

# WEALTH MANAGEMENT 2015 AND BEYOND: TRENDS AND CHALLENGES

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## AGENDA

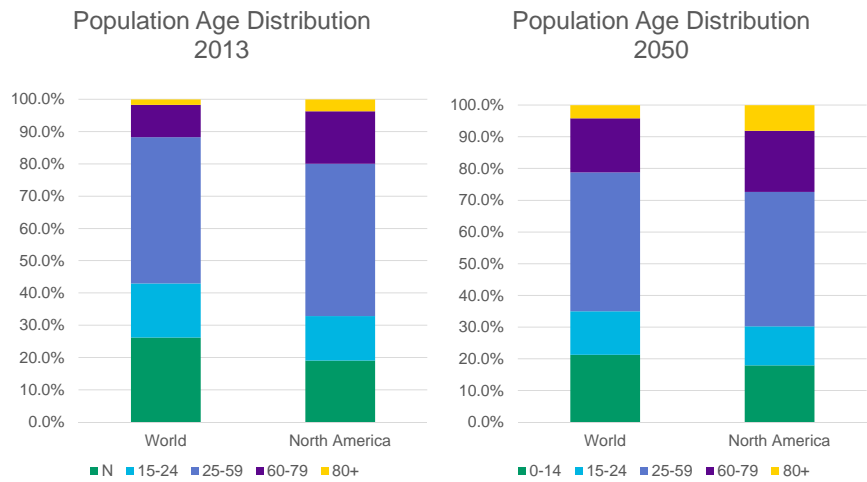
- Trends in Demographics
- Trends in Technology
- Trends in the Wealth Management Marketplace
- Trends in Wealth Management Knowledge & Practice
- Adding Value to Stay Competitive

# TRENDS IN DEMOGRAPHICS: IMPLICATIONS FOR PRACTITIONERS

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3

## DEMOGRAPHICS



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Source: United Nations World Population Prospects

4

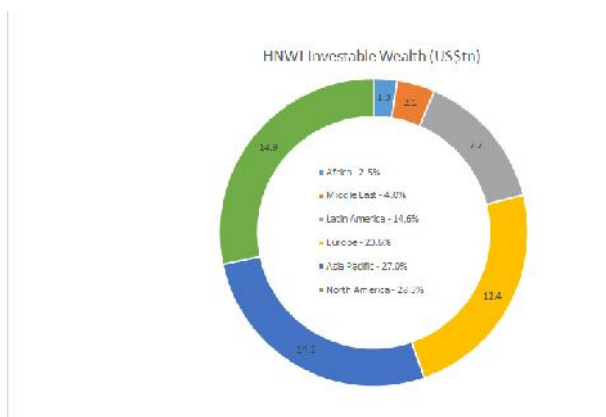
## DEMOGRAPHICS

- **13.7 million** high net worth individuals globally
- **US\$52.62 trillion** in wealth.

Source: 2014 *World Wealth Report*

## DEMOGRAPHICS: WHERE IS THE WEALTH?

### Wealth Distribution 2013 (US\$ Trillion)



North America has 28.3% of Global Investable Wealth of HNWI

Latin America has 14.6% of Global Investable Wealth of HNWI and 32.9% of Global Investable Wealth of UHNWI

Source: 2014 *World Wealth Report*

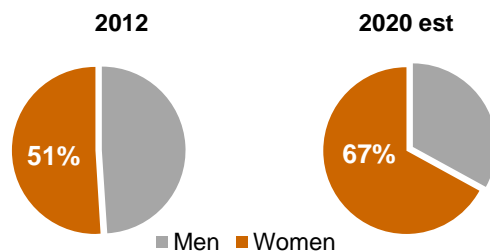
## DEMOGRAPHICS: WOMEN

“A quiet economic and social revolution is taking place, one that has significant meaning for financial services organizations. It is a revolution of, by, and for women, driven by a quest for *more* – more time, more value, more peaceful and secure lives.”

Source: [Women Want More \(in Financial Services\)](#), 2009 report by Boston Consulting Group

## DEMOGRAPHICS: WOMEN

### Control of U.S. Wealth, by Gender



## DEMOGRAPHICS: WOMEN TODAY...



- Control \$8 trillion in assets in the US, a figure that is expected to jump to \$22 trillion by 2020;
- Live longer and are responsible for more household financial decisions;
- Participate in the workforce and are generating personal income and retirement assets;
- Are poised to inherit from both their families and spouses.



