Money Management Institute

ADVANCING THE FUTURE OF INVESTMENT ADVISORY SOLUTIONS

Modern Wealth:

The Roadmap to Improved Investor and Advisor Outcomes

Table of Contents

WELCOME TO MODERN WEALTH: THE FUTURE OF ADVICE

A sea change is underway in the advisory industry, where the focus is rapidly shifting from the utilization of discrete products, accounts, and technology tools—and the improbable notion many investors have they should somehow beat all benchmarks—to holistic, household-level solutions that improve financial outcomes.

Industry leaders are creating comprehensive platforms, or ecosystems, by leveraging in-depth financial planning and goal-setting, large amounts of data from many sources, and a toolbox full of technology and software capabilities. The goal is to give advisors the power to provide household-level advice, so investors can benefit from optimizing all their holdings and achieve improved financial results that help them reach their goals.

This paper, entitled *"Modern Wealth: The Roadmap to Improved Investor and Advisor Outcomes,"* addresses the complexities and opportunities that lie ahead in the noble cause of coordinating data and processes that will benefit both investors and advisors.

We thank our Board of Editors for their insights and perspective as we have worked together to describe the next significant trend in our industry.

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Modern Wealth:

The Roadmap to Improved Investor and Advisor Outcomes

IT'S A NEW DAY

Modern consumers have come to expect personalized experiences tailored to their needs, preferences, and financial objectives. Shopping apps recommend products aligned to a user's wants; ticket apps promote concerts based on musical interests; and travel apps find the best airfare and hotel deals to wherever users want to go. Nearly 20 years ago, Amazon started suggesting books based on previous customer purchases.[1] Those companies which fully invested in online personalization features outsell those that have not by more than 30%.[2]

The way we consume products and services has evolved dramatically. And while the wealth advisory industry finds itself playing catch-up, a group of industry leaders is rapidly innovating to better serve clients, improve investor outcomes and gain an advantage over their competitors.

WHAT DO MODERN WEALTH CLIENTS WANT?

Industry leaders are looking at the ever-evolving consumer landscape, and asking: "What do modern wealth clients want? And, what does it mean to be a modern wealth manager?"

Today's wealth clients are more informed than ever before and, because of advances in technology, have greater access to insights and tools that in the past were only accessible to advisors and industry insiders. Investors also want increased transparency and disclosure of potential conflicts. Because of this, wealth advisors continue to seek new and innovative ways to demonstrate their value to the modern investor while providing full transparency along the way.

1 Heike Young, *Welcome to 2018, The Year of Personalization. Here's 3 Things You Need to Know*, December 2017, https://www.demandware.com/blog/retail-intelligence/welcome-2018-year-personalization-heres-3-things-need-know

2 Gartner, *Crawl, Walk, Run: Define Your Vision and Roadmap for Personalization*, June 2017, https://www.forbes.com/sites/shephyken/2018/03/11/the-personalization-revolution-when-the-world-revolves-around-you/#6324eb925efb

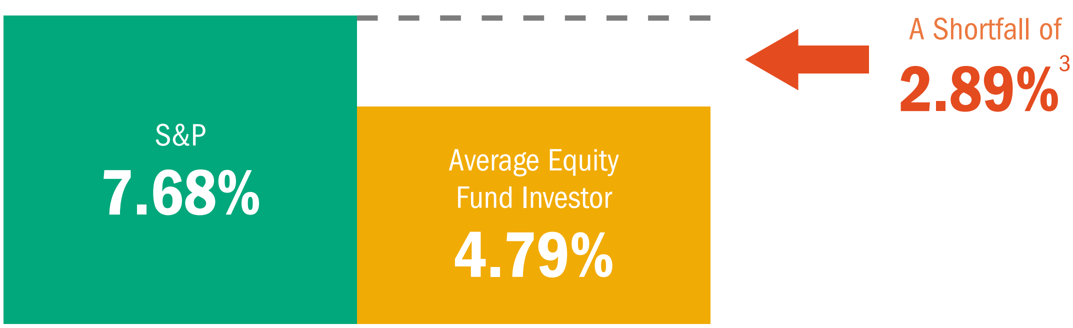
Clients come to advisors seeking strategies to maximize the probability of achieving their goals. In working with their advisors, they wish to evaluate trade-offs, understand risks and see how their investments will work to achieve their goals in a simple, intuitive manner. While digital investment advice platforms (a.k.a. "robo advisors") rose to prominence by addressing an improved digital experience, adoption has been decidedly low.

Chief among the reasons is that an overwhelming majority of investors prefer some degree of human interaction to make investment decisions and life choices in the face of increasing complexity and stick with them. Investing, especially when considering all the issues around retirement, is complex. Investors need help with:

- Understanding the management of risk across multiple accounts and products;
- Determining tactics to minimize taxes; and
- Coordinating the multiple accounts and products they have assembled over time.

> "In November 2018, we launched WealthDesk, a comprehensive household platform for advisors to help investors manage risk and taxes across their household portfolio to improve clients' financial outcomes. By doing this, we believe we will increase the trust of clients and earn the opportunity to manage their full households."
>
> **Eric Lordi,** ***Managing Director, Morgan Stanley***

2016 DALBAR Quantitative Analysis of Investor Behavior



Modern wealth advisors must also consider how to work effectively with clients at different life stages. Younger clients with small investment accounts seek advice about maximizing pretax contributions to 401(k)s and maintaining diversified exposure to stocks. Clients at their peak earnings pursue advice about their asset allocation, how much to save in their brokerage accounts, and how to reduce taxes on their combined IRAs and brokerage accounts. Clients transitioning into retirement need advice about optimizing Social Security benefits, managing withdrawals from their IRAs and brokerage accounts, and creating a retirement paycheck.

