The Golden Age of the Independent Advisor

Like Helios riding his chariot into a new day, technology will propel advisors into a new era of finance

Interview with Michael Kitces,
Partner and Director of Wealth Management
at Pinnacle Advisory Group

What's the value of FinTech?

According to a KPMG report, global investment in FinTech companies hit **$111.8 billion** in 2018, comprising 2,196 deals. Does this number reflect the actual value of FinTech, or are seemingly smart people throwing their hard-earned money into a bottomless pit?

Michael Kitces, partner and director of wealth management for Pinnacle Advisory Group, and co-founder of the XY Planning Network and the FinTech solution AdvicePay, says that there is still a lot of pain in the advisory space. No doubt, technology is helping advisors, but it's not doing everything they expect it to do. Technology is often compartmentalized; there are separate systems and platforms that serve different purposes.

Holistic FinTech platforms

> "My clients don't need five portals that don't resolve their problems. My clients need one portal where everything is deeply integrated."

The modern approach is known as "holistic" (from the Greek word *holos*, meaning "all, whole, entire"). In this model, either one company takes over an advisor's desktop, or there's what Michael calls a "war of APIs," wherein vendors want to integrate with each other, and the product ends up looking like a ball of tangled electrical cords (yeah, nobody stores them properly). So, where is the advisor in this scenario? He or she watches from a distance as companies fight for a position in the growing FinTech market.

> "We watch these competitions among the platforms where they're all trying to expand in the same way, and from the advisor end, it feels like we end up with giant piles of redundant technology that overlaps in areas that are not helpful."

FinTech boosts profit margins

Despite the gaps in integration, Michael says that we are currently in the golden age of advisor technology. Here's how this translates into numbers:

- Solo advisors can operate with a **70–80% profit margin.**
- They can effectively service **50–100 active relationships with affluent clients.**
- And they can do this with **zero or one administrative staff members.**

Twenty years ago, advisory firms would have required two to four administrative staff members to service the same number of affluent clients (and with much-lower profit margins due to that staffing cost). Now, Michael says that despite the sometimes-frustrating technology, independent advisors are considerably more efficient and are able to actively serve more affluent clients with impressive revenue numbers. This is the true value of FinTech.

The robo-advisor movement

When robo-advisors started to gather steam seven years ago, Michael wrote that they would be a threat to self-directed investment providers, but were no threat to financial advisors. However, elite companies like Vanguard, Schwab, and TD Ameritrade were, as Michael puts it, embarrassed by the lack of quality in their onboarding tools when compared to then-newcomers like Wealthfront and Betterment. And so those companies quickly caught on and started offering their own "robo" onboarding solutions.

> "I think the rise of all these companies building robo-onboarding tools over the past three years was a bad strategic blunder."

In fact, the problem is that robo startups built onboarding layers on top of custodians, but at a certain point, the custodians saw this gap and built their own, better (or at least more deeply and easily integrated) technology. This leads to the logical question, "What happens to robos?" Michael says these businesses have no "moat," no protection, and no strategic pathway forward:

> "You can't win my business over my custodian because I *have to* have the assets there, so custodians will always be my anchor platform."

Do advisors really want all-in-one solutions?

Michael says that most all-in-one solutions for financial advisors are not true platforms, but simply wide-reaching products. Although tech companies like to refer to themselves as "platforms," they don't adhere to the true platform model. A true platform makes money from transactions or events that occurs on the platform itself (which tends to make the software free, as it is with RIA custodians that operate a true platform model).

> "You [might] have an awesome piece of technology, and I hope it does a lot of stuff, and if it does, we'll pay you well for it. But be very careful making awesome

technology that goes head-to-head with what an actual platform does. You probably won't win."

Michael provided some examples of platform businesses:

- Amazon
- Facebook
- Google
- eBay
- Airbnb
- Uber
- Custody and clearing firms

Gaps in tools that provide continuous advice

Advisors need tools for onboarding, planning, communication, and a host of other routine processes. And surprisingly, many of these tools lack solutions for ongoing, continuous financial advice.

The reason is that historically, financial advice has been transactional. An advisor wrote a plan, sold the plan, and got paid for the delivery of the plan (or the implementation of products at the end of the plan). Then, with the advent of technology, the process became gather data, plug it into the software, produce output, deliver results, get paid. Now, as advisors transition from an assets-under-management model to an ongoing-retainers-and-services model, the key question will be how to keep serving clients and adding value in the long term (and how technology can augment it).

> "I find so much of the technology in the planning and advice world is built for the first three months of the client relationship, and not the subsequent 29.7 years of the 30-year relationship that follow[s]!"

The biggest gap

In Michael's professional opinion, the biggest gap in advisor tools are workflows and processes for *ongoing* client engagement and advice, that tie in with CRMs. Everything should be integrated, so the client can see the advisor's recommendations and advice, and the advisor can see metrics to track how the client is doing. Michael says that he wants to know when clients are in trouble—not just with their portfolio, but with their entire financial goal set.

Despite the rise of event-account-aggregation tools, simple, ongoing advice monitoring doesn't exist in today's advisory space. Imagine a tool that could track whether a client has actually saved the amount of money specified in their financial plan from year to year, and if they have not, advisors would receive a notification when the client's monthly savings go off track.

> "It's simple arithmetic. All the numbers are there in account aggregation. No one's built a solution to leverage the data and provide the feedback to the advisor about when there's an opportunity to help the client."

Takeaways

It would be wrong to rag on the technology gaps of the current advisory space without admitting a few things. Namely, without tech, there's no way advisors could handle the same number of clients with the same profit margins. But as Michael says, we can get better.

Improving workflows, communication, and going holistic is proving to be the best strategy. Compared to hyped-up "advances" and solutionism technology, advisors want anchored, fully integrated platforms that serve clients in the long term.

About

Michael Kitces has nearly 20 years of experience in finance. He is currently a partner and the director of wealth management for Pinnacle Advisory Group, a private wealth-management firm with approximately $1.8 billion AUM. He is the co-founder of the XY Planning Network, AdvicePay, New Planner Recruiting, the publisher of the e-newsletter, "The Kitces Report," and the author of the popular financial-planning industry blog, "Nerd's Eye View."