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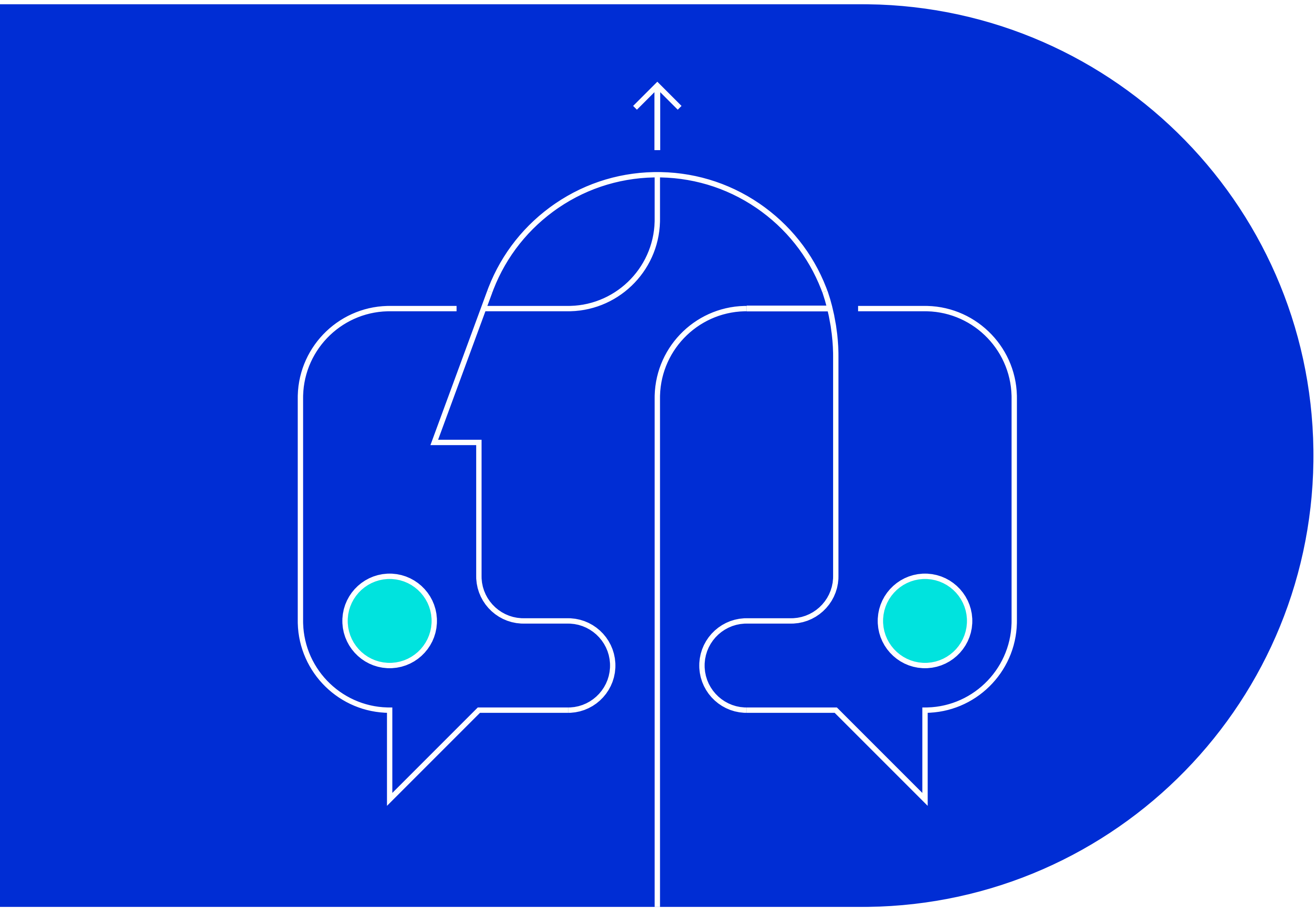

Advisors unleashed: Building trust and deepening client connections in an evolving, digital financial landscape

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In the dynamic world of financial management, advisors are increasingly challenged to justify their roles and demonstrate unequivocal value to clients.

