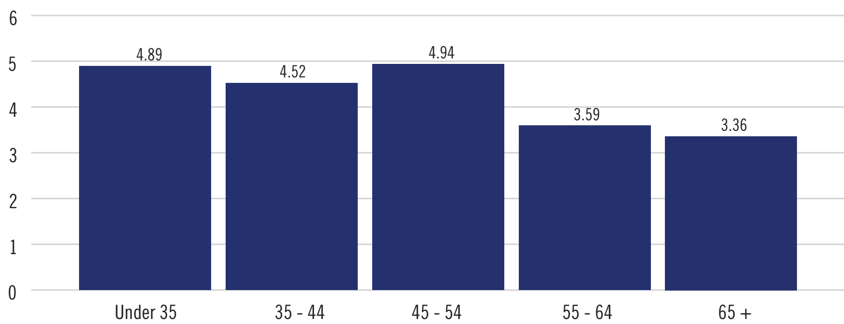
Figure 11 **Investors:** Which characteristics do you value most in your adviser?
Advisers: Which characteristics do you think clients value most in an adviser?



Approximately half of advisers spend at least 5 hours a week on business development.

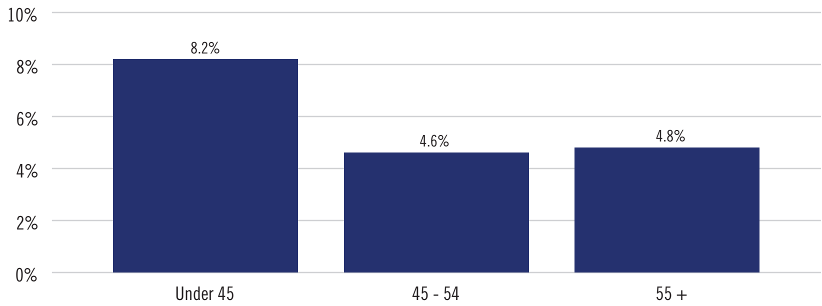
We expected to find that most advisers would report investing a significant amount of time in marketing and prospecting. And we did—approximately half of advisers spend at least 5 hours a week on business development. These numbers were fairly uniform across age groups; the exception was the under-35 cohort, 28.7% of whom spend at least seven hours a week pursuing new business.

Figure 12 Average hours per week advisers spend seeking new clients



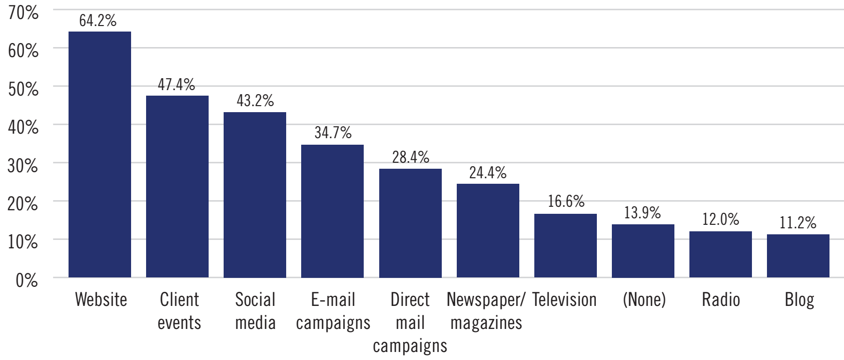
New clients: The primary source of new clients, across the board, is referrals: 87% of advisers count on their current clients for new business, and 46.1% cite professional referrals (from attorneys or accountants, for example) as primary sources of clients. Younger advisers are slightly less likely to count on a professional network for new business. (No surprise, since they are less likely to have built the necessary connections and track record to merit professionals' referrals.) But they are significantly more likely to find clients via social networks: 17.1% reported using networks such as LinkedIn, Facebook and Twitter as a primary source of new clients, versus 5% for advisers over 35 and older. The social media approach stands to reason. Younger advisers are more likely than others to be seeking out their contemporaries as clients, so they are going where their target market spends its time. Thirteen percent of advisers under 45 said their target client is under 45—compared to a miniscule 1.8% of advisers over age 45.

