



Wednesday

Pre Conference **Transforming Your Advisory Practice**

1:00 – 2:00

Advisory Services Pricing:

Services & Pricing that transform
you into your clients' MVP

Eric Wilcher - Envestnet

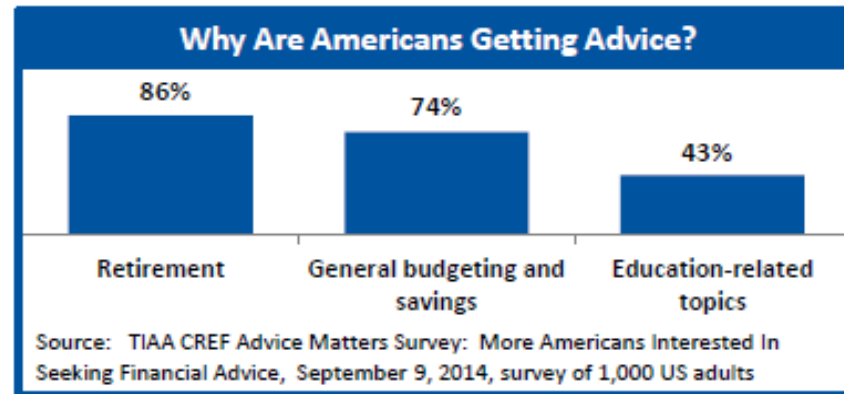


A Case for Advisory

Eric Wilcher
SVP, Envestnet
June 2017

Investors Are Now Seeking Solutions, Not Products...

Investors want to hear advice in terms of their goals!

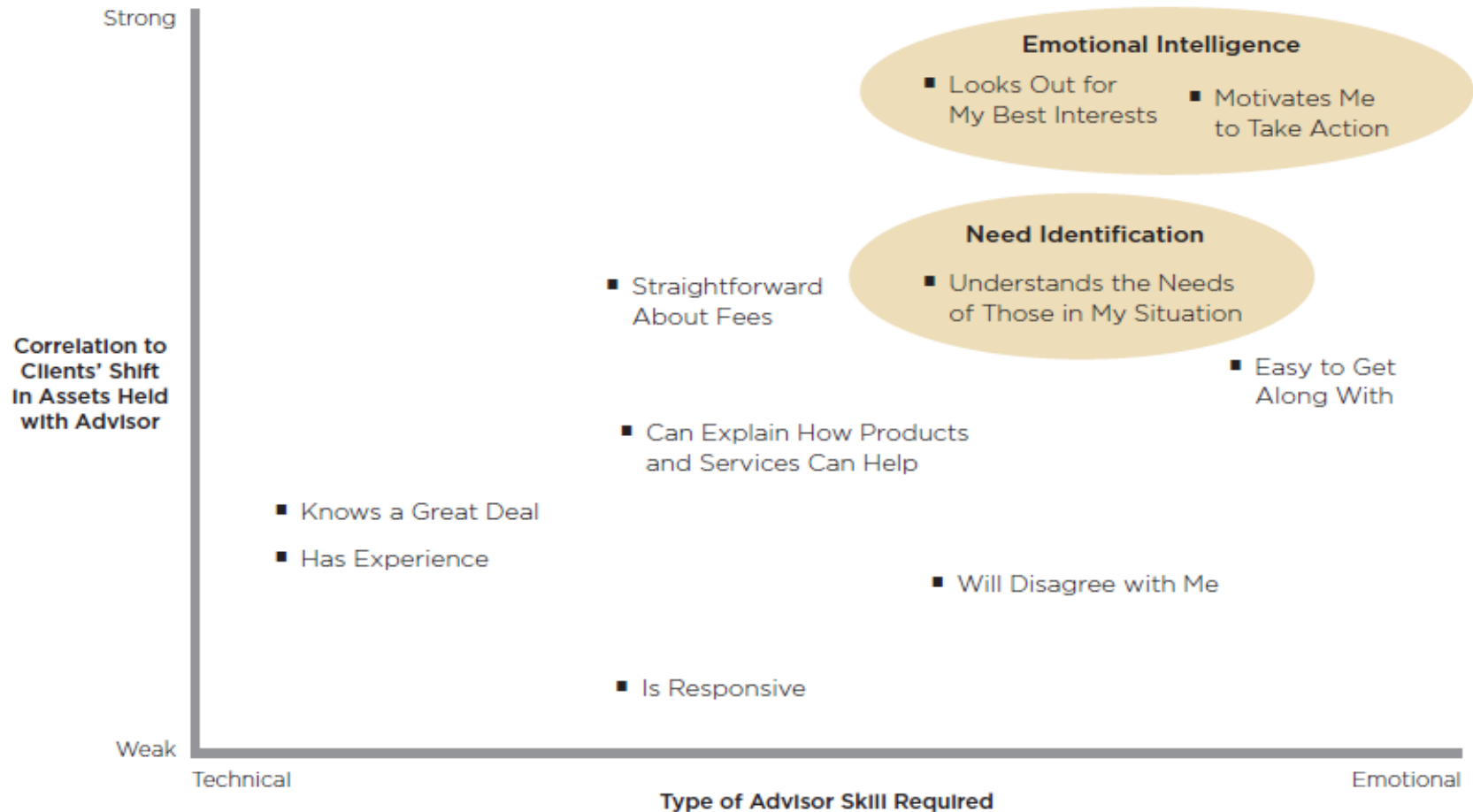


What Services Provided By Your Financial Advisor Do You Find Most Valuable (open-ended question)

| Retirement/College | Full Service | Investment Advice | Allocation Mgt | Tax Planning |
|--|---|---|--|-------------------------|
| Retirement planning and modeling | They take care of everything. I find that useful. | Rational, seasoned advice | Suggestions on how to balance my portfolio | Tax analysis |
| Planning for the future for our children | Knowing I can call him for anything, anytime | Annually reviewing my financial and life goals | Adjusting account as necessary based on my desired risk level | Tax and estate planning |
| Life insurance and 529 plans for our kids | Manages my 401K for me. I don't have to do anything | Recommendations on stocks and bonds to buy | Managing balanced mix of stocks/funds | |
| Retirement and personal life insurance policies | They invest and let me relax and not worry too much | Available for trades and advice when mkt is open | Up-to-date review of allocation of funds & recommended changes | |
| Quarterly portfolio evaluation including review of target retirement dates and funding | They handle where our money goes so I don't have to worry about it. | Recommendations of products I might not be aware of | | |