The advent of online financial tools and the rise of “finfluencers” have empowered individuals to manage their finances independently, prompting a critical assessment of the need for professional advisors. However, the role of advisors remains indispensable, especially when technology and people are leveraged to augment service efficiency and effectiveness.

For example, younger investors need financial advisors more than they think. While they tend to be confident in their ability to choose investments, younger investors score poorly on financial knowledge, which tends to improve with age. Investors under age 30 had a financial literacy score of 38.6% compared to 45.8% among those in their 40s and 58% for those in their 50s.[1]

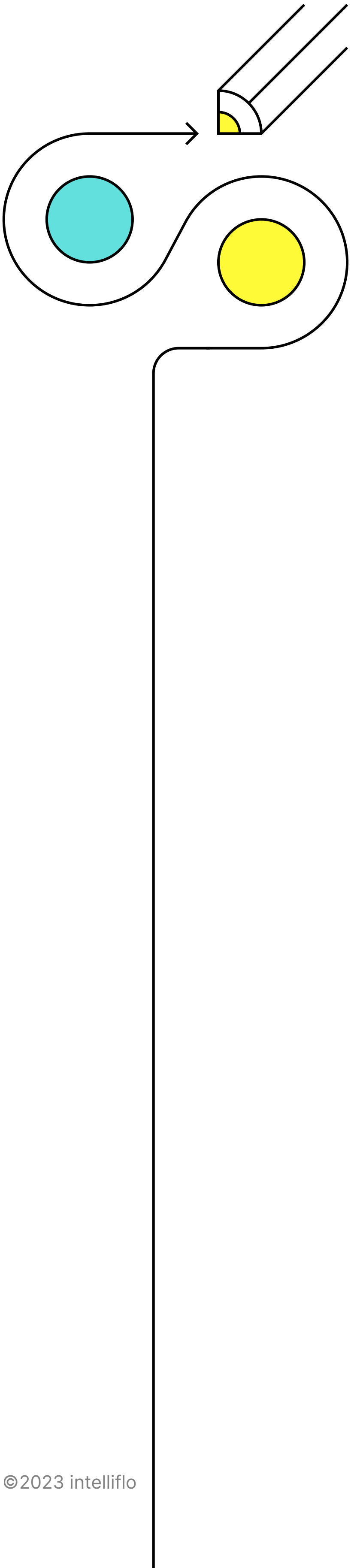
Changing client expectations and diverse financial goals, varying across different demographics and niche segments, necessitate a more tailored and proactive approach from advisors. The significance of trust and transparency in building deep, lasting client relationships cannot be underestimated—and the need for clear communication in financial planning, advice delivery, and investment reporting is unmistakable.

These shifting requirements also underscore the importance of technology to enhance advisory services. Investing in modern, flexible technology architectures with intuitive interfaces is crucial for better client relationships, operational efficiency, and business growth.

Here, we delve into the evolving financial advisory sector, addressing key issues and opportunities that shape the future of advisor-client relationships.

Four main reasons why investors need financial advisors

Ultimately, the mission of financial advisors and wealth managers is to guide their clients toward financial freedom—a state where they can enjoy life without financial constraints. As a financial advisor or wealth manager, one of your most important missions is to help your clients achieve this goal, whether that means retiring comfortably, sending their children to college, or preserving a multi-generational legacy. Here are the main reasons clients need advisors:



1. Planning for retirement

Retirement planning is a critical aspect of everyone's financial journey and, by far, one of the most common reasons investors look for a financial advisor.

Nothing in recent memory has changed the retirement savings and distributions rules as The SECURE 2.0 Act of 2022. SECURE 2.0 presents obstacles and advantages for advisors looking to help their clients prepare for retirement and manage their estates. One crucial aspect to consider is tax planning. Technology is becoming a key advantage for advisors to navigate the tax and estate implications of SECURE 2.0 and ultimately help their clients best plan for retirement while managing the complexities of required minimum distributions (RMDs).

