Investment isn’t Cash; or, How Focusing on Goals Fosters Investors’ Loyalty

Goal-based advice helps to scale up business while increasing investment uptake

Interview with Tom White, iQuantifi

A crisis isn’t a reason to quit wealth management. If we look at what Merrill Lynch did shortly after the credit crisis, it becomes obvious that wealth management platforms should deploy their technology to the mass market to help customers pay off debt and build assets. Their Merrill Edge was designed to address a much broader range of investors. In just the same way, WealthTech companies are trying to scale their business today by going downstream. Some advisors have been able to lower their minimums, which is going to pass the torch to the cheaper technological wealth management platforms.

However, the stakes are high. New investors don’t necessarily understand the concept of buying down, which is a critical point to learn in investing. But if a platform is able to figure out how to help a client reach a particular goal, they're going to associate as long as the goal is achieved, so namely forever. So, there are some ideas to consider while setting the roadmap of digital advice solutions.

Goals, not features, are prime

Tom White, CEO at iQuantifi, is sure that setting goals should be at the beginning of the investment process. Most platforms keep this part for later, while focusing on less important things. Intrinsically, goals are primary and underlie all the other parts. The new objective of investment advice platforms is to help customers achieve clients’ investment goals.

> “One needs to know what the goals are, what is the timeframe, and how to allocate their assets.”

In parallel, investors don't care too much about details. What is important to them is whether they meet the goal or not. So it's crucial to keep to the core while introducing new features in wealth management platforms. Following trends and seeking advantages is good, but if the focus is wrong, the product can be ruined.

> "Sometimes platforms launch features that either don't matter to the end user or don't provide all that much of an impact."

Among such features Tom lists tax-loss harvesting, as there's a big disconnect in focusing on losses while helping to achieve goals.

Education evokes loyalty

A cardinal error of investment is that lots of people treat their investments as cash. This erroneous belief causes anxiety around investments when the market fluctuates, and ruins the trust and relationship between advisory platforms and investors.

> "When they put $10,000, they expect it to be $10,000 tomorrow, and don't expect it to be $9,500 because it fluctuates. They also don't expect it to double the next day."

Treating investments as cash equates to a misunderstanding of how investments work. If a person focuses on goals, it's not so much about whether they beat the market or not, it's about whether they meet those goals. For that reason, investor education is critical for them to understand what action is the most appropriate relative to their goals.

> "We define risk as the loss of capital, not whether the particular investment drops 50% or not. That's volatility, not so much a risk."

Recession always goes hand in hand with recovery; thus, sell high and buy low. Teaching this to investors is all part of helping them to achieve their investment goals. It ensures people know what to expect and don't take inappropriate actions. Therefore, in today's digital wealth management landscape, education is vital and it's up to WealthTech platforms to figure out how to implement this.

The bottom line

Despite the recent propagation of wealth management platforms, their capabilities include only automated investment management, which isn't really unique. Today, to win the loyalty of investors, platforms need to deliver results, which equate to the achievement of clients' goals. Keeping the focus on goals and education is now the best way wealth management platforms can adapt to the new market conditions and foster loyal investors.

About

Tom White has been an expert in wealth management for over 20 years, including during the Dotcom crisis and the credit crisis of 2008-2009. Tom saw the full market cycles and has established several companies in the field.

In 2006, while running a wealth management company called CAP Partners, Tom came up with the idea of creating a digital financial planning software platform. Three years later, he decided to spin this startup off and take the lead on a new project.

Now, Tom is the founder and CEO of iQuantifi, where he is fully focused on building solutions for advanced goal-based planning.