Figure 13 Percentage of advisers citing social media as a top-two source of new clients



Advisers of every age consider their website their key marketing vehicle, with client events in second place—except advisers age 35 to 44, who give second place to social media, preferring it to client events by a narrow margin. The remaining advisers ranked social media third as a marketing tool. Coming up fourth and fifth were email and direct-mail campaigns. And more than 10% of advisers overall said they did no marketing whatsoever. Here, there was a clear age divide: 16.3% of advisers age 45 and above said they engaged in no marketing activities, and just 6.2% of advisers age 44 and under said that they did not market their services.

Figure 14 What type of marketing activities does your firm use?



Communication Matters

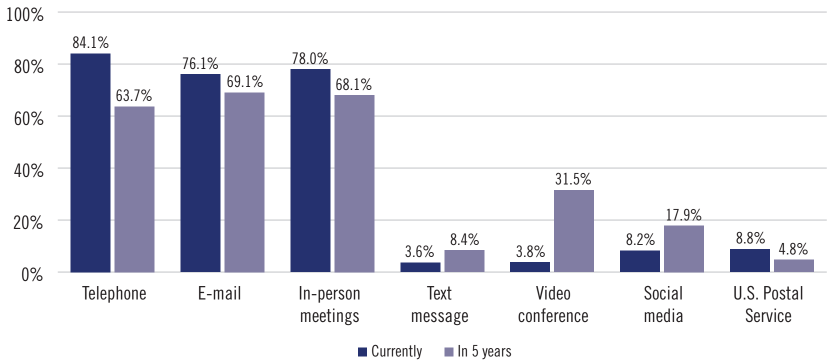
Advisers spend a great deal of their day with their clients—50.2% spend 10 to 20 hours a week on client interaction, and another 20% spend 21 to 30 hours a week. The bulk of them communicate with each client at least once per quarter (43.9%), if not once a month (23.7%). A much smaller contingent said they contacted clients at least once a week (8.8%) or once a day (6.9%). They rely on the phone, email and personal meetings to tend their client relationships. A few, just 8.3%, reported that they favor social media for communication—surprisingly, social media was most popular among the 55 to 64 year-olds—and a small vanguard (3.8%) are using video conferencing services such as Skype. A substantial number, 8.8%, still correspond with clients via the U.S. Postal Service.

In addition to personal communication, the vast majority of advisers offer clients' access to their account information online—80.6% have online portals where clients can look up their account performance. In addition, 30.5% of advisers have online portals that aggregate clients' investment accounts, 401(k)s and other held-away assets; 18.9% also provide information on clients' bank accounts, insurance, real estate and debt. However, only 14.1% of respondents make it possible for clients to send messages or schedule appointments on their website. This is surprising because such functionality is readily available.

In hopes of capturing the expected effect of social media and technology on client relationships, we asked advisers to project how they would communicate with their clients in five years—far enough out to feel like the future, but not so far that people start speculating on the unknowable. The medium that they expect to take off in a big way is video conferencing; although only 3.8% of advisers use it today, a full 31.5% expect to use it as a primary means of communication in the future. The number of advisers who plan to use social media is also significant, with 17.9% projecting that they'll count on it in five years vs. 8.2% today. No surprise, the mail will become vestigial, with only 4.8% of advisers assuming they'll still rely on it (and even in those cases, probably only for their most tech-phobic clients). But the number of advisers citing phone calls, emails and texts as primary forms of communication also dwindled, as advisers expect to follow their clients onto new platforms. Nevertheless, 55.2% of survey respondents still mail quarterly statements to clients' homes.

The medium that they expect to take off in a big way is video conferencing; although only 3.8% of advisers use it today, a full 31.5% expect to use it as a primary means of communication in the future.

Figure 15 **Advisers:** What do you/will you rely on for direct, personal communication with clients?



Communication is an area where you can clearly see habits climbing up the age ranges. Take video conferencing, for instance: today, 10.5% of advisers under age 35 consider it a primary method for communicating with clients. In five years, that number will spring to 34.2%. But among older advisers, **almost none of whom use video conferencing today**, about the same number expect to video chat with clients five years from now. In fact, 32.4% of advisers age 65-plus plan to use video in five years, compared to 4.1% who use it today.

Text messaging, used almost exclusively by young advisers today, will also become more popular with older advisers in the coming years. In fact, they expect to use it more extensively than the under-35 age group, who tend to favor social media. All age groups expect to count on social media more extensively in the future—which may be a result of the evolution of regulation and compliance best practices. LinkedIn, Facebook and Twitter are the most popular forums, except among the under-35 crowd: they prefer Google+ and even Pinterest to Facebook for professional purposes today, but expect to migrate their professional posts to Facebook in the future.