2. Goal-based and life event planning

Life is unpredictable, filled with milestones and significant life events such as marriage, purchasing a home, starting a family, changing careers, or retiring. Preparing for these pivotal moments requires sound portfolio management, informed decision-making, and personalized guidance.

Unsurprisingly, more consumers are looking for goal-based planning services than traditional investment advice. A recent study indicated that 52.5% of investors primarily sought help meeting financial goals, while 47.5% felt that investment evaluation was a more valuable service.[1]

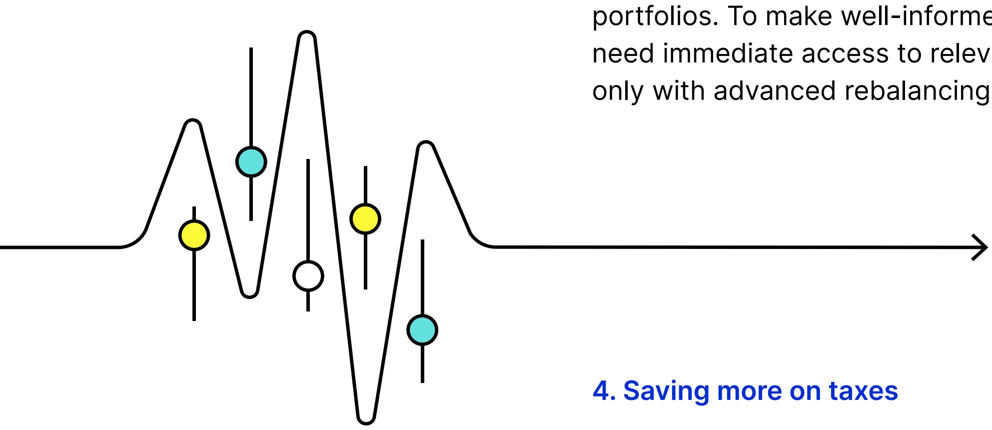
As a result, financial advice technology is revolutionizing how advisors help their clients prepare for and navigate significant life events and timelines, driving more financial institutions to make digital improvements and focus on delivering more personal and customized advisory services.

3. Staying objective, long-term, and on track

Market volatility can occur briefly, and trying to time the market can be risky. One valuable way financial advisors deliver value for clients is to help keep them invested during hard times.

More than half of surveyed advisors (51.30%) said stock market volatility was the most common reason clients reached out to them in the first quarter of 2022.[2] Financial advisors can encourage clients to stay committed to their long-term investment goals. Staying invested over the long term is often the most effective way to achieve their objectives.

Ongoing fluctuations in the market highlight the necessity for advisors to swiftly observe and tactically adjust their investment portfolios. To make well-informed decisions on a large scale, they need immediate access to relevant information, a goal achievable only with advanced rebalancing and trading technologies.



4. Saving more on taxes

Advisors can add significant value to their clients' portfolios by managing tax consequences, particularly through tax-loss harvesting and planning for capital gains. Clients aiming to reduce their tax liabilities on expected gains can benefit from tax-loss harvesting, which can produce losses that contribute to tax alpha, ultimately lowering their year-end tax bills.

Advanced rebalancing technology facilitates tax-efficient investing, allowing for systematic and ongoing tax-loss harvesting. However, implementing a tax-aware investment approach should extend beyond an annual event. Consistently applying tax-sensitive rebalancing methods throughout the year is crucial to adhere to clients' investment policies and achieve their tax efficiency objectives.

→ Why do clients leave their advisors?

As Theodore Roosevelt said, “No one cares how much you know until they know how much you care.”

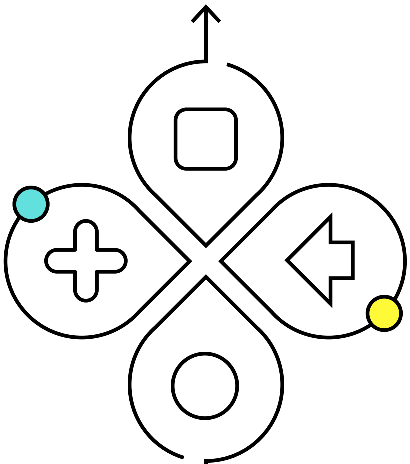
Finances are highly personal because they are closely tied to people’s identity, self-worth, and well-being. Once a client engages an advisor, it is a personal bond. And that bond will only be broken if a fracture in the relationship grows into something large enough to break trust.