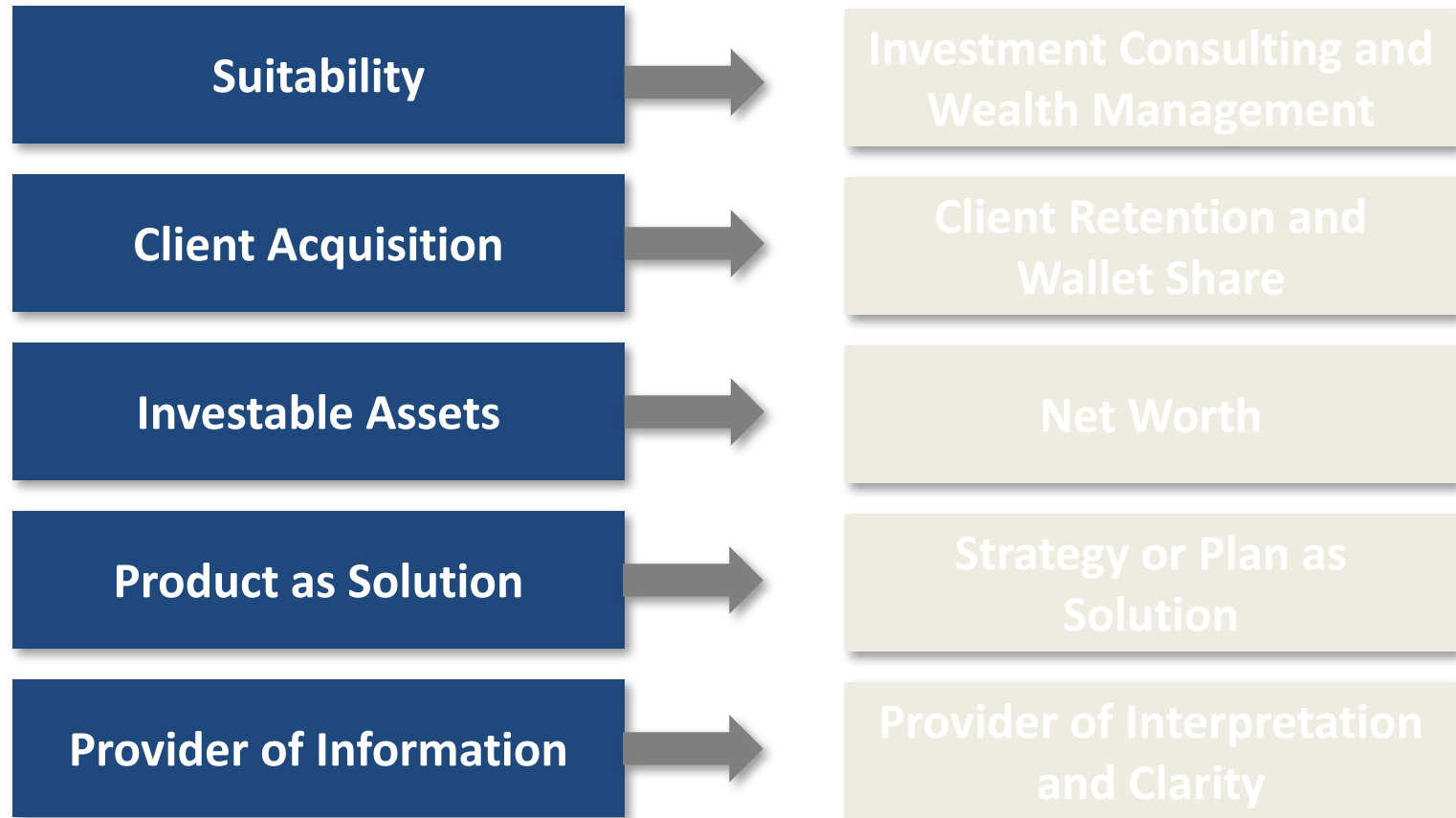
Consultative Advice and Guidance, Not Product, Resonate with Clients

Competencies leading clients to shift assets toward their advisor¹



¹ The VIP Forum Survey of HiNW Baby Boomers, December 2009. Impact of Advisor Attributes on HNW Baby Boomers' Shift in Assets Held with Advisor.

Advisor Value Proposition is Evolving



What Does It Mean To Try and Address All These Needs?

You can't do this for everyone. You must focus on a specific group of clients....no more than 100.