Figure 16 Methods of client communication advisers expect to rely on much more often in five years than they do now, by adviser age

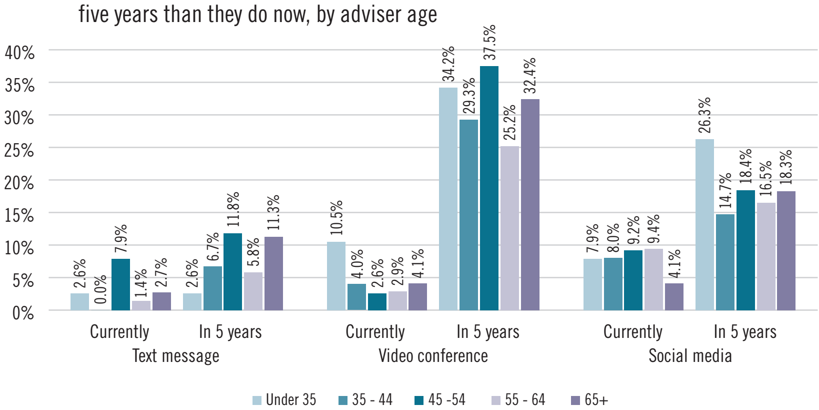
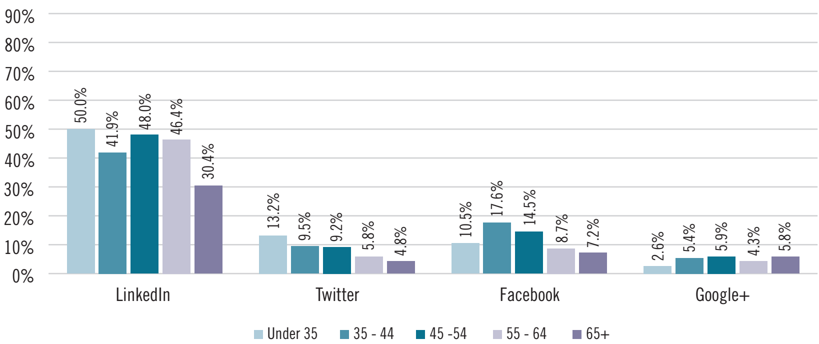


Figure 17 Social networks that advisers believe will play a larger professional role in five years



SERVICE-MODEL EVOLUTION

Almost all the advisers surveyed have a web presence, even if they're not shouting out to clients and prospects on social media. **Eighty-seven percent of their firms have websites**, a number that ideally should be 100%, but almost all the "no" respondents were age 45-plus. Only one in four advisers (24.8%) now offer financial planning advice or services through their sites, however (this does not include the ability to access an account or statements), and only one in three (34.4%) plan to do so within the next three years. Even those advisers break down into a "yes, definitely" group (8.8%) and a "yes, possibly" group (25.6%). Only the youngest cohort of advisers showed a serious movement toward offering services on their sites, with 8.3% saying they definitely planned to add financial advice within three years and 41.7% saying "yes, possibly."

This lack of overall enthusiasm for web-based services is, in a word, shocking. With the advent of so-called robo-advisers, those low-cost, web-based asset-allocation and portfolio-management firms that are starting to disrupt the financial-services world, many advisers seem to be putting their heads in the sand. Robo-advisers threaten to squeeze investment-management fees and replace many of an adviser's services. The next generation of investors is as comfortable with technology as it is with people. Rather than fighting the tide, today's most forward thinking advisers are exploring how to make use of portfolio management technology for two essential business activities: as a way to expand their business to engage with smaller clients, and in order to free themselves up to deliver their most important and valued service, individualized advice. Truly personal advice, which most advisers are proud to offer, and most investors see of utmost importance, won't come from a form or questionnaire on a website.

On the other hand, many client questions are fairly simple—and many next-generation clients prefer to take care of personal business themselves, online, and on their own schedule. Millennial clients often view the need for a phone call or email as the opposite of good service—it's an inconvenience in their do-it-now, do-it-yourself world. These are tomorrow's clients.