What causes such a break? Fear, insecurity, low quality of service, disappointing returns, and lack of understanding. But surprisingly, unhappiness with returns was not in the top three.

Surveyed clients said the top three reasons they fired their advisors were: Quality of financial advice/services (32% of responses), Quality of relationship with the advisor (21%), and Cost of services (17%).[3]

→ Leading with client experience

By focusing on the client experience, advisors can build strong relationships with their clients and position themselves as trusted advisors, ultimately leading to increased retention and referrals, which can drive business growth.



Tailored advice

Providing a high-quality client experience can involve several factors. First, more clients want a level of personalized financial advice that was once limited to institutional and affluent investors.

More than half of the investors surveyed felt the advice they receive is too generic, and among high net-worth investors with $10 million or more in personal wealth, that percentage jumped to nearly 90%.[4] In addition, 34% of investors said they would increase their investments if they received a hyper-personalized experience. [4]

Information access

Keeping clients informed about their investments, performance, and any changes to their portfolio can help build trust and show that the advisor is working in the client's best interests. Doing this personally and tailoring services to meet each client's specific needs and goals can show that the advisor is committed to helping them achieve their financial objectives. Clients and advisors alike are looking for ways to make it easier for clients to access information and communicate more seamlessly.

Transparency

Clients expect clear information about fees, strategies, and risks, and they want to understand the services they're paying for and the reasons behind them. Open and transparent communication fosters trust. However, even with a financial advisor's clear disclosure about fees, clients may still find it challenging to assess the true value of the advice they receive.

Financial advisors are expected to be completely transparent about their costs. Wise advisors will respond candidly to inquiries and view these discussions as opportunities to showcase their skills and set themselves apart from competitors. This could involve highlighting their specialized focus on niche markets or their proficiency in handling matters related to taxes, risk, and insurance.

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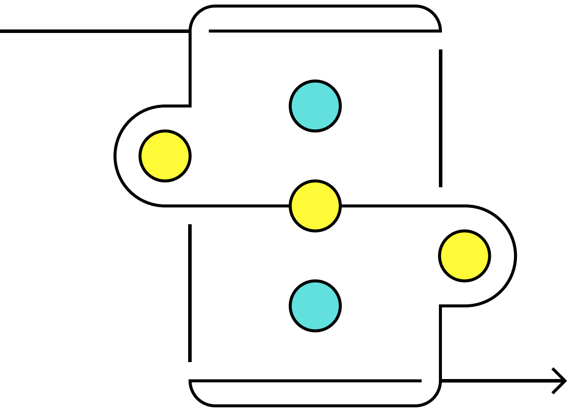
→ Leveraging technology for client acquisition and retention

Technology helps automate and scale routine tasks such as portfolio rebalancing, performance reporting, client communication, understanding financial objectives, and risk management. As a result, advisors can allocate more time to value-added activities like developing innovative investment strategies and enhancing client relationships.

Advisors can significantly improve their efficiency and productivity by integrating technology, automating processes, and outsourcing certain functions like investment management and research. This leads to the ability to scale operations without becoming overwhelmed by work and cater to the needs of various client demographics and segments.

Here are several areas that can significantly impact an advisor's ability to strengthen their client relationships:



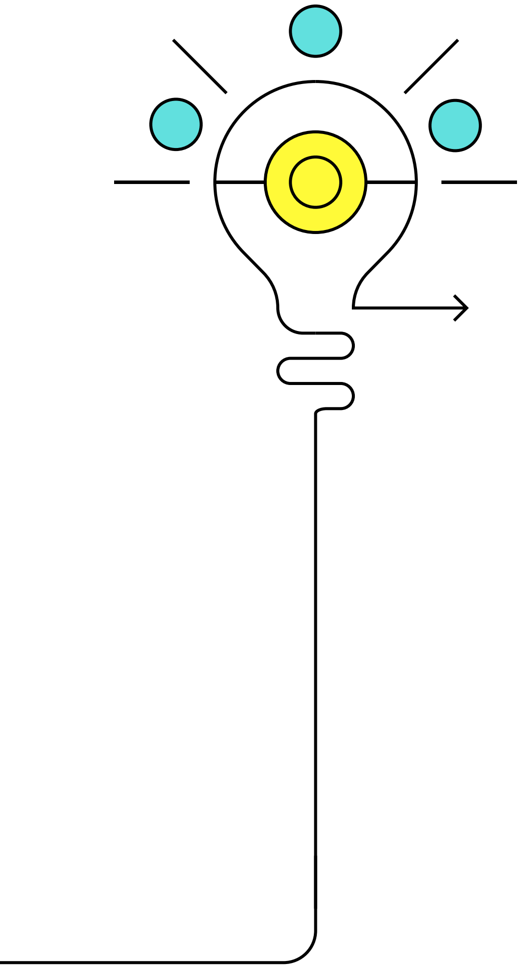
Positive client experiences

Clients are more likely to remember how their financial advisor communicated with them and demonstrated transparency and partnership. Maintaining consistent communication and trust-building with clients is crucial to bridge the gap caused by market fluctuations and other behaviors.

Utilizing online platforms and mobile applications for client engagement allows easy access to investment portfolios and financial data. Technology can effectively streamline interactions, foster trust, and enhance the bond between advisors and their clients.

In addition, customer portals and applications can help an advisor's clients better manage their finances, stay organized, and achieve their financial goals. Leveraging these tools also provides a convenient and secure way to access financial information and transact from a mobile device or computer such as:

- Budgeting, expense, and investment tracking: Allows clients to create a budget and closely track their expenses and investments, monitor performance, and adjust portfolios accordingly.
- Bill and loan management: Enables clients to quickly pay their bills electronically and set up recurring payment schedules, and help manage their loans by monitoring payments and interest rates.
- Financial goal setting: Increases clients' ability to create and pursue financial goals by setting and tracking goals within the platform.



Outsourced investment management

A straightforward approach for advisors to create more time for client engagement is by outsourcing investment management. Fifty-two percent of advisors agree that the primary driver in their decision to outsource investment management is enhanced efficiency and productivity, which allows them to spend more time with clients.[5]

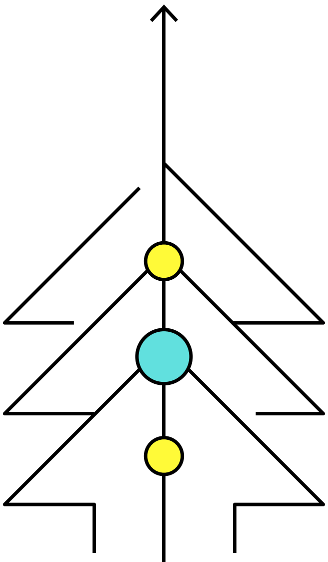
According to Cerulli data, less than half of financial advisors use model portfolios from third-party investment managers.[6] However, this trend is on the rise, and Cerulli predicts that the assets managed through these models could double by 2025.[6]

Outsourcing the labor-intensive middle and back-office tasks associated with investment management allows for more focus on client interaction and business growth. This means less time devoted to investment research, manager vetting, building portfolios, reconciliation, generating performance reports, tax optimization, preparing statements, and handling invoices.

Outsourcing can also be less costly with the eliminated overhead of hiring traders and operations talent or buying and maintaining technology, such as rebalancing and trading. In fact, 58% of advisors say outsourcing reduced their operating costs.[7]

Advisors who want to avoid becoming engaged in portfolio manufacturing and maintenance have been interested in turnkey asset management platforms (TAMPs) as a part of investment management outsourcing. TAMPs allow advisors to scale sales, servicing, and operations activities while increasing their focus on higher-level functions like financial planning.