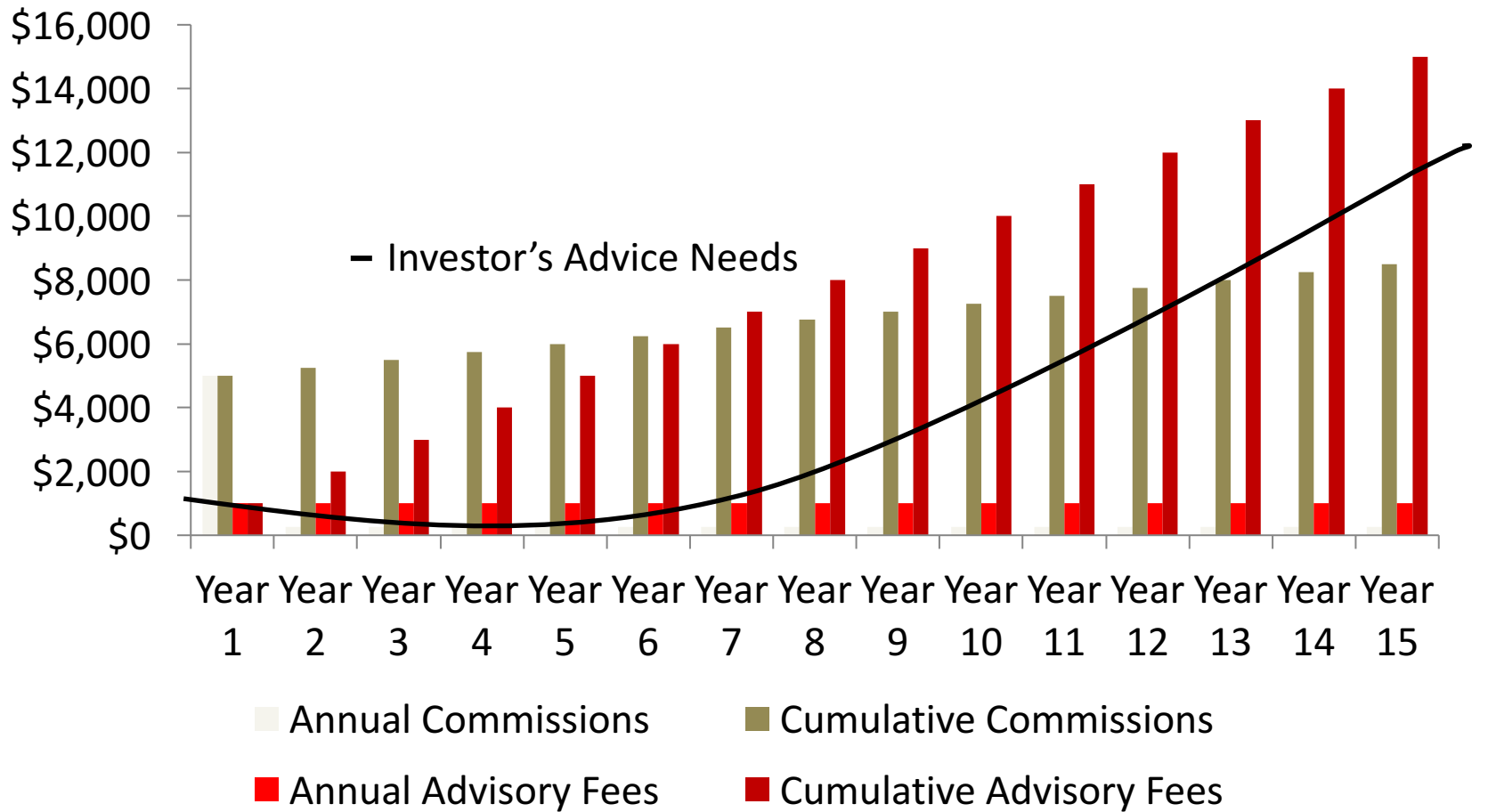
The **needs of these clients will grow** as they age and encounter more complexity in their financial lives.

You **will be dedicating more time** -- and resources -- to clients as they get older.



- **It is no accident that the demand for advice has driven a migration to an advisory/fee-based business model.**

Advisory Fees Better Align the Timing (and Level) of Revenue with Advice Demands



Hypothetical example: \$100,000 investment generating a 5% brokerage commission and 0.25% annual trail commission compared with a 1% annual advisory fee

• Why Build a Fee-based Practice?

**Consultative v.
Sales Approach**

**Investment
Advisory Process**

**Fee v.
Commission**

Benefits to You

Fosters a Trusted Relationship Resulting in greater:

- Retention
- Share of Wallet
- Referrals
- Provides a Structure and Process for Delivering Advice
- Aligns with recommended Fiduciary Standards (ERISA)

- Provides for an Annual Recurring Revenue Stream
- Positions you as a Consultant, not a Sales Person

• Benefits to the Client

Confidence-building Client Experience

A Disciplined, Personalized Approach

- Enhances chance for better outcomes

Puts the client on the “same side of the table” as the Advisor

What did advisors find after they transitioned?

- **Deeper client relationships**
- **81%** of independent advisors said the transition had a significant impact on the depth of their client relationships
- **More affluent clients**
- Almost **70%** said that the transition had a significant impact on the affluence of their clients
- **Larger account sizes**
- The average fee-based advisor's minimum account size is almost **3.5 times higher** than the average commission-based advisor

DOL Fiduciary Rule Impacts

What Compliance Will Require of Advisors

Enter into a Level Fee Advisory Relationship

- Advice provided is for a level fee
- No conflict of interest exists
- Fiduciary level advice is already being provided

OR

Use a Prohibited Transaction Exemption such as BICE

- Still requires fiduciary level advice
- Conflicts can exist, but need to be disclosed
- Commissions can still be paid

Advisory or Brokerage?

- **Advisory Account**

Both have their place, depending on client
Drivers

1. Need for ongoing advice
2. Client wants investment services more than product recommendations
3. Inter-related planning needs
4. Willingness to delegate to advisor/portfolio strategists
5. Relatively more investment experience

- **Brokerage Account Drivers**

1. One-time advice
2. Ongoing relationship with advisor not a priority
3. Relatively straightforward needs
4. Client desires to maintain balance of control over asset management
5. Relatively less investment experience (with the exception of alternative investments and other complex products)

What distinguishes an advisory relationship?