## DEMOGRAPHICS: MILLENNIALS

- Also known as “GEN Y”
- Young adults born after 1980
- Control around \$2 trillion in liquid assets in the US

## DEMOGRAPHICS: MILLENNIALS

- There are about 80 million millennials in the US;
- They spend about \$300 billion a year on consumer discretionary goods;
- By the year 2020, millennials will make up **HALF** (50%) of the workforce.

Source: the [2014 Millennial Impact Report](#)

# DEMOGRAPHICS: MILLENNIALS

Millennials are also:

- Cautious
- Distrustful of Wall Street
- Care more about risk than anything else
- Hold a lot of cash

# MANY DO NOT SAVE ENOUGH....

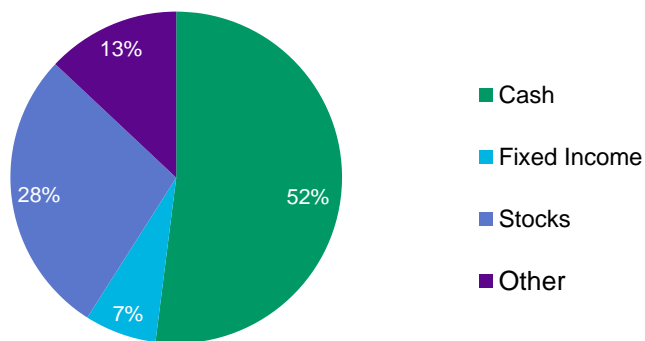
**Young Face a Savings Deficit**  
*Post recession Thrifty Ways Fade Away, High Student Debt*

After a decade with their eye on the prize, Millennials are finally starting to save. But they're not saving enough. A new survey shows that young adults are saving less than they were in the early 2000s, and that they're saving less than they should. The survey also shows that Millennials are saving less than they should, even when they're not saving at all. This is a problem because Millennials are the largest generation in the workforce, and they're the ones who will be responsible for paying for their own retirement. If they don't start saving now, they'll have a hard time doing so later in life.

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## WHEN THEY DO INVEST.....

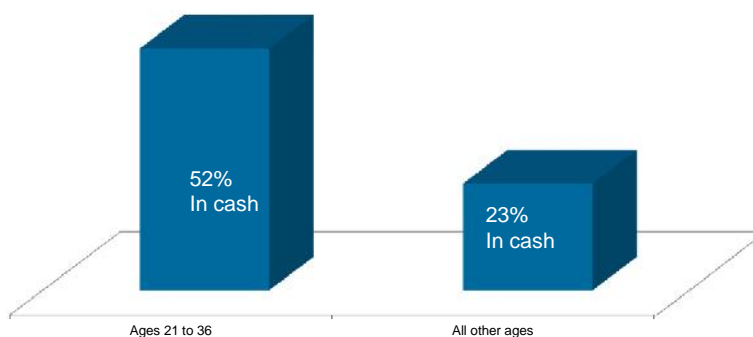
### Millennials



Source: UBS "Think you know the Next Gen investor? Think again" 1Q 2014

## DEMOGRAPHICS: MILLENNIALS

### Savings Breakdown: Millennials vs. Everyone Else



Source: UBS Wealth Management 2014



## DEMOGRAPHICS: AGE OF ADVISORS

### Practice Transition

Tom Robinson, CFA retweeted

**WealthManagement.com** @wealth\_mgmt · Nov 6

About half of RIAs have a succession plan in place that outlines who will take over the firm. #SchwabIMPACT [bit.ly/10AeoDz](http://bit.ly/10AeoDz)

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- In the US, the average age of financial advisors is 50.9;
- 43% are over the age of 55;
- Nearly one-third of advisors fall into the 55 to 64 age range.