3 http://Dalbar.com/QAIB/Index

Increased personalization and white glove service have always been available to high-net-worth clients, but until recently, technology limitations have prevented this model from scaling across all segments. However, by evaluating the needs of modern clients and the advisors who serve them, wealth management leaders are now redesigning their approach.

Leaders are deploying advanced, scalable technology architecture to improve the investor and advisor experience—and, importantly, financial results. They are doing this not just by using discrete products, accounts or tools, but through an integrated financial planning and household portfolio management approach, which connects a series of tools and capabilities to create a streamlined experience that is easy to understand and provides the basis for optimal decision making and results.

> "The firms that will win the war for advisory dollars—both qualified and non-qualified—will be the ones that clearly articulate the value of advice through a goals-based approach, a simplified plan to tie goals to a personalized set of portfolios, and effective management of the impact of taxes and fees on the client during the onboarding process."
>
> **Charles Smith,** ***Executive Director, EY***

ADDRESSING THE HOUSEHOLD BALANCE SHEET

Modern wealth management firms are now working with clients to view their personal balance sheets—including all their assets, liabilities, and earnings potential—in one place, while removing confusing product names and acronyms. Clients tend to form an emotional attachment to advisors who help achieve their goals (e.g. retirement, college savings, etc.). Because of this, industry leaders are moving away from a focus on beating arbitrary benchmarks for each product and account, and toward achieving goals across clients' household holdings. The shift is underway from largely uncoordinated products, accounts, and tools to comprehensive and coordinated household solutions that can improve investor outcomes by leveraging the power of technology.

The future of advice: leveraging people and technology to plan, organize, coordinate and optimize multiple investments. There are only a few ways to improve investor outcomes:

1. Beat the Markets
2. Reduce Investment Costs
3. Manage Risk Driven by Client Goals
4. Minimize Taxes
5. Address Client Goals and Expectations Over Time

With investment management products becoming increasingly commoditized, the personalized advice and services across multiple accounts and products delivered by wealth managers are the next megatrend and the real driver of value to clients. Firms that can demonstrate certain key characteristics will drive long-term engagement and profitable growth of the investor and for the advisor by:

- Understanding the real needs of the modern client;
- Monitoring the drivers of a client's investment risk tolerance as the client's wealth changes; and
- Offering customized solutions for each individual household to meet its financial goals.

KEEP IT SMART, KEEP IT SIMPLE

"Keep it simple" is one of those sayings that, no matter how much things change, remains true. The sheer complexity of the financial machine these days is one of the main reasons many opportunities to help investors are missed.

Having a financial plan is fundamental. If you don't have a plan, how do you know if you've arrived at wherever it was you were headed? But a plan without thoughtful implementation that considers risk and taxes is just a plan. Ultimately, the advisor and investor must implement, monitor and adjust the plan across multiple accounts and products as things inevitably change. As this exercise has become increasingly complex for both the investor and the advisor, the combination of human guidance and digital advice technology increasingly enables advisors to provide greater clarity on how to navigate the future to improve financial outcomes for investors at any level.

The opportunity for advisors and investors is to turn data into insights and convert insights into appropriate actions over the course of accumulation and drawdown of assets. The industry is now actively addressing the vital need of making it easy for advisors to focus on and deliver holistic, customized advice that helps investors achieve their objectives.

We will address the building blocks of a comprehensive, household-level approach in more detail, but let's start with understanding why the industry is creating ecosystems that "connect-the-dots" to help advisors help investors improve outcomes.

> "Many leading firms will be introducing comprehensive household-level platforms in 2019 that help investors improve after-tax returns and income by connecting CRM, planning, account aggregation, and tax-smart and risk-smart recommendations as part of investment proposals, tax-aware household rebalancing, and optimal income sourcing. We've already entered this new era; now the battle will be fought over who has the best system."
>
> **Jack Sharry,** ***EVP, LifeYield***

> "We are building integrated and coordinated technology systems to enable advisors to convert data into insights, so they can convert insights into wisdom and provide highly personalized guidance. This approach helps investors enjoy better outcomes and helps advisors expand their capacity to serve clients while creating a competitive advantage for their practice."
>
> **Gary Carrai,** ***SVP, LPL***

ASSET ALLOCATION BY ACCIDENT—A HISTORY LESSON

In the early days, retail investing was simple. Stocks and bonds were sold by a broker, and cash was put in the bank. The process didn't have many stops along the way. With the advent of sky-high interest rates in the early 1980s, money flowed out of banks into cash management accounts at brokerage and "no-load" mutual fund companies. Thus, complexity was introduced to the process.

Interest rates fell through the 1980s, causing trillions of dollars to flow into mutual funds as investors "bought yield" and too often tended to buy high and sell low while chasing performance and collecting an array of 5-star mutual funds. Some called this "asset allocation by accident, or default." As financial planning emerged, and Morningstar style boxes gained prominence, consumers made attempts at risk management, largely through asset allocation but unfortunately found themselves acting on emotion by following fear and greed at the wrong times. The 2016 DALBAR Quantitative Analysis of Investor Behavior found the 20-year annualized S&P return was 7.68%, but the 20-year annualized return for the average equity fund investor was only 4.79%—a shortfall of 2.89%[4].