- IARs act as a **fiduciary**
- An advisory **relationship is ongoing**
- Regular contact and **meetings are required** rather than expected or a value-added service
- **Clients pay for advice**, not for product fulfillment
- It is governed by an **agreement**
- Advisor **compensation is impacted by investor outcomes**, not the sale of product
- Shift from suitability discover to the **investment consulting process**

The Investment Consulting Process



Benefits

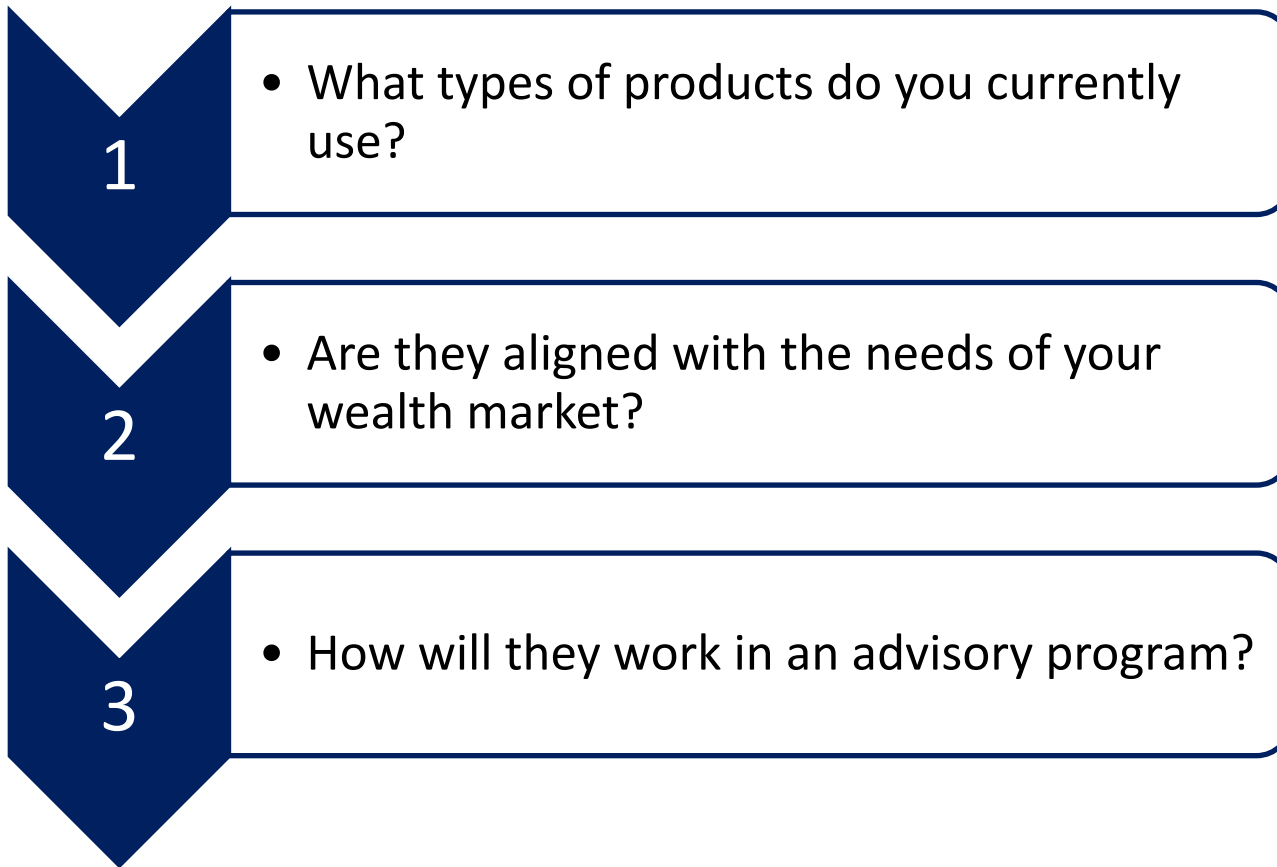
- Provides a Process for Your Practice
- Fosters a Trusting Relationship
- Enhances communication
- Manages risk
- Avoids destructive behaviors –
 - Helps Investors Stay Invested
- Gives you and your client confidence in your decisions