Source: *Advisor Metrics 2013: Understanding and Addressing a More Sophisticated Population*, Cerulli

## DEMOGRAPHICS: AGE OF ADVISORS



Image credit: Roger Schullerstrom; [InvestmentNews article](#)

## TRENDS IN TECHNOLOGY: IMPLICATIONS FOR PRACTITIONERS

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19

### DIGITAL INFLEXION POINT: HIGH STAKES

- **Two thirds** of HNWIs “are likely to leave firms that do not allow them to transact digitally”.
- **Nearly two thirds** of HNWIs expect to manage most or all of their wealth relationship digitally in five years and would consider leaving their current firm if an “integrated channel experience” is not provided.

Source: 2014 World Wealth Report

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20

## DIGITAL INFLEXION POINT: HOW CAN FINANCIAL ADVISERS BEST COMPETE?

"The digital experience does not start and finish with a fancy interactive website. [Clients] expect their wealth-management experience to be as good as, if not better, than the best that retail – such as Apple – has to offer." - Sebastian Dovey, Scorpio Partnership\*

\* Source: Vonnegut: [Wealth Management's Biggest Losers](#), WSJ

## DIGITAL INFLEXION POINT: UNDERSTAND, LOBBY, TEST

**Understand** => Listen. What do your clients want? Any Time, Any Place, Any Device

**Lobby** => Demand the functionality you need.

**Test** => Experience your firm's technology the way your clients experience them.

Source: Caggemini, WSJ/Vonnegut: "Wealth Management's Biggest Losers"

## SOCIAL MEDIA

### Who uses social networking sites

% of internet users within each group who use social networking sites

All internet users	74%
a Men	72
b Women	76
a 18-29	89 <sup>ab</sup>
b 30-49	82 <sup>ab</sup>
c 50-64	66 <sup>b</sup>
d 65+	40
a High school grad or less	72
b Some college	78
c College <sup>c</sup>	70
a Less than \$30,000/yr	79
b \$30,000-\$49,999	76
c \$50,000-\$74,999	70
d \$75,000+	76

From Research Center's Internet Project January Omnibus Survey, January 25-26, 2014.  
 Note: Percentages marked with a superscript letter (e.g., <sup>a</sup>) indicate a statistically significant difference between that row and the row designated by that superscript letter, among outcomes of each demographic characteristic (i.e., age).

PEW RESEARCH CENTER

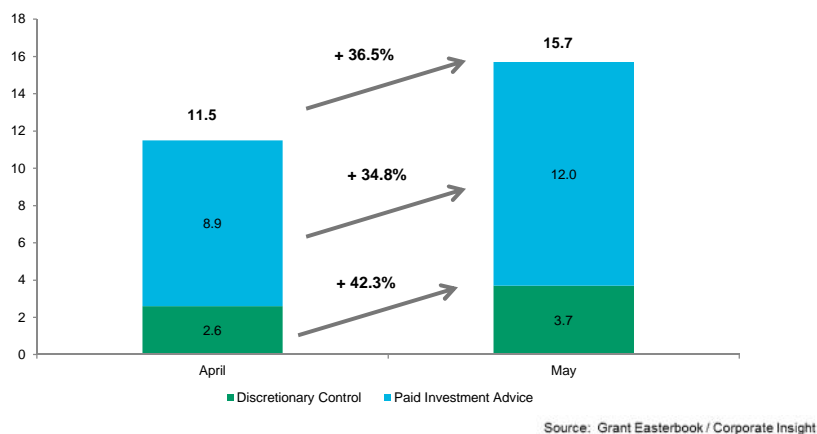
## ROBO ADVISORS

### Automated Portfolio Management Programs

- Web-based firms that invest clients' money;
- Offer low fees (0.15% to 0.35% of a client's AUM);
- Use algorithms to create and tweak portfolios;
- Manage about \$15.7 billion in client assets (as of July 2014).