Through the 1990s and into the 21st century, investors continued to buy new and improved versions of managed money as they pursued diversification and sought to address risk, cost, and taxes—separately managed accounts, variable annuities, unified managed accounts, alternative investments, ETFs, managed models, and robo products. Tax considerations started to play a role, but only at the product or account level, and not at the household level. Given the complexity of managing a household portfolio typically spread among two or three advisors, investors lacked any measure of coordination in what they owned and couldn't take full advantage of the key levers of addressing risk and taxes.

> "Planning is emerging as a primary source of value to clients, helping advisors focus on the things that are most important to individuals when thinking about their financial lives—achieving goals and providing peace of mind. We believe arming advisors with modern technology solutions helps more advisors deliver more plans to more people."
>
> **Jess Liberi,** ***Head of Product, eMoney Advisor***

The result? Today's investors who are looking to achieve their objectives up to and through retirement tend to own five or six accounts with a range of registrations and product types, most commonly managed by two or three advisors. In their quest to diversify products and advice sources, investors have made it difficult for themselves to plan appropriately, optimize their household portfolio, and achieve their intended results. The current disorganized state of client accounts creates opportunity for advisors to improve outcomes and consolidate accounts—particularly when investor benefits can be quantified.

4 http://Dalbar.com/QAIB/Index

IMPROVING INVESTOR—AND ADVISOR—OUTCOMES

For most investors, their investment portfolio has become a complex web woven over time. Investors bought different investments at different times for different reasons from different people, and hence, don't have any measure of a coordinated household investment plan. How could they? With a household portfolio comprised of multiple accounts, products, and custodians, and managed by multiple advisors, it's no wonder investors have no idea what needs to be done to achieve their goals when they look at the clutter.

Herein lies the future of advice: leveraging people and technology to plan, organize, coordinate and optimize multiple investments. Tech-smart advisors and firms are now leveraging data and technology to demonstrably improve investor outcomes. However, there are only a few ways to achieve improved investor outcomes:

1. Beat the markets
2. Reduce investment costs
3. Manage risk driven by client goals
4. Minimize taxes
5. Address client goals and expectations over time

No wealth manager can be expected to consistently beat the market in all products and accounts. Fees are continuously being compressed. That leaves only three realistic ways to help improve investor outcomes: manage risk driven by client goals, reduce taxes by addressing the inherent inefficiency of owning multiple accounts with different tax treatments, and address client goals and expectations over client life stages.

MANAGING RISK, TAXES, AND ONGOING COMMUNICATION

Risk management has two components: translating clients' preferences into a target asset allocation and maintaining that allocation across the clients' IRAs and brokerage accounts. Tax management involves protecting highly-taxed assets in IRAs and reducing taxes on assets in brokerage accounts. Transitioning between life stages, along with other life and market events, creates opportunity for engagement between advisors and clients. Clients' retirement creates discussions about spending and how it will be supported by Social Security, annuities, and withdrawals from IRAs and brokerage accounts. Market downturns provoke discussions of maintaining a course and, if prolonged, of delaying retirement or reducing spending goals. All this will help investors keep more of what they earn by optimally managing portfolios at the household level consistent with their objectives and risk capacity as the markets and their life circumstances inevitably change over time.

Morningstar says optimal asset location and the organization of multiple account registrations using a risk-smart, tax-smart strategy from accumulation through withdrawals can add 183 basis points per year in incremental after-tax returns and income.[5] When it comes to investing, what matters is how much a client

5 David Blanchett and Paul Kaplan, *Alpha, Beta and now…Gamma, August 2013*, https://corporate.morningstar.com/us/documents/ResearchPapers/AlphaBetaandNowGamma.pdf

makes after taxes. Financial advisors need to take into consideration how the return of tax-smart investments will impact the overall return and how to provide the client with a comprehensive and accurate view of progress toward a household financial plan.

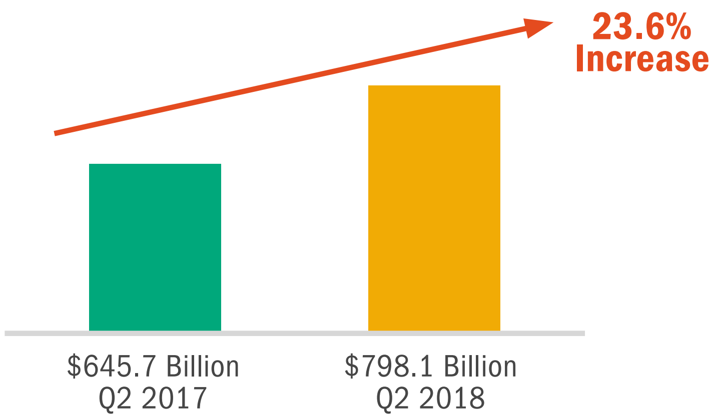
Software exists to quantify the benefit of managing the household portfolio in a risk-smart and tax-smart way. This focus on the quantified benefit of meeting risk parameters and reducing the payment of unnecessary taxes shifts the focus from "beating the markets"—which is unlikely—to ensuring a plan is managed within a client's comfort zone while improving after-tax returns and income.