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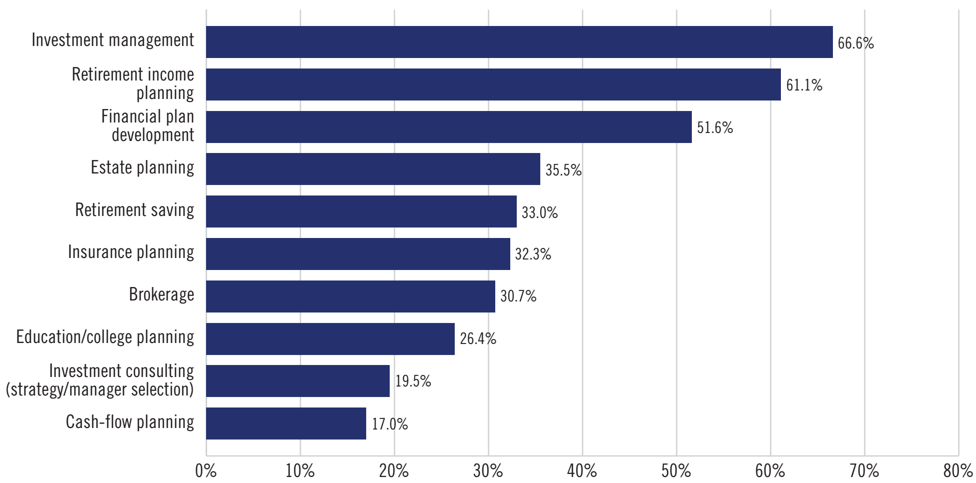
Online advice, by contrast, could be seen as a lucky confluence of business imperatives with target-market preferences. Millennials prefer the online interface, which is less expensive, making it possible for advisers to nourish new relationships in a more cost-effective manner. It's a virtuous cycle for those brave souls who are willing to figure out what their online offering could consist of.

Figure 18 Ten client services provided most often

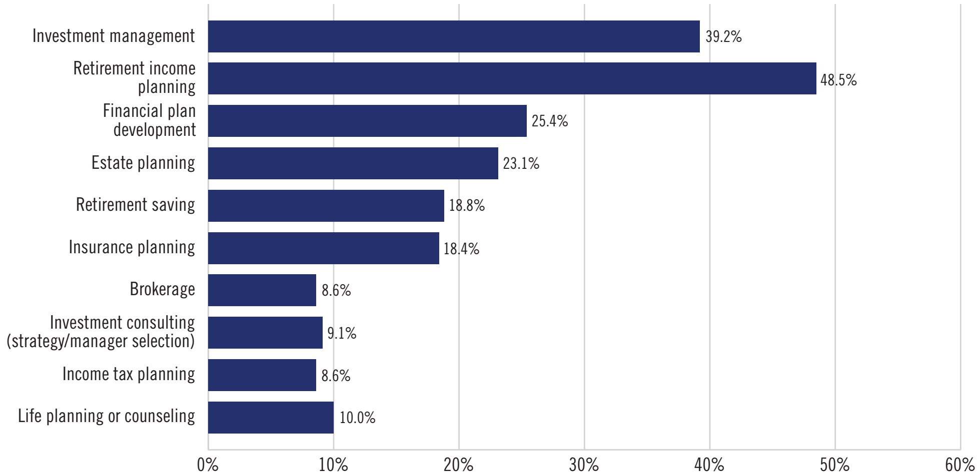


When looking at current service models, advisers' offerings follow a fairly consistent pattern. When asked to name their five most important services, investment management (both discretionary and nondiscretionary) topped the list, being named by about two of three survey respondents (66.6%). The second most popular offering was retirement income planning (61.1%), followed by financial plan development (51.6%), estate planning (35.6%) and insurance (life, health, disability and/or long-term care) planning (32.3%). Brokerage trailed far behind at 30.7%, further evidence that financial advisers' transition from product distribution to advice and management has matured.

Advisers were least likely to mention concierge services (0.9%), help with major purchases (1.4%), property and casualty insurance planning (1.8%) and bill payment (3.9%) among their five most important services. Only 4.1% of advisers mentioned income tax preparation and just 5.5% listed consulting on executive benefits or stock options, a surprise, considering how many people put out a shingle as wealth managers. Life planning—that darling of the trade press—was considered an important service by only 9.1% of advisers, and only 10% considered it key to growing their business over the next five years.