## ROBO ADVISORS

Growth of new low-cost investment advice start-ups (\$ billions, 2014)

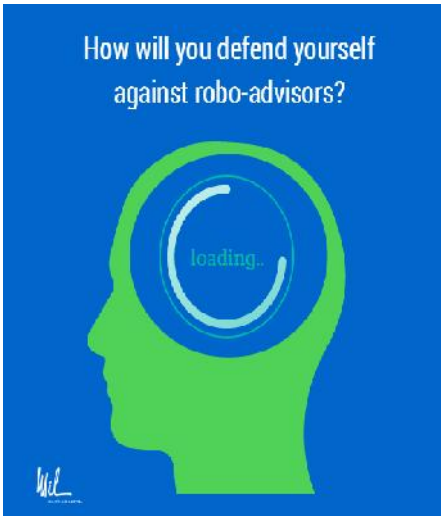


## ROBO ADVISORS: SOME OF THE LEADERS

- Wealthfront: \$1.25 billion in AUM\*
- Betterment: \$740 million in AUM\*
- FutureAdvisor: \$200 million in AUM\*



\* Source: WSJ "Taking Stock of Automated Financial Advisers," Aug 8 2014



How will you defend yourself  
against robo-advisors?

(Source: Militello Capital)

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## ROBO ADVISORS: WHAT DOES IT MEAN FOR YOU?

- Increased fee pressure
- More transparency
- Need to accommodate a younger generation
- More technology

Source: [SEI Advisor Network](#) "Five Ways Robo-Advisors Will Change the Way Advisors Work"

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## CYBER SECURITY



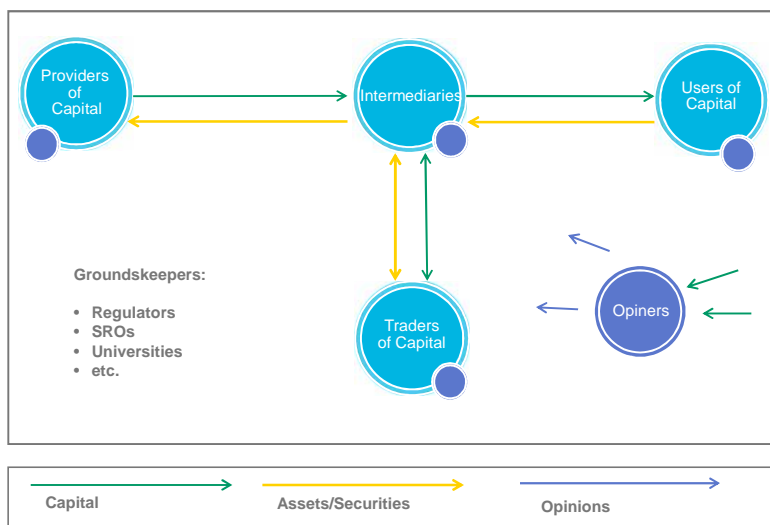
## CYBER SECURITY

**75% of financial compliance professionals** listed cybersecurity as one of the firm's top issues in 2014, according to a recent survey\*

Source: 2014 Investment Management Compliance Testing Survey

## TRENDS IN THE WEALTH MANAGEMENT MARKETPLACE: IMPLICATIONS FOR PRACTITIONERS

## TRUST: AN IMPORTANT COMPONENT OF THE FINANCIAL ECOSYSTEM





**Forbes** - New Posts - Most Popular - Lists

MARKETS | 2/12/2012 @ 1:15PM | 4,335 views

## Know Your Financial Scandals: Libor, Peregrine And The London Whale

From a bust... missing cu... billion-doll... to lying ab... few month... market in... Here's what you need to know.

**LIBOR Or Lie-BOR**

On June 27, Barclays agreed to a

LONDON, ENGLAND - JULY 04: Former Barclays Chief Executive Bob Diamond leaves Portoulis House after appearing before the Treasury Select Committee before the Treasury Select Committee.

**“From a busted broker with missing customer money to billion dollar trading blunders to lying about LIBOR...”**

**Markets Regulation**

Home World Companies Markets Global Economy Lex

to a "violation of competition rules around the possible manipulation of types of exchange rates" were brought to his attention in the past few days.