> "Data is the key. The challenge is how to leverage that data to support good decision making for the client and the advisor across a household. We are focused on making a highly intuitive and useful user experience that takes full advantage of the client's data to enable the advisor and client to achieve the client's goals."
>
> **Sean Lawlor,** ***VP, Envoy Product Strategy, Envestnet***

THE GROWTH OF ASSETS AND DECLINE IN ADVISORS AND FEES

It is clear the wealth advisory industry is growing substantially in terms of assets. According to *MMI Central*, inflows to investment advisory platforms remain strong, pushing asset levels ever higher. For example, from the second quarter of 2017 to the second quarter of 2018, unified managed account (UMA) assets increased 23.6% from $645.7[6] to $798.1 billion.[7] As firms look to drive similar growth in 2019 and beyond, the industry is running up against capacity constraints as advisors are being asked to serve more clients with higher degrees of personalization and customization. The push to innovate in the advisory asset space and provide digital solutions to advisors becomes even more important.

Growth of Unified Managed Account (UMA) Assets



Source: *MMI Central,* Advisor Contribution towards IAS Growth, Q2 2017
MMI Central, Sponsors and Managers Continue to Advance Advisory Platform, Q2 2018

6 MMI Central, *Advisor Contribution towards IAS Growth*, Q2 2017

7 MMI Central, *Sponsors and Managers Continue to Advance Advisory Platform*, Q2 2018

The industry is facing the additional challenge of far more advisors who are about to retire than are being replaced by new entrants into the field. According to a Moss Adams study, it's estimated by 2022 the U.S. wealth management industry is likely to face a shortfall of at least 200,000 advisors. Today, only five percent of the profession's advisors are under the age of 30, according to Cerulli Associates. This begs the question of how fewer advisors will serve the growing demands of the investing public.[8] It also makes it even more challenging for advisors to add value as they will manage more households—and more complexity—than ever before.

The goal discovery process should drive understanding of the client's risk/reward tolerance. This relationship should be continuously considered, monitored and adjusted in tandem. Clients' goals will continuously change and evolve, and so too will their ability to achieve those goals as their investment wealth grows. The amount of risk they assume should just be another lever that the advisor pulls. The five levers in the "goals trade-off" include:

- Save more, or less
- Retire earlier, or later
- Leave more, or less, to estate
- Spend more, or less
- Take on more, or less risk

Goals drive risk, not the other way around.

Meanwhile, fees are falling. An October 2018 *Wall Street Journal* article highlighted how many wealth management firms—both large and small—are beginning to reduce fees below 1% of assets for traditional advice, while automated advice platforms offered by larger firms are closer to 0.30%. In one case—Charles Schwab's Intelligent Portfolios offering—there is no fee at all.[9]

"While goals may change and evolve over time, investors need to be able to adjust the levers of: saving more or less; retiring earlier or later; leaving more or less to their estate; spending more or less; and taking on more or less risk. Ultimately, goals should drive risk."

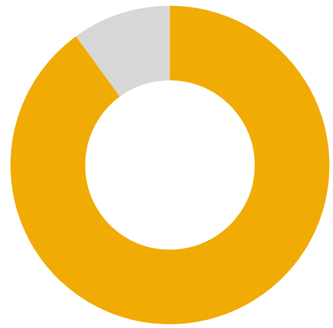
John Shetterly, ***Head of Advice Solutions, T. Rowe Price***

8 Cerulli Associates, Meridian IQ, Investment Company Institute, Insured Retirement Institute, VARDS, Strategic Insight/SIMFUND, InvestmentNews, Judy Diamond, Department of Labor, PLANSPONSOR, S&P Capital IQ MMD, Financial Planning, Financial Advisor Magazine, Credit Suisse Research Institute, Investment Advisor Magazine, Moss Adams, and Cerulli Associates, in partnership with the Investment Management Consultants Association, WealthManagement.com, and the Financial Planning Association® (FPA®)

9 Lisa Beilfuss, *The Price of Financial Advice Is, Finally, Falling*, October 8, 2018. https://www.wsj.com/articles/the-price-of-financial-advice-is-finally-falling-1538965020

Percentage of Consumers that...

80%
are more likely to do business with companies offering personalized experiences



90%
indicated they find consumer personalization appealing

Source: Epsilon, The power of me: The impact of personalization on marketing performance, January 2018

"PRICE IS AN ISSUE IN THE ABSENCE OF VALUE"

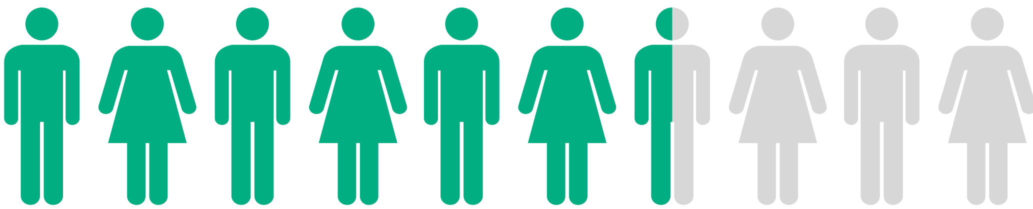
If we look at consumer trends more broadly, we see the drive toward personalization and customization. According to recent Epsilon research, 80% of consumers are more likely to do business with a company if it offers a personalized experience; 90% indicated they find personalization appealing.[10] Wealth clients are retail consumers too, and what they have come to expect from firms like Amazon and Netflix will be what they expect from their advisors as well.

