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FA Talks

Three Perspectives on Financial Advisor Value

with Brett Taggart, Claire Mackay, and David Haintz

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FA Talks is an interview series where industry thinkers share their thoughts and perspectives on a variety of market trends and themes impacting indexing.

Any practice management advantages have to be grounded in the relationship side of advice in order to be meaningful. Many clients are savvy, sophisticated business people, giving advisors nowhere to hide. What has been your approach in working with them?

CLAIRE: Our clients are incredibly savvy. They are always assessing us according to the quality of the investment advice we provide to them. In 22 years of business, we have never recommended a client go into an investment that has frozen or has fallen over. When they know that the advice is centered around them and their families and the outcomes that they are focused on, then the questions and the discussions can be raised to an elevated level, and you can only get that when they trust you.

We create our client communication in-house. We take feedback from our clients and try to make our materials interesting. We know our clients are paying us for our insights, and if they know there is interesting information then they are more likely to read the newsletter that they get from us.

It's a very human notion to think one can do it all: can you talk about the decision your firm made about focusing on what you can do best and why you think it will result in more effective service to your clients?

BRETT: Two or three years ago, we made the decision that we would be asset gatherers rather than asset managers. It was liberating once we made that decision because we were then able to start aligning our value proposition. Where do we fit in the value chain? What are our clients paying us for, and how do we actually leverage that? What more experience and expertise can we bring to the table? Having this focus has allowed us more room to search for the world's best asset allocation and ETF portfolio construction for our clients, and this is what's coming to Australia. While there are still some that add value, if you are still using platforms and unitized investments, meaning if you are still doing it the old way, then it is most likely going to be a hard road.

The global advice industry is changing rapidly and further evolution appears necessary. What do you think that change should to look like with regard to client outcomes?

DAVID: I think more and more we will see a clear separation of product and advice. We may see a move from "below the line" to "above the line," meaning that there may be more of a trend from product, investments, shares, and debt toward people, goals, aspirations,

and outcomes. I think we will see a much greater shift toward the client's centricity. Right now in Australia, we are seeing more client-centric customer relationship management coming that would be better for our businesses, practice management, and our clients. PractiFI and Salesforce are great examples, and they help us to be more efficient.

What is your experience regarding how to implement ETFs and indexing engines into strategies to generate firm growth?

BRETT: The ETF selection process and the construction of portfolios have been quite dynamic. Our clients are seeing fees, they know how ETFs work, and they understand the market. So, I spend more time in conversations with them. ETFs are tools that help us better educate our clients about global allocations and diversification. They are transparent, and we can see the stocks that are owned underneath when breaking it down. We have an ETF with physical ownership and we are able to deliver 5,000 different securities with just a single product.

David, you coach advisors to focus on growth and metrics. What, in your experience, is the value of implementing that approach?

DAVID: From a metrics perspective, I think we need to get the efficiency right. If we can get some scale and some efficiency "below the line," we may see a trend toward implemented portfolios "below the line" and get the focus on the real value proposition of clients' goals and aspirations. We educate our clients and tell them that it is not all about picking active fund managers. S&P DJI's SPIVA® Scorecard metrics show us that 70% of active managers around the world are detracting value when compared with their benchmarks.

A clear symptom I see, which stems from having the wrong focus and Customer Value Proposition, is a lack of referrals coming to advice businesses and a lack of organic growth.

Apart from client centricity, I think advisors need to get much better at articulating and demonstrating their tangible and intangible values. The tangible value is saving money through advice strategies. The intangible one is having a good relationship and helping our clients "sleep better at night."

Claire, you noted that ETFs are boring. Maybe you can explain what you mean and also address how you discuss the mechanics of ETFs and how they can be used as potential tools by market participants.

CLAIRE: ETFs don't sound exciting and with passive investing all I can get is the average. Unlike active fund managers, index-based ETFs can't outperform. In a way, I tell the ETF providers to embrace being boring because I'm not trying to beat market performance, I'm trying to achieve my clients' goals. It is not an arbitrary need to beat the S&P/ASX 200 that is important. What is important is that I need "X" amount every year for the next 30 years. Clients don't care about the technicality of ETFs, but they do care if we can hit their goals. What we are actually doing is aligning our portfolios to the clients' goals and objectives. I find it helpful to tell stories to clients that put ETF use in a context they can understand by discussing sectors and/or strategies that they are familiar with, like I would mention if an ETF tracks the S&P Global 1200 Health Care Sector Index for clients who are doctors.

An approach that many advisors take is to view their primary value proposition as beating a benchmark. Does your definition of advisor alpha differ from that view?

DAVID: I think the vast majority of advisors are still putting forward their proposition as crystal ball gazing at markets, earning their fees by prophesizing the future. However, the returns that our clients are getting are only relevant in the context of their lifestyle, goals, aspirations, and consumption of their money. One of the tools that we have used for 20 years is an interactive lifelong cash flow model. We run through various models with the client, and by "pulling different levers," testing various permutations and combinations, the client can clearly see the potential impact of various tradeoffs. The real focus of the model is the client and their lifestyle outcomes.

How do you connect the financial plan to the investment portfolio?

CLAIRE: I use my analytical skills to explain the "why" for every investment and my clients bring their own knowledge and experience as well. We have robust discussions so they feel comfortable making those decisions. We focus on our communication to ensure clients understand their strategic advice. Our regular e-mails are not just to get out a monthly e-mail; they are because there are really interesting and important subjects that need to be raised.

Investment products are just like Lego blocks for portfolio construction. I explain to my clients how each product fits in as a Lego block. I provide explanations and vignettes so that my clients can see how each investment fits into their strategy. That way they can better understand how their investments may help them achieve their goals

How are you keeping clients on plan and on goal?

BRETT: First and foremost, we try to keep a plan on goal or keep our goals for our clients by having conversations around risk profiles. We are paid to diagnose and solve, and that is our nature. We have frequent conversations with clients and educate them to understand both the plan and the investments and how they work together to decrease the chances of disruption.

For more information on the advisors participating in our FATalks series and to learn more about the topics discussed at Tactical Asset Allocation in the Australian Market, visit http://au.spdji.com/sp-events/2016-annual-australian-etf-masterclass or watch the replay here.

Thank you again for your participation in our ETF Masterclass event in May, you brought a useful, practitioners' view for how financial advisors can deliver value. Can you share a key point you learned from a peer on this panel or from another presenter at the ETF Masterclass?

CLAIRE: Clients have ultimate control, as they pay our fees. The future is incredibly bright for those advisors who understand what their value add is and those who are constantly seeking to improve how they communicate and deliver that value in a world of rapid technological development.

BRETT: My takeaway from the series relates to the cost of service for an Australian financial services license to retain an authorized representative. ANZ disclosed that the true cost of an authorized representative is AUD 50,000 per person! If advisors think this rate is always going to be subsidized, they may be in for a surprise, and they may need to start preparing for an increase in fees.

DAVID: It's quite clear to me that the best advisors are using an "evidence-based" approach "below the line" and focusing the controllable aspects around goals, aspirations, lifestyle, and outcomes, and they are focusing their service and communication around what the client really needs and values.

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