How to Thrive Even with the 7 Industry Disruptions

A Special Guidebook from

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Kodak went bankrupt because another company created and brought the digital camera to market while Kodak stubbornly held fast to their film, paper, and chemical businesses, right? Nope. Kodak actually *invented* the digital camera in 1975, regularly considered and rejected the idea of bringing it to market, and didn't realize the potential until it was too late.

Ed McNierney holding the first digital camera — which was built by Kodak.

You know that Netflix disrupted Blockbuster out of business, but were you aware that in 2000 the founder of Netflix approached the CEO of Blockbuster with a partnership proposal? Blockbuster passed. Some would call them "victims" of digital disruptions. The truth is that they ignored the handwriting on the wall and were unwilling to adapt. Why should you care? *Are disruptions happening right now in the financial services industry that you are unaware of, ignoring, or under-estimating?*

We are in the midst of 7 significant disruptions in the financial services industry that you need to know about so you can thrive and profit from them.

Disruption #1: Technology

> *"The technological singularity is an occurrence beyond which events may become unpredictable, unfavorable, or even unfathomable."*
>
> \- Wikipedia

Technology has the power to completely disrupt an industry, and in some cases, rendering the old model obsolete or so unprofitable that the business is no longer viable. And *no industry is immune.*

Source: *Time*, March 31, 2015, http://time.com/money/page/robo-advisers/

On the positive side, powerful financial technologies give advisors the *potential* to be much more effective and efficient. However, low adoption, low utilization, and low success rates plague even the most powerful and easy-to-use technology tools available to financial advisors.

Digital or "robo-advisors" have many concerned. For the most part, machines are currently just digital money managers or TAMPs. As the machines increase their capability, and as user interfaces get friendlier, it's possible that machines will do sophisticated financial planning *and* give advice without a human interface.

Naïve advisors discount the machine as a legitimate competitor. Machines are as dumb right now as they are ever going to be. How many humans do you know who are twice as smart, twice as fast, or twice as effective as they were a year ago? Competition from technology will continue to get stronger, faster. Those advisors who try to hang on to skills that machines can do better will likely not survive. Technology is much better at the "hard skills" of crunching numbers, aggregating data, automating follow-up, portfolio construction and management, creating reports, etc. The smart human advisors will not compete with the machines.

Disruption #2: Competition

It used to be that once you had a client, chances were that you would keep them for life. You were not too concerned about competition because your products, services, and pricing were equal to or better than everything else out there. Even if you didn't do much more than put your clients' money in a "set it and forget it" asset allocation, you could collect 1%+ every quarter.

It was good while it lasted. Today your clients have access to all of the financial information that exists online and the competition for financial planning, wealth management, and insurance advice is strong. You are competing with Betterment, Wealthfront, SigFig, Learnvest, Personal Capital, other technology-driven financial services firms AND really good humans who are effectively using powerful technology.

Competition is good for the consumer because it drives prices down while driving value up. How cheap will it get? At the recent INSIDE ETFs conference The CEO of etf.com, Matt Hougan, presented a slide with his personal globally diversified, tax-efficient, easy-to-sleep-at-night, set-it-and-forget-it portfolio. The total cost: 8 basis points. Here's the promise from Vanguard Personal Advisor Services: "We reinvented personal financial advice to help you earn more over time and pay less when you partner with a Vanguard Advisor.

- Step one: Get to know you, your goals, and your unique financial situation.
- Step Two: Partner with you to create a custom-tailored financial plan.
- Step Three: Put your plan into action and manage your portfolio, allowing you to be as involved as you want to be.
- Step Four: Work with you to keep track of your plan's progress.
- Step Five: Rebalance your portfolio as necessary and partner with you to revise your plan when important changes in your life occur."

Sound familiar? 30 basis points. Vanguard CEO, Bill McNabb, *reassures* advisors that they aren't competing with them because Vanguard's focus is the mass market. What do you think? Have you heard Vanguard describe the client they turn away? The minimum is $50k. What's the max?

Disruption #3: Client Longevity

The primary goal of most of your clients is to have enough money to maintain their lifestyle for the rest of their lives and pass on the remainder to their heirs or charity, right? So, the logical first question is crucial: "How long do you think you'll live?"

Advisor: So, when would you like to retire or for work to become optional?
Clients: Around 62 would be good.
Advisor: And how long do you think you'll live?
Clients: Well … our fathers lived into their late 70s and our mothers into their mid-80s. We're taking good care of ourselves and people are generally living longer these days. We should make it into our late 80s or early 90s… maybe 95 to be on the safe side?
Advisor: Okay. We'll create a plan to age 95.
Clients: That works for us.