As the saying goes, "Price is an issue in the absence of value." Financial advisors who have staked their future on being better portfolio managers are on the wrong side of history as the perceived value shifts from stock picking and model selection to holistic planning, household-level portfolio management, and concierge services often offered by private banks. Clients want their preferences reflected in the products and services provided by their advisor. Whether advisor value is created from more personalized attention and advice or from added services like financial planning, risk- and tax-management, advisors will be increasingly required to demonstrate their value, which includes quantification of the benefit they bring in order to maintain their current fees.

> "Highly intuitive and engaging client and advisor portals will be a critically important capability of the integrated technology ecosystem we are building. As an entry point for both clients and advisors, both can see the full picture of the client's financial life, communicate with one another, and make informed decisions about how to maximize their assets and enjoy greater peace of mind."
>
> **Jud Mackrill,** ***CMO, Carson Group***

10 Epsilon, *The power of me: The impact of personalization on marketing performance*, January 2018. https://www.slideshare.net/EpsilonMktg/the-power-of-me-the-impact-of-personalization-on-marketing-performance/1

This, of course, creates a new problem where advisors find themselves in a capacity crisis. Advisors are being asked to do more for the same or lower fees. The marketplace is responding by building comprehensive "ecosystems," or "tech-stacks"—including artificial intelligence—which enable advisors to deliver holistic advice, the benefits of which can be quantified, implemented and monitored faster and better.



65% of high-net-worth individuals are ready to leave their wealth management firm due to a lack of integrated omni-channel experience

Source: Top 10 Trends in Wealth Management 2017, Capgemini, December 6, 2016

According to a Capgemini study, 65%[11] of high-net-worth individuals are ready to leave their wealth management firm due to a lack of integrated, omni-channel experience. By omni-channel, we mean online, over the phone, mobile and in person connections. Because of this, leading wealth managers are now focusing their efforts on delivering the personalized, seamless and "omni-channel" experiences clients are demanding.

MODERN WEALTH BUILDING BLOCKS

The current advisory landscape is filled with loosely linked advice tools and single-product solutions that only come together in the hands of the most skillful advisors, typically supported by teams of specialists. Between 9% and 15% of advisors state there is no integration at all between the main business applications they use, and only 24% to 28% of advisors report having full functional integration across business applications.[12]

Whether through mergers or acquisitions over the years, or due to competitive imperative, wealth managers created additional platforms on top of existing platforms when emerging needs came forth or a new trend arose in the industry. The result is that these new capabilities do not fit easily into the original architecture; and while these platforms and solutions are functional in silos, they lack convenience, connectivity, and coordination.

11 Capgemini, *Top 10 Trends in Wealth Management 2017*, December 6, 2016. https://www.capgemini.com/wp-content/uploads/2017/07/wealth_management_trends_2017_web_0.pdf

12 Aite, *Technology Integration Turbocharges Advisor Productivity: Making Time for Clients*, September 2016. https://www.envestnet.com/sites/default/files/documents/Aite-Advanced-Technology-Integration-White-Paper-FINAL.pdf

ONLY 24–28%
of advisors state that they have full functional integration across business applications

9–15%
of advisors state that there is no integration at all between the main business applications they use

Source: Aite, Technology Integration Turbocharges Advisor Productivity: Making Time for Clients, September 2016

INTEGRATED PLATFORMS: CAPTURING, POPULATING AND LEVERAGING DATA

A recent Aite study[13] showed financial advisors who have access to advanced technology integration beyond their peers will see a sizeable boost in the time they have to manage client relationships. When using integrated technology, advisors can allocate an additional 11% of their time to more valuable activities.

As technology makes its inexorable advances, data is at the heart of what will improve the investor experience and results. Solutions are now available where household level data can be captured and populated in financial planning, investment proposal, and risk-smart and tax-smart implementation tools that will make it easier for the investor and advisor to move past the humdrum of collecting information and toward pre-populated advice tools that suggest how to improve outcomes and quantify benefits. The integration of financial planning and investment proposal tools can lead to many benefits such as greater after-tax returns by using tax-smart investing at the household level, greater level of plan success, and avoiding inappropriate investment risk.

Advisors shouldn't have to sign in to multiple systems to access various business applications and fill out information multiple times to be able to provide advice and guidance to investors. The next-generation platform will provide easier, faster and centralized access to all relevant tools, data, and information. The platform will allow wealth managers to realize their full potential by creating recommendations that improve outcomes and the client experience while helping ensure advisors develop a far more scalable and efficient business model.

> "The importance of integrating planning and investment implementation can't be overstated. Using what we call Tax Alpha Investing across a household portfolio leads to greater after-tax returns and investment outcomes. This also leads to a greater likelihood of achieving the client's goals and ultimately less needed investment risk."
>
> **Russ Reinhart,** ***Managing Director, Wealthcare Capital Management***

13 Aite, *Technology Integration Turbocharges Advisor Productivity: Making Time for Clients*, September 2016.
https://www.envestnet.com/sites/default/files/documents/Aite-Advanced-Technology-Integration-White-Paper-FINAL.pdf

Without this integrated platform, advisors can't effectively create a cohesive client experience, online or off. Advisor technology must evolve to not only delight the client but provide them with the information or outcome they desire in a simple way that doesn't involve unnecessary activities or wasted time. Clients deserve the same highly intuitive experience they get from every other experience outside financial services, and so do advisors. The integration of platforms means giving a frictionless experience to your clients, but it also means empowering advisors with a system that allows them to provide value beyond a doubt, uncover opportunity, and introduce new solutions based on more informed decisions enabled by technology.

