

# Adding Value in a World of Free

## The New Paradigm for Financial Advisors

Thanks to continual innovation in technology, virtually every cost in the delivery of investment management services has been eliminated or reduced to just a few basis points. As a result, between product innovation and back-end revenue sources, many traditional investment activities, most notably commission-based trading, are now being offered for free. Low-cost robo advisory services are passing the savings on to clients in the form of lower fees. In the face of free competition from major online brokers with millions of accounts, such as Charles Schwab, Fidelity, E\*trade, and even such Wall Street firms as Merrill (through its Merrill Edge subsidiary), the entire industry has gone all-in on free trading.

At the same time, new players leveraging smartphone apps are gaining share, particularly with newer and younger investors. This has led to an explosive surge in investing driven by free trading. And now that the free genie is out of the bottle, it isn't stopping at trading commissions and robo asset management fees. Digital disruptors are offering financial planning, up to now the holy grail of advisors, for free as well.

All of this brings up a thorny question for advisors: How do you differentiate your services and continue to compete in a world of free?

The good news is that, through technology innovation, advisors can continue to differentiate themselves by visibly demonstrating their added value and showing their work. They can coach clients on how they are

helping them avoid mistakes, take advantage of opportunities, manage complexity, and be smart about taxes. Most importantly, they can remind clients they are there for them in times of volatility and uncertainty.

Make no mistake. There is urgency to these trends. Digital disruptors continue to press forward relentlessly. Advisors who don't evolve may see themselves relegated to second-tier status—just look at what has happened in so many other industries disrupted by technology such as taxis, travel, video, music, and retail.

This paper details the trends driving down cost in the industry and explores how advisors can take advantage of technology to visibly and measurably differentiate themselves, while creating a compelling marketing message to continue to grow, compete, and succeed in a world of free.

- Traditional advisory activities including investment management, trading and financial planning are now fundamentally “free.”

## Industry Issues

In October 2019, Charles Schwab eliminated trading commissions, setting off a chain reaction that resulted in massive industry consolidation. Rivals TD Ameritrade and E\*trade were acquired (by Schwab and Morgan Stanley, respectively) as their stock prices fell. Pundits thought this would be the end of the online brokers' profitability. However, with the subsequent pandemic and market volatility, the opposite happened—millions of investors flocked to the markets lured by free trading.

Competitive pressures among the large, online discounters and massive asset managers are pushing traditional brokerage and investment management costs to zero. In reality, however, nothing is ever truly “free.” Big brokers and digital players are making up for lost trading commissions through various non-transparent revenue models, such as cash harvesting, payment for order flow, and mutual fund revenue sharing. These back-end revenue sources, which investors never see, are paying off handsomely for the digital platforms as they achieve massive scale and their volumes continue to rise.

As a result of wide adoption of no-cost trading platforms, trading volumes have skyrocketed. Robinhood opened over three million new accounts in the first half of 2020, and reportedly has almost as many accounts (13 million) as Schwab (14 million).<sup>1</sup> Robo advisors have also made inroads, with nearly \$1 trillion in assets and a projected growth rate of 26%. Schwab and Fidelity's automated platforms jumped on the “free” bandwagon and charge no asset management fees as long as a certain percentage of the client's portfolio is held in cash.<sup>2</sup>

Next up for free disruption is another traditional service offered by professional financial advisors: financial planning. And once again, Schwab is leading the way. These free planning services aren't just an online calculator and a black box—actual Certified Financial Planners (CFPs) are performing these services using Money Guide Pro, professional-caliber software that many independent advisors use.

So that's where the industry has arrived: traditional advisory activities including investment management, trading and financial planning, typically paid for by investors via a 1% fee (\$10,000 per year on a \$1 million portfolio) are now fundamentally “free.” And this happened in less than a year, vividly illustrating the velocity of change and putting advisors in a real bind, requiring an explicit response.

— One-third of respondents who work with financial advisors said they heard nothing from their advisors during the first three months of the shut-down.

## Advisor Alpha

How do you differentiate as an advisor when investors can now get what you traditionally offered for free?

The Vanguard Group conducted a study of the measurable value advisors provide to their clients, rigorously documenting the value that comes from financial planning, wealth management, behavioral coaching, professional investment management and tax efficiencies. That added value, which Vanguard has dubbed the “Advisor's Alpha,” has been quantified at 3%.<sup>3</sup>

Specifically, advisors add value primarily in the areas of:

- Portfolio construction (asset allocation, total return investing)
- Wealth management (portfolio rebalancing, spending strategies)
- Behavioral coaching (changing financial habits, risk management, hand holding)

Vanguard's research (and others') has provided a very logical argument for why investors should hire a professional financial advisor based on an economic ROI. Now, how can advisors bring that to the forefront in a world of free?

The key is to be able to communicate these benefits through an advisor's process, which entails “showing your work” and reminding clients how far they have come in changing their financial behaviors, meeting goals, solving their complex needs, and reducing their tax impact. Advisors can also create more customized portfolios tailored to a client's interests—for example, managing concentrated positions or ESG-focused investments.<sup>4</sup> And a strong advisory relationship contributes in a meaningful way to an overall healthy lifestyle for clients while ensuring they leave a positive financial legacy.