The clients pull a somewhat random number out of the air and the advisor creates a financial plan for them that will almost certainly fail — because *the fundamental assumptions underlying these plans are likely to be incorrect.* What happens if your plan covers the client up to age 95 and the client lives 10, 20, or 30 more years?

"Impossible," you say? Not according to the experts who are working to extend the length and quality of human life. Human Longevity Inc., co-founded by Dr. Peter Diamandis, genetics wizard, Dr. Craig Venter, and stem cell pioneer, Dr. Robert Hariri say, "Our goal is to extend and enhance the healthy, high-performance lifespan and change the face of aging. For the first time, the power of human genomics, informatics, next generation DNA sequencing technologies, and stem cell advances are being harnessed in one company with the leading pioneers in these fields. Our goal is to solve the diseases of aging by changing the way medicine is practiced. It's not just a long life we're striving for, but one that is worth living." I hope they succeed, don't you?

The Methuselah Foundation says, "By advancing tissue engineering and regenerative medicine, we want to create a world where 90-year olds can be as healthy as 50-year olds – by 2030." 90 is the new 50? Cool.

Can you see how the prospect of greater longevity will completely disrupt our long-standing assumptions of the planning, management, and transfer of wealth? The Baby-Boomers and the elder Gen X will likely control most of the money for *much* longer than expected. Sorry young Gen X and Millennials, you're going to have to make your money the old-fashioned way: earn it.

Disruption #4: *Your* Longevity

> *"If I knew I was going to live this long I would have taken better care of myself."*
>
> - Mickey Mantle

How will this affect your business decisions, your future, and *your* retirement plans?

Every advisor should re-do the math for their personal financial plan. Add another 10, 20, or even 30 years to the forecast to have enough money to maintain your lifestyle *forever*. How much do you need? How much do you have? What business decisions do you need to make today to bridge the gap?

1. **Plan to work longer**. One of the great things about our business is that it's a great business to operate for a long time, even part time. Once and for all do what you've always known you should do to have the business you really want.
2. **Focus on Ideal Clients**. Your best clients are going to live longer and want to maintain their lifestyle forever. It's not as important as many would have you believe that you have to kiss the asses' of their kids in order to keep the assets on the books. It's much more important that you have a high-trust relationship with *both* spouses. 70% of widows leave their advisor within a year of their husband's death. That's the problem worth fixing.
3. **Elevate your client experience and value promise**. Embrace true, values- and goals-based financial planning. Your client needs more than asset management or "financial planning lite" to prepare for the future.
4. **Harness technology**. The machines are better at the hard skills and they can help you streamline your operational efficiencies and some of your client deliverables. For about $1,000 / month

you can have all the best financial planning and client service technology needed to acquire and serve ideal clients.

5. **Improve your "people skills."** The differentiator from other skilled humans and the ever-improving machines is strong people skills. Ask great questions, listen with empathy, make an emotional connection, build high-trust client relationships, counsel individuals and couples to establish goals that are crystal clear and well-defined, tease out their core values and other emotional drivers, inspire people to take the action required to achieve their most important goals and fulfill their most deeply held values, coach clients to stick to the plan during uncertain economic times, and hold clients *accountable* to do what needs to be done… especially when it's not comfortable and they don't feel like it.

For younger or newer advisors it's vital that you don't let limiting beliefs about being less experienced prevent you from going boldly into the future. Be careful about older advisors passing down their limiting beliefs to you. You can build a business with higher net worth ideal clients right now.

Disruption #5: Your Business Model

It's time to upgrade from "Financial Planning Lite." Financial Planning Lite is a little retirement planning, a little college funding, some asset allocation, and a few insurance sales. It sometimes includes an "annual review." Most advisors doing financial planning lite give away the planning, charge about 1% of AUM, earn commissions on occasional insurance sales, and sometimes meet their client's in-person. The cornerstone of financial planning lite is placing "investable" assets on a platform that pays the advisor a % of those assets gathered. Most advisors using this approach have too many clients to do truly comprehensive financial planning and meet those clients frequently enough to really hold them accountable to stay on track. For about 3 decades this has been the nirvana business model, "If I can get $100M of AUM I'll earn $1M / year… forever. My business will then pretty much be on cruise control!" As though the world would never move off of a 1% of AUM model. It's moving. The movement is happening in two directions:
1. To a lower percentage.
2. To a fixed dollar fee.