Advisors looking to steer clear of getting involved in the creation and upkeep of portfolios are showing more interest in turnkey asset management platforms (TAMPs) as a means of outsourcing investment management. TAMPs enable advisors to expand their sales, service, and operational activities while dedicating more attention to higher-order tasks such as financial planning. Eighty-eight percent of advisors outsourcing investment management believe doing so has positively impacted their firms.[5]



Streamlined operations

RIAs are pressured to cut operational costs, increase profit margins, and free up team members to do more creative work that adds value. With technology, advisors can enhance their operational workflows, help them make better decisions, and provide improved service to clients, ultimately fostering business growth.

However, one of the biggest challenges facing financial advisors today is finding an ideal balance between growth and efficiency. Data from Cerulli shows that, on average, practices serve 143 clients per producing advisor.[8]

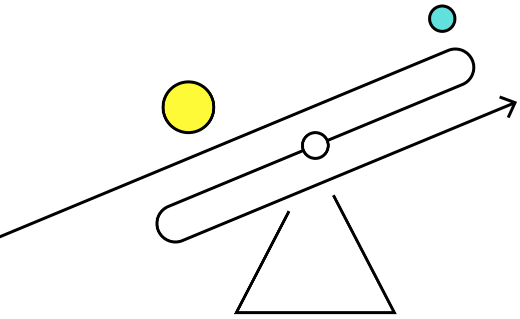
Advisors often handle many responsibilities related to client service and business management. Focusing on essential tasks—only those they can perform—while outsourcing or delegating to others can lead to significant time savings and increased productivity.

The top advisors are leveraging various outsourcing opportunities in investment management:

- Models: 95% have practices based on models, significantly reducing time spent customizing investments. They are also three times more likely to outsource model development and management.[9]
- Trading: 70% employ rebalancing tools, making them 60% more inclined to use automated trading solutions, thereby saving routine model rebalancing time.[9]

Rebalancing technology can empower advisors to make better investment decisions in real time, give clients better service, and provide the scalability that allows growth. These gains can allow advisors to spend more time each day talking with clients, reach new client segments, and expand their businesses.

In addition, dependence on key personnel is a common challenge for independent advisors, especially in smaller offices. Ensuring that each staff member can undertake the responsibilities of another is a critical aspect of resilience. By operationalizing and standardizing processes, the expertise becomes embedded in the firm's processes and culture, mitigating the impact of a key person's departure.



Continuous or "active" rebalancing

Regardless of market conditions, continuous portfolio rebalancing plays a crucial role in maintaining an appropriate risk-reward balance in a portfolio while representing a vital aspect of an advisor's value.

A landmark study by Vanguard revealed that "rational" rebalancing helps improve risk-adjusted returns compared to non-rebalanced portfolios over various market cycles.[10] And a recent Oxford Academic paper hypothesized the optimal policy for the investor is to continuously rebalance to fixed portfolio weights, even for relatively small portfolios.[11]

In addition, advisors can improve their efficiency and productivity in handling regular, on-demand, and continuous portfolio rebalancing reviews by leveraging outsourcing and sophisticated technology. The critical factor is having the ability to tailor options and adjust to business expansion and shifts.

Customized and adaptable outsourced services can offer a more efficient and cost-effective alternative for advisors, whether they require additional technology or people. These services contribute to time savings, enhanced compliance monitoring, improved efficiencies, and strengthened business resilience.

Personalization and segmentation

Advisors face higher client expectations as we move past the extended bull market and exceptionally low interest rates. More diverse clients seek enhanced personalization and attentive services, more accurate information, and broader access to alternative and sustainable investment options.

Personalization can drive performance and better customer outcomes, and companies that excel at personalization generate 40% more revenue from those activities than average players.[12]

Hyper-specialization within niche client segments is a strategic move that allows advisors to stand out and cater to specific needs. Advisors are being called to tailor their services more specifically for clients while offering a more comprehensive range of standard services across their entire customer base, creating challenges in scaling and growing. This is prompting advisors to explore different technology solutions and outsourcing options.