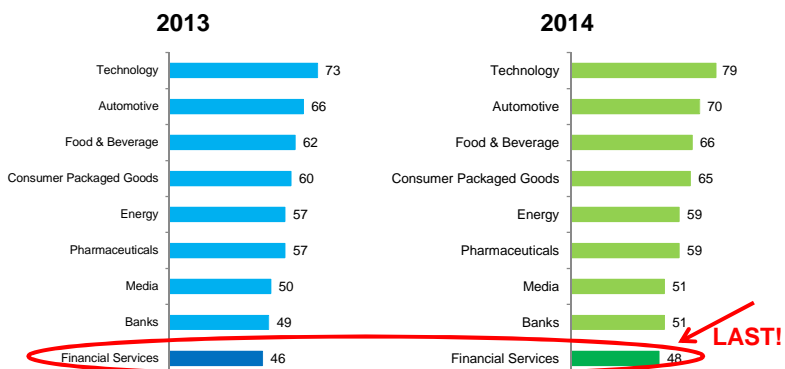
**“Swiss regulators opened a probe into a possible cartel between banks.”**

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## TRUST: THE CURRENT STATE

What percentage of consumers do you think trust **businesses in the financial services industry** to do the right thing?

According to the Edelman Trust Barometer, the financial services industry is the least trusted industry globally.



## TRUST: WHAT DO INVESTORS LOOK FOR IN AN ADVISOR

CFA Institute and Edelman partnered to understand the state of trust in the investment industry. The study conducted in July 2013 surveyed 1,604 retail and 500 institutional investors in the United States, United Kingdom, Hong Kong, Canada and Australia.

FIGURE 3: Investors were asked to indicate which attribute is most important when making a decision to hire an investment manager.



Question: Investors were asked to indicate which attribute in the above is most important when making a decision to hire an asset or investment manager.

## TRUST: THE COSTS OF FAILURE

- ➔ Investors who do not trust the industry are unlikely to:
  - Save and invest for their future
  - Achieve their long-term financial objectives
- ➔ A “savings gaps” means:
  - Longer working lives
  - Lower quality of life
  - Intergenerational stress



**Social impact**



## STATEMENT OF INVESTOR RIGHTS

**Demanding that financial professionals abide by these rights helps you build trust in the person and/or firm you engage with, and thereby collectively restore trust, respect, and integrity in finance.**

### WHEN ENGAGING THE SERVICES OF FINANCIAL PROFESSIONALS AND ORGANIZATIONS, I HAVE THE RIGHT TO...

1. **Honest**, competent, and ethical conduct that complies with applicable law;
2. Independent and **objective** advice and assistance based on informed analysis, prudent judgment, and diligent effort;
3. My financial **interests** taking precedence over those of the professional and the organization;
4. **Fair** treatment with respect to other clients;
5. Disclosure of any existing or potential **conflicts** of interest in providing products or services to me;
6. **Understanding** of my circumstances, so that any advice provided is suitable and based on my financial objectives and constraints;
7. Clear, accurate, complete and timely **communications** that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all **fees** and costs charged to me, and information showing these expenses to be fair and reasonable;
9. **Confidentiality** of my information;
10. Appropriate and complete **records** to support the work done on my behalf.

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## FEES: CONTINUED PRESSURE ON FEE LEVELS AND STRUCTURE

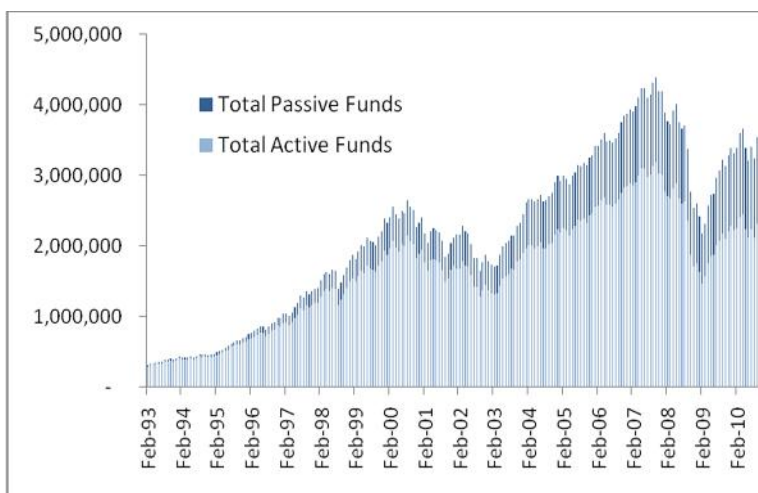
“When stated as a percentage of assets, average fees do look low — a little over 1% of assets for individuals and a little less than one-half of 1% for institutional investors. But the investors already own those assets, so investment management fees should really be based on what investors are getting in the *returns* that managers produce. Calculated correctly, as a percentage of returns, fees no longer look low. Do the math. If returns average, say, 8% a year, then those same fees are not 1% or one-half of 1%. They are much higher — typically over 12% for individuals and 6% for institutions.”