The other factor challenging this business model is the decreasing perceived value of investment management and performance. There are at least 2 reasons for this.
1. There is a significant amount of high quality investment management that is being done completely or primarily by machines using algorithms. Even active managers rely heavily on computer programs to implement their investment strategies. Machines operate more efficiently than humans so this drives down the costs. Transparency of costs is eliminating the consumer ignorance arbitrage that enabled our industry to charge 1% without adding much value for so long.
2. People care more about achieving their goals than beating the market. If you don't need to beat the market in order to achieve your goals, what difference does a benchmark make? Do you want to be in the goal achievement business of helping people make the control-able choices required to achieve those goals? Or do you want to be in the predict-the-future / beat-the-market business getting whip-sawed by all the factors out of your control that determine market performance? Have you noticed that you can do everything "right" and still fail to beat the market? Have you noticed how hard it is to predict the future?

Disruption #6: Client Expectations

Transparency means that it will soon be impossible to charge a human price for what a machine can do. Money managers are not the first profession to be displaced by machines and won't be the last. It's simply the free market at work. It's not personal.

This creates an opportunity for smart, nimble advisors to shift to getting paid for the value added of what only the human can do. The machine is better at the technical hard skills. The successful human advisors create an *ongoing experience* for the client that the client is willing to pay for above and beyond what the machines do. These are the so-called soft, or people skills. In the new world the soft skills are what generate the hard cash.

Your clients' expectations are changing. That means that you have to get very clear on exactly what your value promise will be in this new and disrupted world. The human value is: Planning. Advice. Accountability.

Disruption #7: The Fiduciary Standard

> *"The real worry is that these new rules and regulations create a risk factor or a timidity that is so severe that... [businesspeople] sit on the sidelines worrying more about rules and regulations than they do about making money."*
>
> - Thomas Donohue, President of the Chamber of Commerce

What's the big deal? Doesn't the Fiduciary Standard simply mean that we put our clients' best interests first? Haven't we always done that?

Yes, that's what it means. No, most advisors are not doing this to the degree that complies with the Fiduciary Standard. (At least partially because the legislation isn't final yet.) If it were that simple the leaders of just about every financial services firm wouldn't be so stressed out right now. Even if you have already made the switch to pure RIA and, as such, have opted in for the fiduciary standard, you may be a little fuzzy about your actual liability.

Given the degree of technicalities and legal minefields, comments on this subject will be kept at a high level. To learn more check out www.fi360.com or Google "Fiduciary Standard for Financial Advisors."

The bottom line is that more disclosure, more transparency, more paperwork, more supervision, more risk, more expense, and more uncertainty have many firms and advisors on the back foot. This is never a good place to be when you are growing and running a business.

For those advisors who have already adopted the fiduciary standard, and truly understand what that means, this may not be much of a disruption at all and you may have a competitive advantage over a large portion of the industry. Make the most of it.

Our government believes consumers are being taken advantage of by our industry. They believe that most consumers don't understand what they're getting and how much it costs. They believe the solution is absolute transparency, full disclosure, and the elimination of every conflict of interest. They don't like bonuses, contests, rewards, trips, or perks of any kind. They view financial services more like a profession rather than a typical sales force with incentives for selling a lot or meeting quotas. If Elizabeth Warren visited the exhibit hall at your company conference she would likely believe that the pen or foam football you picked up at the vendor's table could motivate you to recommend an inferior or over-priced product to your client. If she attended a hospitality suite with a fantastic spread of food and an open bar… you can imagine what she would conclude. She may view the closing night party with a famous 80s classic rock band differently than you. She would be skeptical that you qualified for that trip to Hawaii by only doing what's best for your clients. Sadly, she would be right often enough to justify her opinion. I'm no fan of government of intervention, but you can see their point. How would you feel if your eye doctor earned a trip to Europe by selling one more laser surgery this month… and you were her last appointment?

Given the magnitude of these disruptions why do I believe it's a GREAT time to be a financial advisor? Because people need help with their money and the universal principal of success that has not changed is that if you're willing to the do the work you can succeed at whatever level you choose. You can adjust your behavior and your business model to be highly successful in our disrupted world. Somebody's going to do exactly that… why not you?

Bill Bachrach's thinking, writing, speaking, and training have made him one of the most popular resources in the world for Financial Advisors who seek to build high-trust client relationships, master client acquisition, and emulate the success habits of the Top Advisors. His books are industry best-sellers and his articles appear in the most prestigious financial services publications around the world. For more information or to book Bill now, call Anne Bachrach at 619-255-4888 or visit www.billbachrach.com