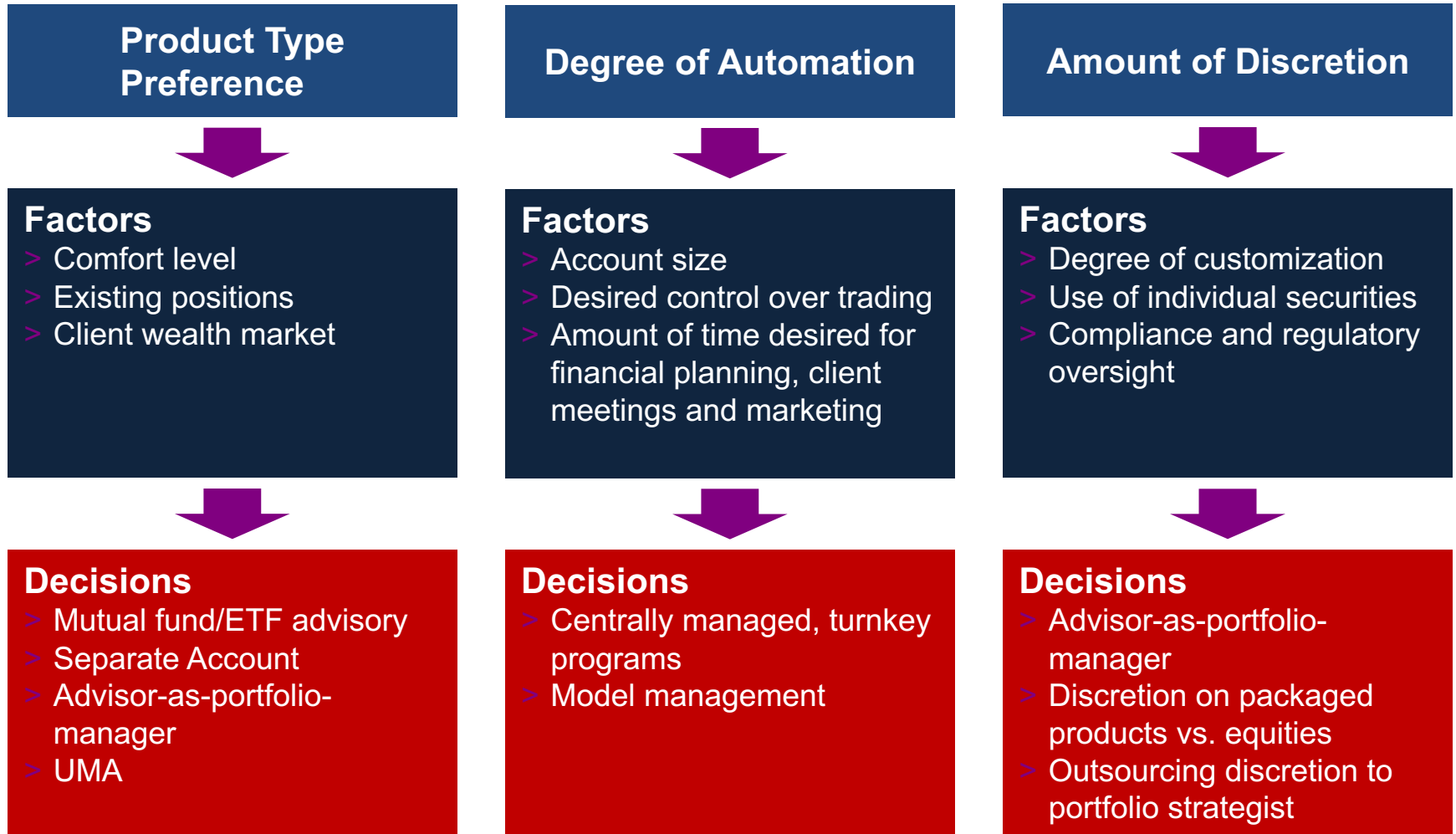
Transition Preparation

Investment Product Preferences

Framework for Determining Product Usage

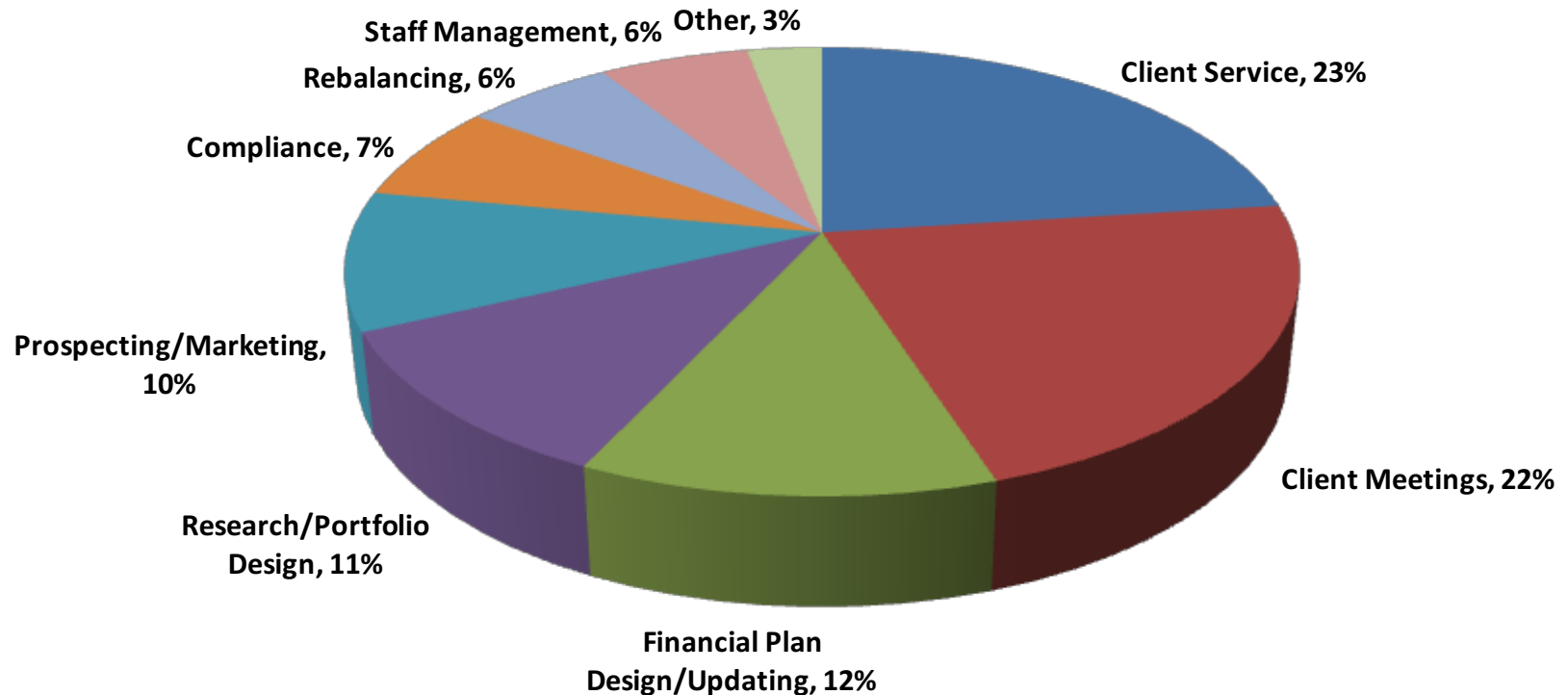


Which advisory program should you use?