Source: Charles Ellis, Enterprising Investor Blog, 2012

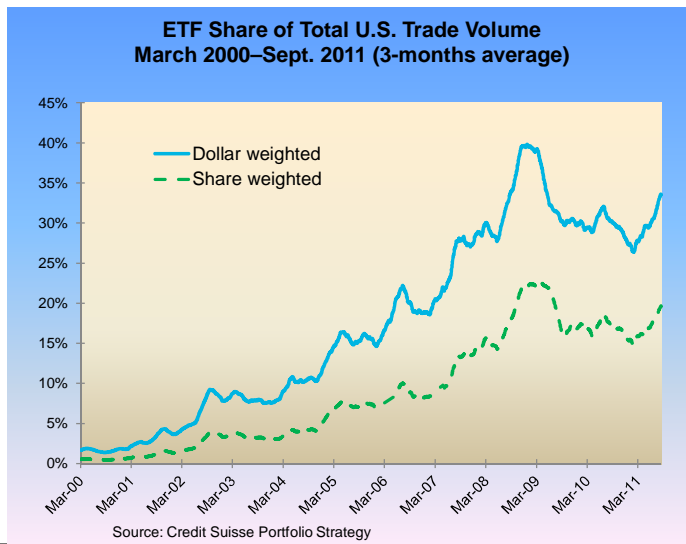
## FEES: FEE STRUCTURES

Fee Structure	Pros and Cons
Transaction-based fees	Pros: Transparent, low cost for buy & hold investors, firm has an interest in providing good execution and service Cons: Conflicts of interest to sell more products, fiduciary interest?, not based on performance
AUM-based fees	Pros: Transparent, predictable, lower incentive to use expensive/third party products Cons: Conflicts of interest to grow/retain assets, bias toward larger clients, low performance incentives
Performance-based fees	Pros: Alignment of investor and client interests, directly related to performance Cons: Fees unknown at outset, potentially large fees, can lead to increased risk
Flat or Project based fees	Pros: Unbiased, transparent Cons: Incentives to recommend additional projects/work, incentives to take on more clients

## INVESTMENT TOOLS & PRODUCTS: ACTIVE VERSUS PASSIVE INVESTING



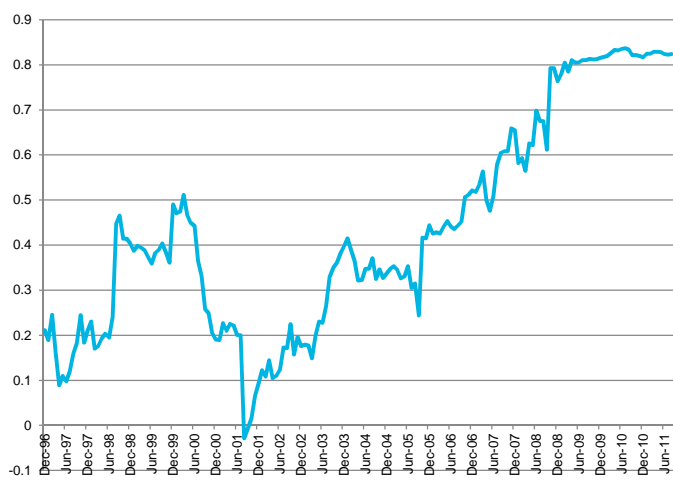
## INVESTMENT TOOLS & PRODUCTS: GROWTH IN ETFS



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## INVESTMENT TOOLS & PRODUCTS: CORRELATIONS



Stocks and Real Estate Investment Trusts

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## INVESTMENT TOOLS & PRODUCTS: LIQUID ALTERNATIVES

“The liquid alternatives space grew by 43% in 2013, while hedge funds saw their assets increase by 15% to reach \$2.6 trillion.... However, liquid alternatives are still in their infancy and comprise just 1%, or \$137 billion of the \$13.2 trillion presently controlled by the entire US mutual funds industry....

...estimated assets controlled by liquid alternatives will reach between \$650 billion and \$950 billion by 2018.”