What services did advisers rank as presenting the largest growth opportunity in the coming five years? The priorities shift somewhat, with retirement income planning topping the list (48.5%) and investment management following behind (39.2%)—reflecting, inevitably, the expected aging of their client base. Financial planning (25.4%) and estate planning (23.1%) follow, at a distance, as does life, health, disability and long-term care insurance (18.4%). Retirement savings, once considered among the top five services by 33% of advisers, drops to 18.8%. Female advisers were much more likely than male advisers to consider life planning a top-five opportunity: 16.2% of women advisers tapped it, compared to 9% of men.

Figure 19 Ten client services that will present the most growth opportunity over the next five years



One surprise is how few advisers consider education planning and debt reduction—key priorities for young investors and new families—important to their future growth. Despite the overwhelming burden of college loans for young adults (and their parents), debt and credit counseling is a nonstarter among advisers, with only 1.8% calling it a top opportunity for growth. Even advisers under 35, who may be dealing with loans of their own, give debt management short shrift. Among them, only 5.9% think of credit and debt counseling as a top-five growth opportunity.

Education planning fares only slightly better—even though the marketing opportunities here are obvious. Many parents of young children consider the education account their most important investment, coming behind only their home. Grandparents, recognizing the value and difficulty of saving for education, are setting up their own funds for the grandkids. **What better way to bring the next generation of clients in the door than to offer seminars and advice on 529 plans and other qualified accounts?** Unlike debt management, college planning has an upscale, optimistic element that could attract desirable prospects. Yet only 6.6% of advisers considered education planning one of their top five opportunities for business growth. Among advisers under 35, 11.8% considered it a key opportunity, compared to 41.2% for investment management and 38.2% for retirement income planning. Female advisers (5.9%) were even less likely to turn to education planning than males (6.8%). Only the largest firms, with at least 100 principals, cited education planning as a top growth source in meaningful numbers (12.2%).

Figure 20A Ten client services provided most often, by adviser age

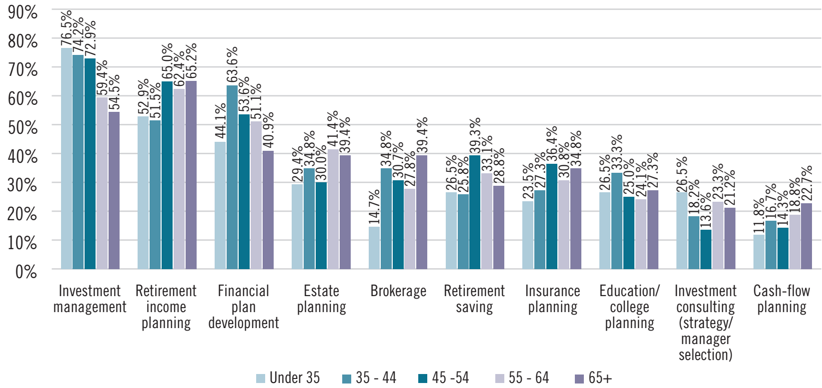


Figure 20B Ten services that will present largest growth opportunity in the next five years, by adviser age

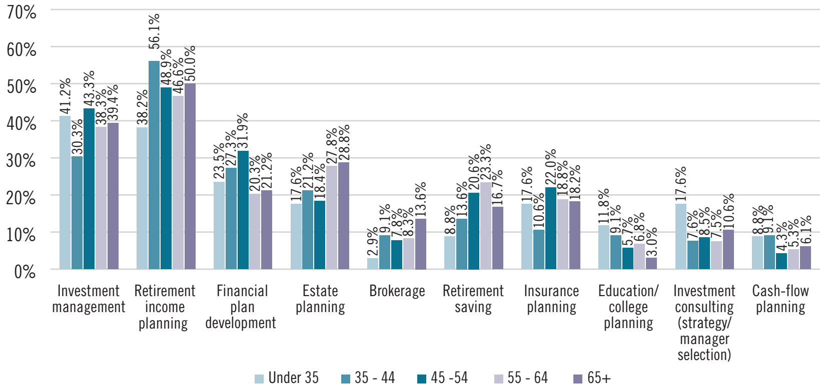
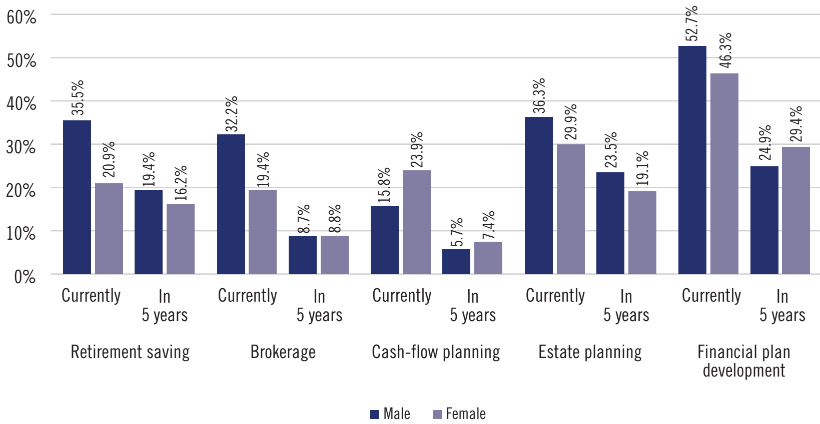