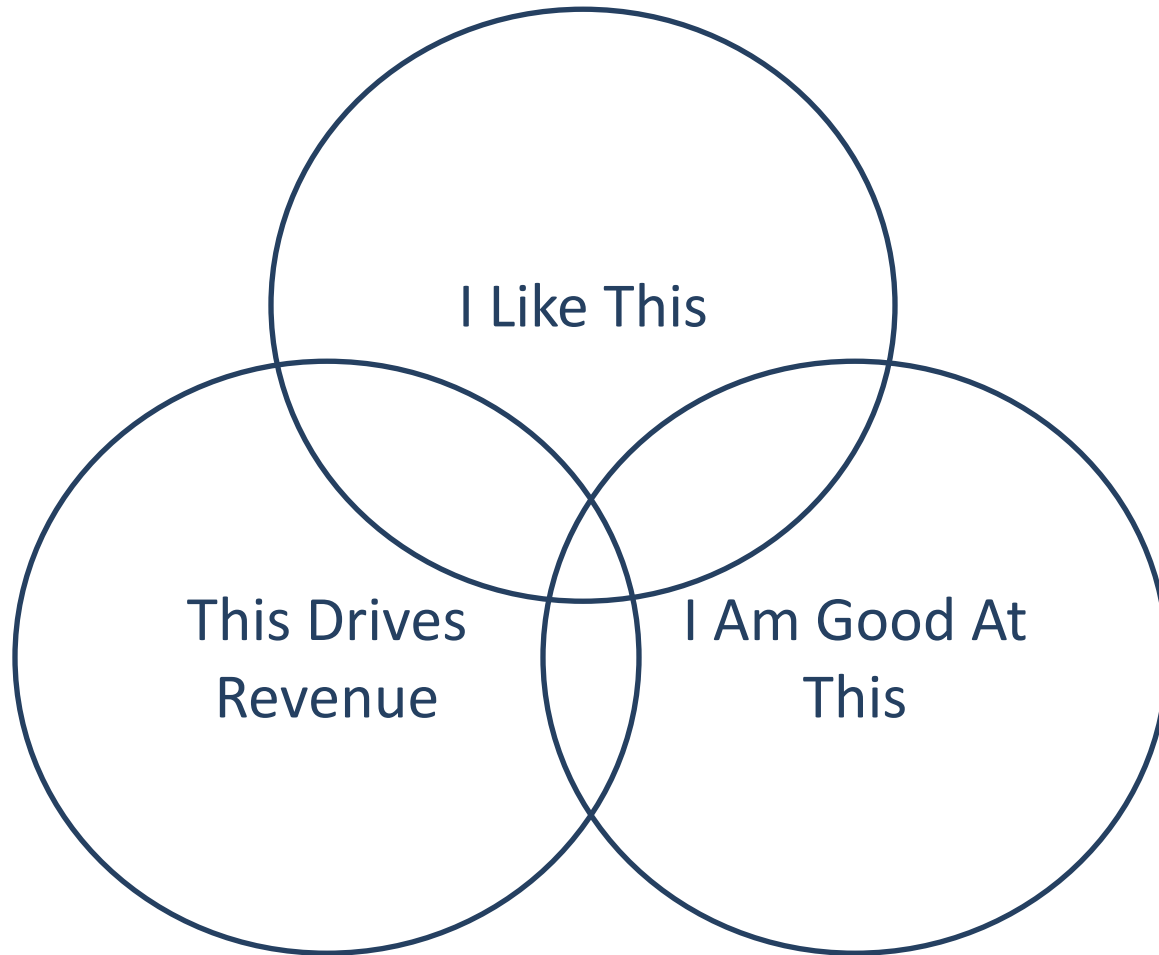


Taking on the role of portfolio strategist is not the best fit for many advisors

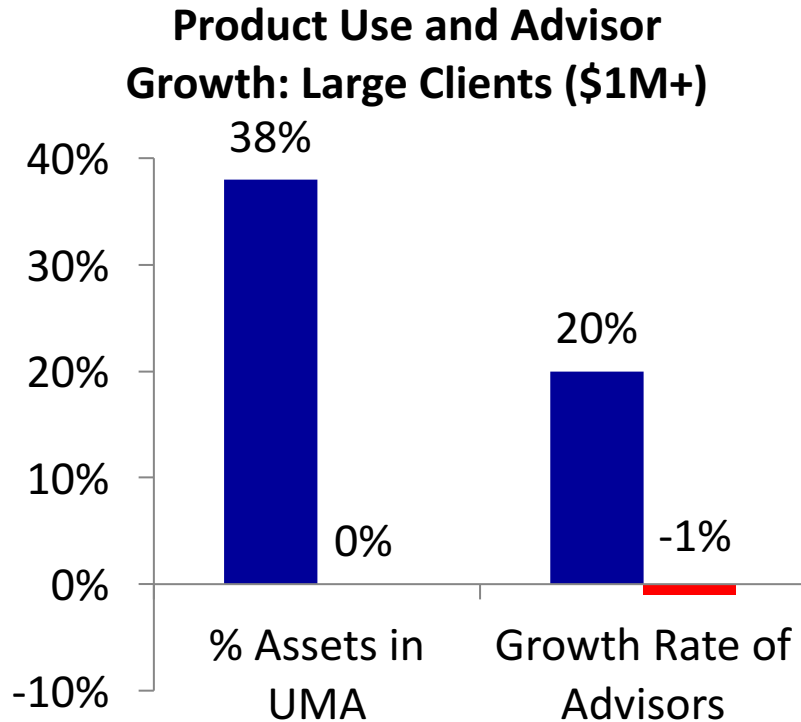
Average Advisor Time Spend by Task



Consider the highest and best use of your time

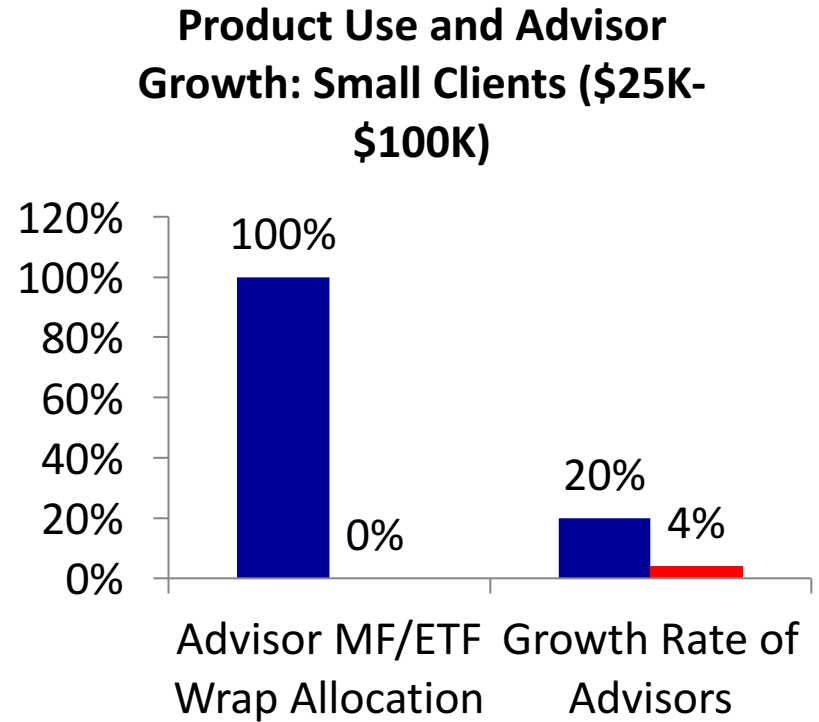