Source: COOConnect/Barclays Prime Services: Developments and Opportunities for Hedge Fund Managers in the '40 Act Space.

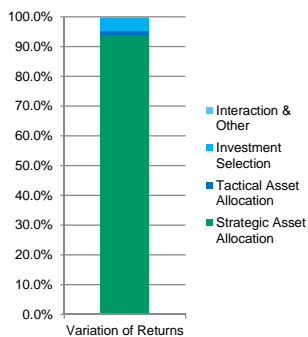
## TRENDS IN WEALTH MANAGEMENT KNOWLEDGE & PRACTICE: IMPLICATIONS FOR PRACTITIONERS

## INVESTMENT MANAGEMENT PROCESS: WHERE IS VALUE ADDED?



Source: Tools & Techniques of Investment Planning, 3<sup>rd</sup> Ed., Leimberg, Doyle, Robinson and Johnson

## INVESTMENT MANAGEMENT PROCESS: WHERE IS VALUE ADDED?

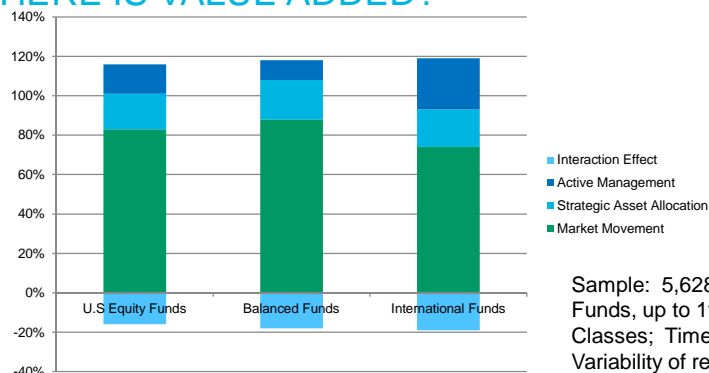


91 Large Corporate Pension Plans  
40 quarters of data 1974-1983

	Variation of Returns	Average Returns	Minimum Return	Maximum Return
<b>Strategic Asset Allocation</b>	<b>93.6%</b>	<b>10.11%</b>	<b>9.47%</b>	<b>10.57%</b>
<b>Tactical Asset Allocation</b>	<b>1.7%</b>	<b>-0.66%</b>	<b>-2.68%</b>	<b>0.25%</b>
<b>Investment Selection</b>	<b>4.2%</b>	<b>-0.36%</b>	<b>-2.90%</b>	<b>3.60%</b>
<b>Interaction &amp; Other</b>	<b>0.5%</b>	<b>-0.08%</b>	<b>-1.17%</b>	<b>2.57%</b>
	<b>100.0%</b>	<b>9.01%</b>		

Source: Brinson, Hood & Beebower, Financial Analysts Journal, 1986

## INVESTMENT MANAGEMENT PROCESS: WHERE IS VALUE ADDED?



	U.S Equity Funds	Balanced Funds	International Funds
Market Movement	83%	88%	74%
Strategic Asset Allocation	18%	20%	19%
Active Management	15%	10%	26%
Interaction Effect	-16%	-18%	-19%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Xiong, Ibbotson, Idzorek and Chen, Financial Analysts Journal, 2010

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47

## INVESTMENT MANAGEMENT PROCESS: WHERE IS VALUE ADDED?

Returns on Passively Managed Portfolios (Net of relatively smaller fees, expenses and/or time expended)

+

Returns on Actively Managed Portfolios (Net of relatively higher fees, expenses and/or time expended)

=

Market Index Returns (Computed without fees and expenses)

-

Aggregate Fees and Expenses for Management of all Portfolios

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## “ONGOING ACTIVITIES OF A GOOD WEALTH ADVISOR” SOURCE: GREYCOURT & CO.