CONNECTING-THE-BUILDING-BLOCK-DOTS

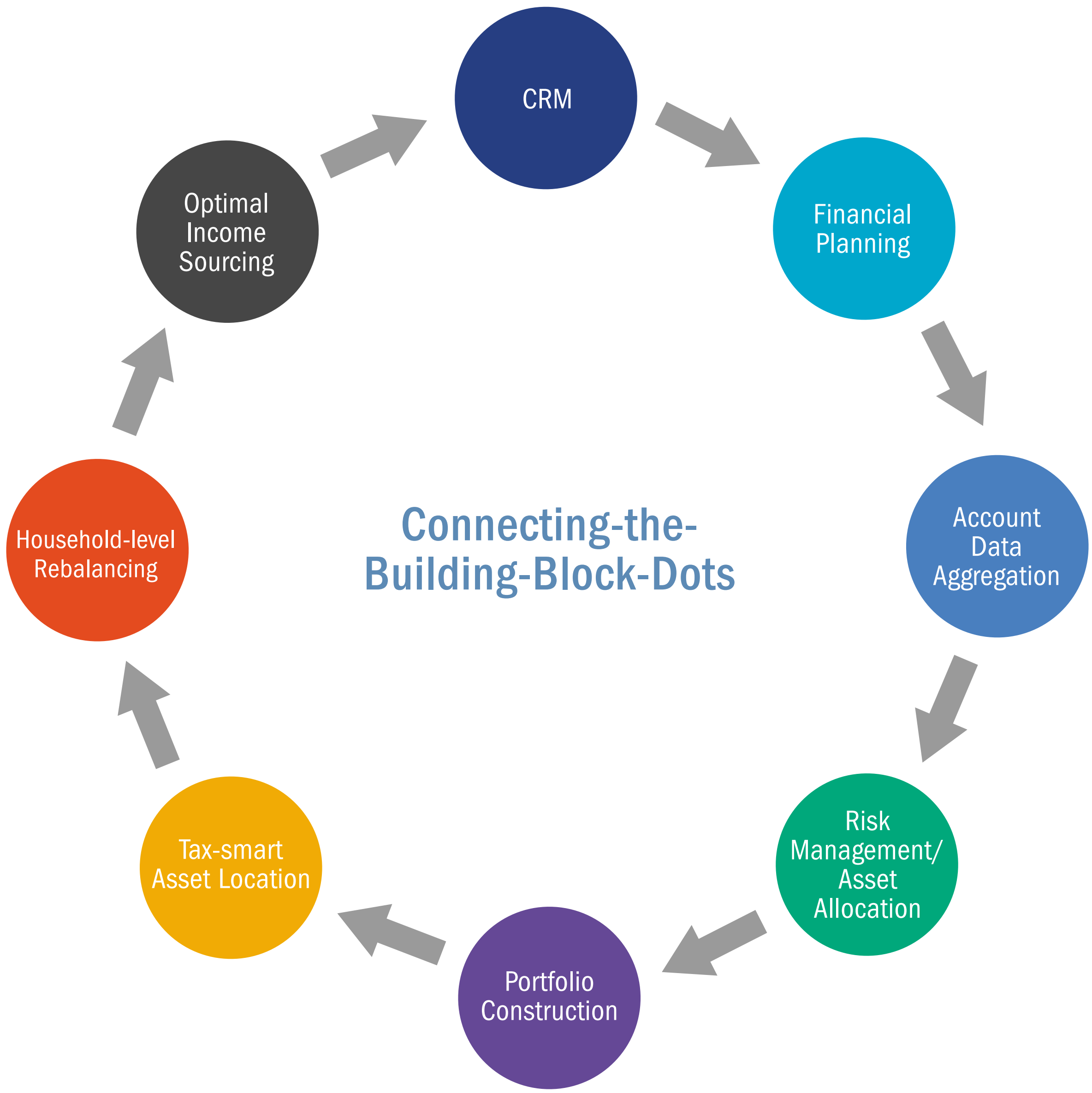
Wealth managers, product manufacturers, and technology providers are working together to create platforms designed to help advisors plan, optimize, coordinate and quantify the financial benefit of managing household accounts in a risk-smart and tax-smart way. This comprehensive and optimal approach will dominate the investment landscape in the coming years.

The capabilities the industry is connecting to create comprehensive and coordinated platforms include the following:

- Customer Relationship Management (CRM) Systems that allow advisors to segment their books and position the most relevant offerings to their clients and enable them to personalize and target their offerings and advice for their clients
- Client and advisor portals to store, manage and communicate all a client's financial information
- Financial planning applications, which provide comprehensive financial and tax advice across investments, banking, insurance, and lending solutions and consider a client's assets, liabilities, and potential for earnings ("human capital")
- Account data aggregation of all the investment holdings in a household held at various custodians
- Holistic risk management and supervision capabilities that support clients and connect with their goals and the way they view their world, which leads to improved investor outcomes
- Portfolio construction and investment and product proposal generation which align products to goals
- Account opening and onboarding platforms to streamline enrollment and funding
- Tax optimization across multiple products and account types to ensure tax-smart asset location
- Ongoing household-level management and rebalancing of all holdings, products, and accounts, including advisory models, brokerage holdings, and annuities
- Optimal income sourcing and sequencing from multiple accounts, products, and other income sources such as Social Security and pensions, as well as Roth IRA conversions
- Trading platforms to make appropriate buys and sells to maintain the target asset allocation, risk and asset location targets, and intelligent withdrawals across multiple accounts and products
- Household-level reporting to provide clients with a holistic understanding of their financial picture

The technology exists. What's been missing until recently is integration—the connective tissue to bring all the above together in a coordinated way. An integrated platform should be flexible enough to support the varied advisor types and unique ways they serve clients. The platform must enable those key interactions—the handholding, understanding, interpretation, experience, and guidance—that only a human advisor can provide.