The Right Solution for the Right Client



■ Top Quartile by UMA Use

■ Bottom Quartile by UMA Use



■ Top Quartile by Wrap Use

■ Bottom Quartile by Wrap Use

Determining Your Fee Levels

What are the going rates?



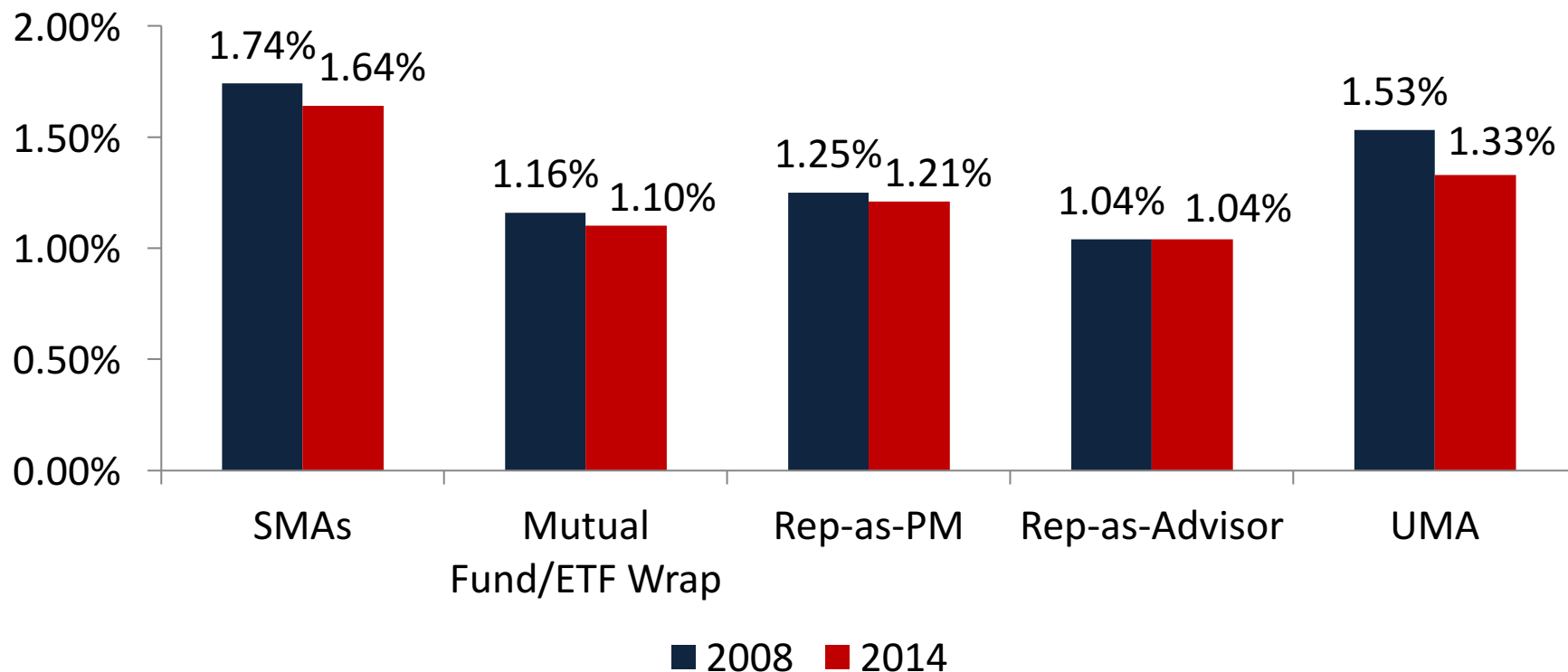
How do your services differ from the typical advisor's?