## Delivering Added Value at Scale Takes Technology

Demonstrating the value that advisors add is now easier than ever, thanks to a variety of technology tools available for advisors to leverage. Consider the widespread adoption of video conferencing and online screen sharing—the go-to solution for sustaining relationships during 2020. Advisors who have embraced video are thriving and gaining new clients, while those that haven't are risking defections. In a 2020 study from J.D. Power, one-third of respondents who work with financial advisors said they heard nothing from their advisors during the first three months of the shut-down, while the majority of investors who did hear from their advisors were contacted by phone or email. The report suggests advisors are missing an opportunity to stay relevant in their clients' lives at a time when in-person meetings are not possible.<sup>5</sup>

Another essential tool is a feature-rich, mobile-ready client portal that enables clients to view their portfolios, complete tasks, track their progress, ask questions, voice concerns and celebrate wins with their advisors at their convenience. Firms no longer have to build a proprietary portal from

scratch, but can instead leverage a third-party solution with white labeling to display their own brands. The solution should include comprehensive communication tools that enable advisors to demonstrate graphically how they are contributing to their clients' progress.

On the portfolio management front, rebalancing technology gives advisors a highly effective way to "show their work" and document the savings they are achieving for clients through sophisticated tax loss harvesting, which can add up to tens of thousands of dollars every year. This can be a powerful way to showcase value received for paid professional advice. Advisors can further differentiate themselves by showing clients how they can accommodate ESG considerations using direct indexing to build customized benchmark-tracking portfolios.

## Advancing Professionalism

Rather than letting the "free" trend dictate the direction of the industry, wealth managers and advisors stand to realize significant benefits by proactively addressing investors who value advice and service. Steps to consider include:

**Deliver a new marketing message.** There is clearly a significant market of investors who want to align their values with their investments, reduce their tax liabilities, and work with a professional in times of volatility and uncertainty. Advisors can position themselves as the answer to their needs with a value proposition that taps into these sentiments.

**Expand growth opportunities.** Work-from-home mandates, video conferencing, and digital tools enable you to expand your business beyond your local geography. Tap into new markets for clients, as investors are increasingly comfortable working with professionals remotely without the need for a physical presence.

**De-commoditize investing.** Avoid getting dragged into the race to zero through a differentiated approach to investment management services. Direct indexing, ESG offerings, and tax-efficient investing are among the ways advisors can stand apart from commoditized approaches and rationalize 1% fees.

**Gain scale and productivity.** Leverage technology to easily compare, contrast and construct portfolios, save time and provide digital tools to keep clients involved and engaged.

## Designed to Help Differentiate Your Firm in a World of Free

The Black Diamond® Wealth Platform includes a variety of features and functionality to help you strengthen client engagement while also showcasing your value, including:

**Client View Dashboard.** Through a centralized "command center" you can oversee portfolios in the context of the entirety of the client relationship so you can holistically manage your clients' financial lives.

**Client Experience Portal.** By leveraging a custom-branded, interactive client portal, you can engage your clients in a meaningful way: documenting advisor-client communications, highlighting dynamic portfolio metrics, posting to a secure document vault, incorporating outside account aggregation, collaborative balance sheet reporting, and more.

**Relationship Timeline.** A visual display of all interactions between you and your client. This communication web feed acts as a reminder of the accomplishments you and your client have achieved together.

**Rebalancer.** With proactive notifications and alerts you can easily find hidden value within your client's portfolio.

To learn more about how the Black Diamond Wealth Platform can help differentiate your firm in today's market, please call 1-800-727-0605, email [info@advent.com](mailto:info@advent.com), or visit [blackdiamond.advent.com](http://blackdiamond.advent.com).

## It's All About Peace of Mind

Despite the many free offerings, serious investors see the advantages of working with a professional advisor who has their best interest at heart and is there for them in times of chaos and volatility. Employing the latest technology to keep clients focused and engaged goes a long way toward instilling confidence, demonstrating value and building relationships.

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## At the Heart of Your Business: One platform to support your unique needs.



The Black Diamond® Wealth Platform is an offering of [SS&C Advent](#), a business unit of [SS&C Technologies](#).

An award-winning, cloud-based solution, Black Diamond is designed to meet the complete business needs of wealth management professionals and their clients. Complete with performance reporting, portfolio rebalancing, an immersive client portal, and more, the platform also connects to a vast ecosystem of smart integrations. Proactive, personalized attention from a dedicated service team ensures advisors receive access to an elite combination of technology and service.

Financial management firms of all sizes leverage Black Diamond to streamline operations, deliver business insights, and connect with both prospects and clients to build long-lasting relationships.

To learn more about how the Black Diamond Wealth Platform can support your business and connect you with your clients, call 1-800-727-0605 or email [info@advent.com](mailto:info@advent.com). You can also visit [blackdiamond.advent.com](http://blackdiamond.advent.com).

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