Figure 20C Five client services advisers provide most often, by adviser gender



CONCLUSION AND KEY TAKEAWAYS

For advisers, and the industry at large, the most significant finding in our research is in the growing desire for advice: 54% of clients and 54% of do-it-yourself investors said that, five years from now, they would need more "direct, personalized and professional advice." Despite the threat that many believe robo-advice platforms will pose the traditional wealth management industry, individuals place a substantial amount of value on personalized planning strategies and one-to-one advice. This demand – or need, more accurately – will not wane. In fact, it will only increase as individuals become more responsible for their own savings and retirements.

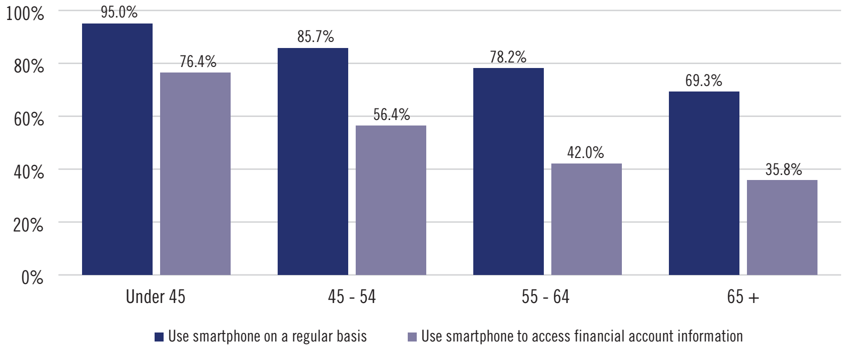
However, in order for advisers to capitalize on this potentially expanding market, advisers will need to focus on the following:

1) Business Models and Service Models Must Continue to Evolve. Advisers' move from commissions to fees is far from complete, and is made complex by regulation. The emergence of the hybrid business model is evidence of the difficulties of charging fees alone. Alternative business models, such as retainers and hourly fees, have been slow to take hold.

Service models have been morphing along with technological development, and now face new pressures owing to the "robo-adviser" movement. A majority of advisers still view investment management as their primary service—and computer competition is likely to spur a squeeze on fees (and therefore on profitability). Five years from now, though, advisers predict that retirement income planning will become their primary service offering, and this is an area where personal understanding is distinctive and paramount.

2) Advisers Need to Deliver Information to Clients' Mobile Devices. 66% of those under 45 want their advisers to offer more services online in the future, and their primary device for accessing information is their smartphone. These same younger clients expect that, in the future, they will communicate with their advisers by text message, the same way they communicate with family and friends today. Regulation or regulatory concerns may be the drag here, but it is clear the up and coming investors expect the industry to move with society norms for communication tools.

Figure 21 Investor smartphone usage by age



3) Advisers Need to Reach Out to Youth. The future of the advisory business depends on its ability to attract new talent. This is not happening in great enough numbers. In our survey, only 5.6% of respondents were under thirty. Similarly, according to a recent survey by Accenture, only 5% of advisers working today are under 30.

Advisers also need to reach out to relatively young investors. When we asked advisers whether they were making special efforts to recruit young clients, more than half (56.8%) said no. The ideal clients for 51.5% of advisers are pre-retirees, aged 55 to 65. Even advisers under 35 preferred pre-retiree clients by a wide margin.

4) Advisers Need to Seek Out Up-and-Coming Niches. The Internet has taught clients to expect hyper-personalization: from targeted advertisements to tailored Google searches. They will expect similar focus and refinement from financial providers. If you haven't yet found a way to specialize, now's the time to start.

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