Household relationships

A recent report from Cerulli suggested that, as fee-based financial advice combined with financial planning becomes the industry standard, financial advisors must find new ways to differentiate their practices.[13]

One way they can do so is to aggregate client relationships on the household level rather than focusing on individual account-level relationships. Cerulli also expects that “householding” will become more common beyond 2023, as it gives financial advisors greater opportunities to customize portfolios and can allow for more efficient tax outcomes.[14]

For wealth managers, streamlining and consolidating wealth management platforms is a significant priority for 41% of managers in 2023.[14] However, the potential benefits of householding and the stronger outcomes it can create are apparent. Nearly three-quarters of wealth managers say consolidating to a unified managed household (UMH) is a priority for their firm moving forward.[14]

Householding offers financial advisors an extra chance to tailor their services to perfectly match their clients' needs, while also providing the much-desired benefit of tax savings. Advisors who can implement a household-level view have a better chance of standing out from their peers and retaining client assets.

→ Building long-term client connections—and their trust

Advisors are essential in guiding clients through the intricate realm of financial planning and investment management. By remaining responsive to your clients' needs, you can establish yourself as a reliable and trusted advisor over the long haul.

Financial advice technology and outsourcing empower advisors to better help their clients prepare for major life events. Rebalancing, trading, and expertise are vital to an advisor's ability to minimize risks and help clients pursue their life aspirations with greater confidence and peace of mind.

They are also helping advisors balance efficiency to scale while deepening their client relationships. The user experience is critical, and advisors face technology barriers that can be hard to navigate. However, technology and service offerings are changing the game to help advisors make the client experience seamless.

Finding the right technology and expertise is crucial to your firm's ability to acquire and delight clients, operate cost-effectively and efficiently, scale to growth—and uncover opportunities to guide clients to meet life events and the moments that matter most.

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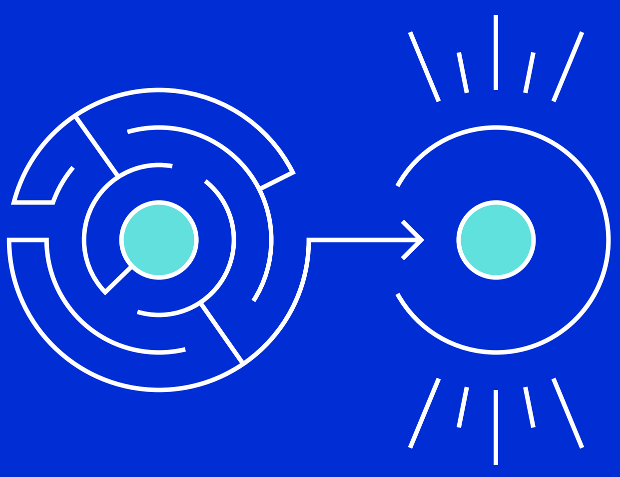

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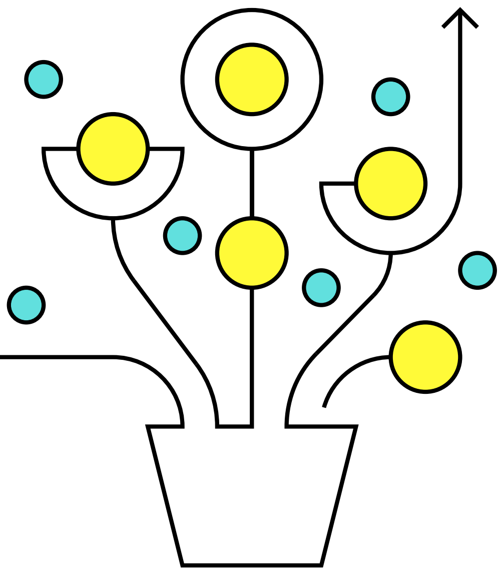
→ About intelliflo

intelliflo widens access to financial advice through leading technology powering the financial advisory experience. We use open software architectures combined with unmatched industry experience to simplify a complex digital landscape to help advisors compete and grow.

Our solutions support over 30,000 financial advisors worldwide, representing over three million end-investors, with over $1 trillion serviced across our platforms.



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