Financial advisors who manage the full household in a coordinated, optimal way benefit by providing a differentiated level of advice, enjoy greater practice efficiency, and attract held-away assets while increasing retention of current client assets. Increased asset consolidation is a key driver behind this megatrend because the software exists to demonstrate a quantified financial benefit for both the investor and the advisor.



BUILDING BLOCK DETAILS

BUILDING BLOCK	KEY CAPABILITIES	IMPORTANCE	PLATFORM EXAMPLES
CRM; Client Portals	• Designed to act as platform for managing a company's interaction with current and potential clients • Use data analytics to provide the customer a personalized experience based on their history and preferences	Omni-channel access to relevant data improves business relationships, increases customer retention, and ultimately drives sales growth	**Black Diamond** **eMoney** **Envestnet** **Fiserv** **ForwardLane** **InvestCloud** **Junxure** **Pareto CRM** **RedTail** **Salesforce** **WealthBox CRM**
Financial Planning	• Provide advice across a client's entire balance sheet inclusive of retirement, budgeting, insurance, banking, lending, etc. • Enable the opportunity to provide holistic advice ("life" advice) and provide the full benefits of the firm	The client will have more control and peace of mind with their individual financial situation; it also enables a "trusted advisor" relationship	**Advicent** **Advizr** **eMoney** **Envestnet** **Figlo MoneyGuidePro** **RightCapital** **Wealthcare**
Account Data Aggregation	• Pull together outside accounts to give the client and advisor a view into the client's full financial picture • Get insights into transactional and behavioral data that would not otherwise be available to the advisor	Advisors can provide more targeted recommendations and could potentially apply advanced analytics to get insights into a client's behavior and preferences	**eMoney** **Envestnet** **Morningstar** **Quovo**
Risk Management/ Asset Allocation	• Design a personalized asset allocation aligned to each goal • Create a 'glidepath' that gradually adjusts an allocation to account for cash flows and adjustments to a risk profile over time	A personalized investment strategy based on an individual client's goals and risk tolerance provides value beyond self-service and basic digital tools	**BlackRock Solutions** **Corfinancial** **Hidden Levers** **Morningstar** **Riskalyze** **Wealthcare**

Portfolio Construction/ Investment, Insurance and Product Proposal	• Provide an investment transition plan that provides an approach to the target state while keeping tax impacts to a minimum
	• Guide the client through the five levers in the "goal trade-off" process
	  • Save more or less
	  • Retire earlier or later
	  • Leave more or less estate
	  • Spend more or less
	  • Take on more or less risk
	• Seamlessly connect asset allocation, goals, and risk profile to advice and products
		An informative and easy to navigate proposal process can help make a sale and drive advisory and insurance revenue	**BlackRock Solutions**
			Envestnet
			Informa
			Wealthcare

BUILDING BLOCK	KEY CAPABILITIES	IMPORTANCE	PLATFORM EXAMPLES
Account Onboarding and Funding	• Simplify the account opening process through digital tools that engage the client through automation and self-service • Reduce time to fund via intelligent tools for KYC, AML, and asset transfer	Reduces the pain clients feel to open accounts from manual steps and paperwork, and reduces latency to fund and invest accounts for clients and advisors	**Appway** **DocuSign** **Kofax** **Pega**
Tax-smart Asset Location	• Optimally align assets to registrations/accounts that will minimize the long-term tax impact to the client • Create a plan to journal assets where possible and without disrupting achieving a client's goals	Will help clients minimize individual taxes and increase after-tax returns without increasing risk	**LifeYield** **Wealthcare**
Household-level Management and Rebalancing	• Identify trades across all accounts for a household for all investments • Maximize returns and minimize risk for all household wealth	Allows for the full investment allocation to be spread and managed across all client accounts to take advantage of tax benefits and can increase overall return	**Black Diamond** **Envestnet** **LifeYield** **MyVest** **Orion** **Vestmark** **Wealthcare**
Optimal Income Sourcing	• Allow for clients to identify income sources across all accounts • Draw down assets to free up cash to minimize the impact of taxes	Clients in retirement will want to maximize their retirement "paycheck" and may not want to purchase a high fee annuity	**LifeYield**
Trading Platforms	• Handle all security types (equity, fixed income, funds, ETFs, alternatives) • Provide scalability and capabilities for large volumes of accounts across multiple execution platforms	Allow for multiple security options to provide maximum flexibility for client to achieve goals	**BlackRock Solutions** **Charles River** **Fiserv**
Household-level Reporting	• Provide a consolidated playback across all accounts and firm products and services (investments, insurance, banking) • Supply summary information (net worth, assets, liabilities) at the household level	Provide the clients and advisors with a complete view of an individual's financial information and allow for comparison to other peers/cohorts	**Addepar** **Black Diamond** **BNY Mellon's Albridge** **Envestnet**
Insurance/ Protection	• Provide an analysis of insurance needs (disability, life, LTC) • Allow for inclusion of insurance products in asset allocation and playback (e.g. annuities)	Enable advisors with the ability to analyze holistic risk to the client and provide protection options to preserve income in retirement or protect against catastrophe	**Envestnet** **Ladder** **PolicyGenius**

WHAT'S IN IT FOR THE FINANCIAL ADVISOR?