## “THE ADDED VALUE OF FINANCIAL ADVISORS”

- Portfolio Construction
  - Asset allocation using broadly diversified mutual funds/ETFs > 0%
  - Use of low-cost index-based products 0.45%
  - Asset location between taxable and tax-advantaged accounts 0 to 0.75%
  - Total-return versus income investing > 0%
- Wealth Management
  - Regular rebalancing 0.35%
  - Spending strategy for drawdowns 0 to 0.70%
- Behavioral coaching 1.5%
- Total about 3.0%
- Source: Francis Kinniry, Colleen Jaconetti, Michael DiJoseph and Yan Zilbering 2014. *Putting a value on your value: Quantifying Vanguard Advisor's Alpha*, The Vanguard Group.

## PRIVATE WEALTH MANAGEMENT: THE FUTURE IS HERE

### Tax-Advantaged Investing

- After-Tax Wealth Accumulation
- Tax-Adjusted Asset Allocation
- Asset Location
- Tax Loss Harvesting

### Retirement Planning Today

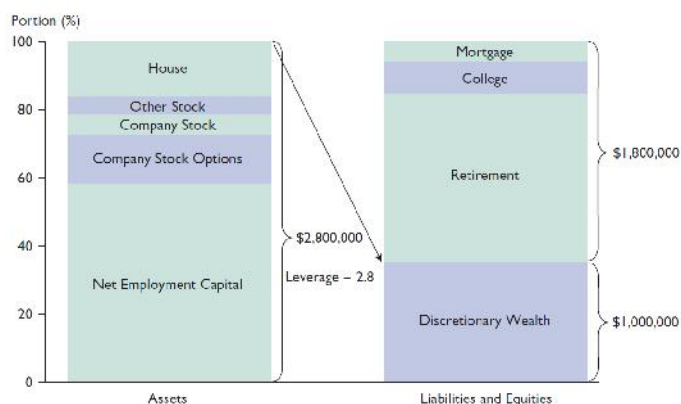
- Sustainable Retirement Withdrawals
- Longevity Risk
- Liability Driven Investment: Institutional Pension Plan Strategies Applied to Individuals

### Life Balance Sheet Approach

- Human Capital vs Financial Assets

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## PRIVATE WEALTH MANAGEMENT: LIFE BALANCE SHEET



Source: Adapted from Wilcox, Horvitz, and diBartolomeo (2006, 18)

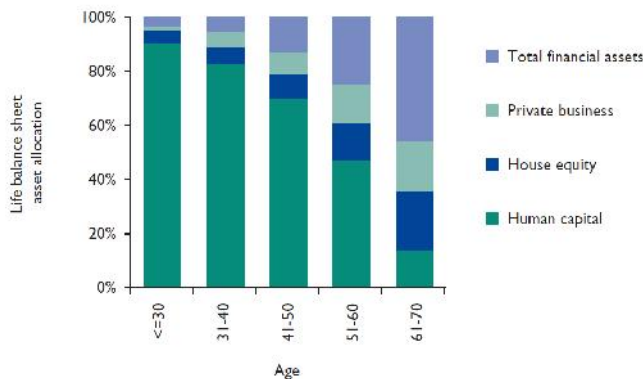
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## MOST UHNWI GLOBALLY DERIVE THEIR WEALTH FROM A PRIVATE BUSINESS



Source: World Ultra Wealth Report 2013, Wealth-X

## PRIVATE WEALTH MANAGEMENT: LIFE BALANCE SHEET OVER TIME



Source: Kyrychenko, Vladyslav, 2008, "Optimal Asset Allocation in the Presence of Nonfinancial Assets". Financial Services Review, vol. 17, no.1 (Spring): 69-86.

## ADDING VALUE TO STAY COMPETITIVE

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55

## PRIVATE WEALTH MANAGEMENT: WHERE TO ADD VALUE

### Build Strong Client Relationships

- Build trust through your business practices and actions
- Understand your clients/prospects needs including communication (technology) preferences

### Compete on Value Provided not on Cost

- Wealth Management, not just Investment Management
- Differentiate yourself – what do you have to offer that robo-advisors cannot?
- Focus on the asset allocation decision matched to client objectives, preferences and life balance sheet (including planning for a concentrated business interest). Look for opportunities to maximize returns after taxes and expenses – control expenses and tax manage portfolios
- Focus on retirement accumulation and distribution strategies to take advantage of demographic trends
  - Help clients understand the need to save and invest for the future
- Use all of the tools in the toolbox.
  - Higher correlations = more diversification required.
  - Insurance as part of the portfolio

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