The time has never been better to pursue a transformational approach and build a modern advisory platform that: is client-centric and digitally-enabled; uses a platform thinking approach; and provides holistic access to the breadth of wealth management services. However, to make this a reality, advisors will need to change how they work with their teams and their clients. To be successful, advisors will need to:

- Deliver solutions rather than products
- Provide actionable insights across the entire "wallet" of their clients
- Use advanced tools that may require training
- Focus the conversation on what matters to clients and achieving their goals
- Simplify the portfolio construction process by allowing clients to align portfolios to goals, reduce the use of acronyms and product names, minimize taxes, and make investments easily understandable and closely match investor preferences and risk tolerance
- Supervise portfolios at the goal rather than the account or relationship level

TWO LEADERS

Many industry leaders have started this transformation, which has resulted in benefits such as asset growth and greater operational efficiency. The leaders in the space to date have been Bank of America Merrill Lynch and Morgan Stanley.

MERRILL LYNCH

Merrill Lynch One (ML One) was launched in September 2013. By 2015, this offering held $157 billion in assets under management with $37 billion being net new assets from existing clients—the equivalent of an additional 25 cents in new money for every dollar moved to ML One, according to *The Wall Street Journal*.[14] What is most interesting, there was no direct financial incentive for advisors to transition new clients onto the platform. Rather, many advisors saw the new platform as a better way of doing business and proactively moved customers because it made sense (e.g., it takes an average of 10 minutes to onboard a new client, according to Merrill Lynch spokesman Matthew Card.[15])

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14 Michael Wursthorn, *New Merrill Lynch Platform Is Luring Assets*, October 2014. https://www.wsj.com/articles/new-merrill-lynch-platform-is-luring-assets-1413403034

15 Megan Leonhardt, *Merrill's New Advisor Platform Sees Early Success*, July 2014. https://www.wealthmanagement.com/wirehouse/merrills-new-advisor-platform-sees-early-success

MORGAN STANLEY

In November 2018, Morgan Stanley announced the launch of the WealthDesk platform they had been building over the past three years. WealthDesk represents a fundamental shift from product to platform delivery by integrating financial planning, account aggregation, risk-smart and tax-smart advice, and implementation—all on one platform for advisors focused on building holistic, goals-based solutions for clients. The platform combines these four key elements:

1. An integrated portal to organize client households and accounts tied directly to wealth management applications and data to drive best-in-class practice management
2. Planning, advice, and risk as the underlying unified suite of core applications to deliver goals-based solutions, making actionable:
   a. Holistic portfolio advice that integrates the firm's Goal Planning System, which incorporates LifeYield's tax-smart asset location recommendations across multiple accounts, and maintains the household level asset allocation;

   b. Ease of use, scaling, and efficiency to the investment process through new consolidated portfolio building applications; and

   c. Portfolio risk analysis that utilizes capabilities from BlackRock Solutions to test risk and assure portfolio quality.
3. Relationship fee capabilities that provide household pricing, and
4. A consolidated playback that eliminates the need for the client to receive multiple reports and drives a holistic view of client engagement to deliver advice and solutions over time.

The platform incorporates a series of enhancements designed to simplify the advisory process for clients and advisors and support the modern wealth client looking for lifelong guidance.

MANY MORE TO FOLLOW

Many more wealth managers and RIAs, asset managers, defined contribution and annuity companies, as well as tech and software firms, are developing, collaborating and combining capabilities to build platforms that will compete on their ability to improve investors' outcomes while making it easier for the advisor to provide guidance.

CONCLUSION

A client relationship that was once managed across multiple disjointed applications and platforms can now be managed on a single, integrated platform, enabling advisors to easily manage all financial dimensions of their clients—from banking to investing to insurance—across all life stages from accumulation through retirement. Advisors are now able to create a plan, customize their advice, make smarter, data-driven decisions, and “see” the client through the crowd, creating a more streamlined experience with more meaningful conversations.

As technology evolves and client expectations continue to grow, financial services leaders are embracing the clear advantages of becoming a “one-stop-shop” for all a client’s financial needs, including planning, investment management, banking, lending, and insurance. To move the ball forward, providers will need to invest in their client- and advisor-facing technology to create simple, intuitive ecosystems that connect the dots by collaboratively articulating goals, managing risks and taxes, and demonstrating how to maximize the accumulation of assets to support a client’s goals.

Traditional wealth providers are already behind. Without advancement they will find themselves further behind as more aggressive players make substantial investments and advances in these rapidly evolving integrated platforms. The leaders are already investing in data and advanced analytic tools such as machine learning and artificial intelligence applications to help advisors personalize the experience or perform better risk monitoring that can quickly identify potential variances and ensure alignment with client objectives. Advisors will need to provide holistic insights into a client’s full financial picture to help organize, prioritize and maximize their financial life.

Modern Wealth:

The Roadmap to Improved Investor and Advisor Outcomes

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