Do you want to unbundle your services?

Average Fees Are a Starting Place

Average Annual Explicit Fees for Managed Account Programs



Source: Cerulli Associates Managed Accounts Report Q1 2015

Determining Your Service Offering

From the Core Offering of Fee-Based Investment Management, Advisors Tend to Evolve by Either Layering More Investment-Centric or Planning-Centric Services



How do you charge for advice?

1. How much of your time will be required to manage these relationships?
2. Are you competing on price?
3. Are you trying to reach a certain net fee level?

Other Factors to Consider

- Impact of transaction fees
 - Who pays them?
 - Advisor
 - Client
 - Adjusting advisory fee if client pays transaction fees
 - Re-examining trading strategy if advisor pays fees
- Householding
 - If a client has multiple accounts, advisors generally price all accounts based on the total size of the relationship
 - Exception: client with a large number of small accounts (e.g., college savings, etc.)

Creating an Advisory Fee Schedule

Fee schedules should be graduated, not flat

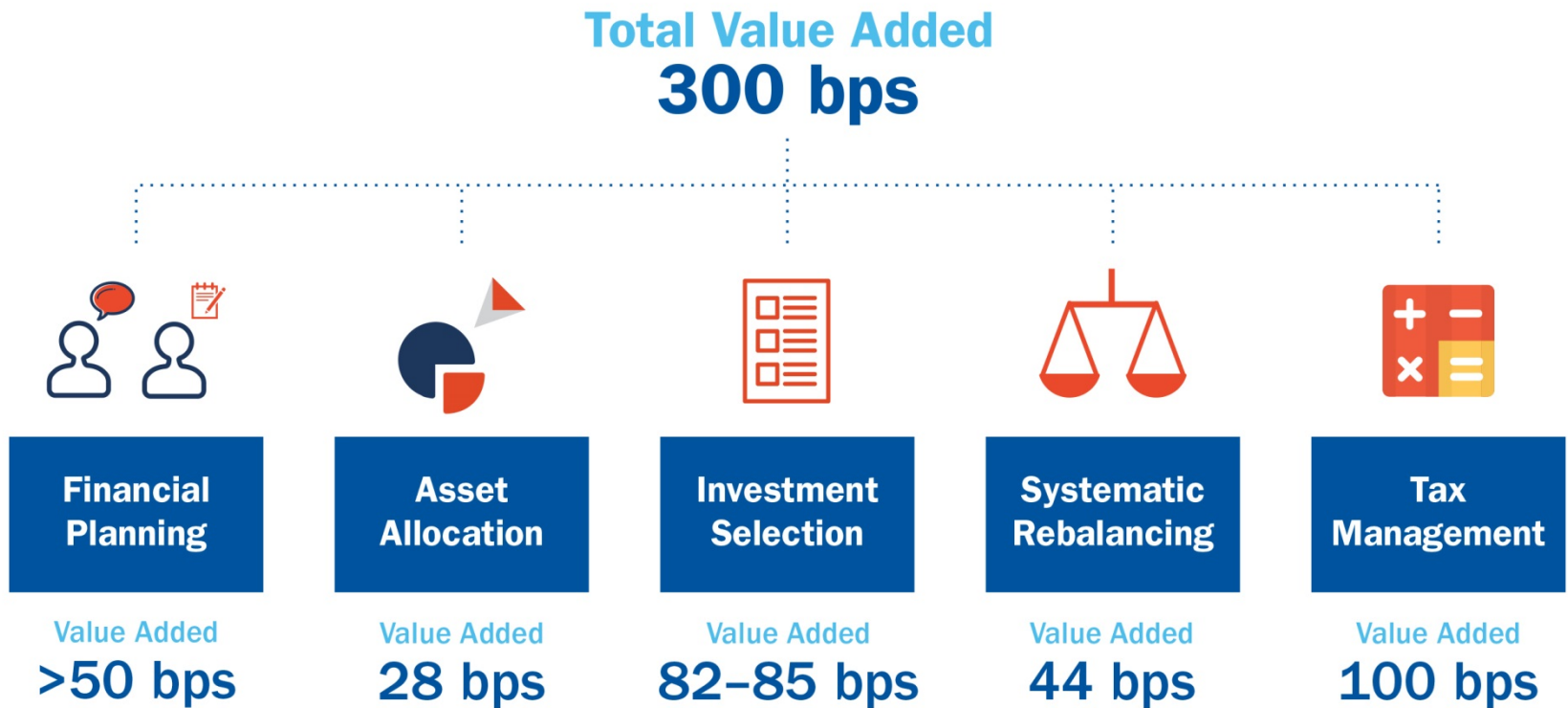
| Account or Relationship Size | Advisory Fee |
|------------------------------|--------------|
| \$25,000 - \$99,999 | 1.40% |
| \$100,000 - \$249,999 | 1.25% |
| \$250,000 - \$499,999 | 1.10% |
| \$500,000 - \$749,999 | 1.00% |
| \$750,000 - \$999,999 | 0.85% |
| \$1,000,000 - \$2,999,999 | 0.65% |
| More than \$3,000,000 | Negotiated |

Let's Talk About Fees

Misconceptions

- Investors don't care
- Investors won't understand
- Investors will select the lower cost

Quantifying Value



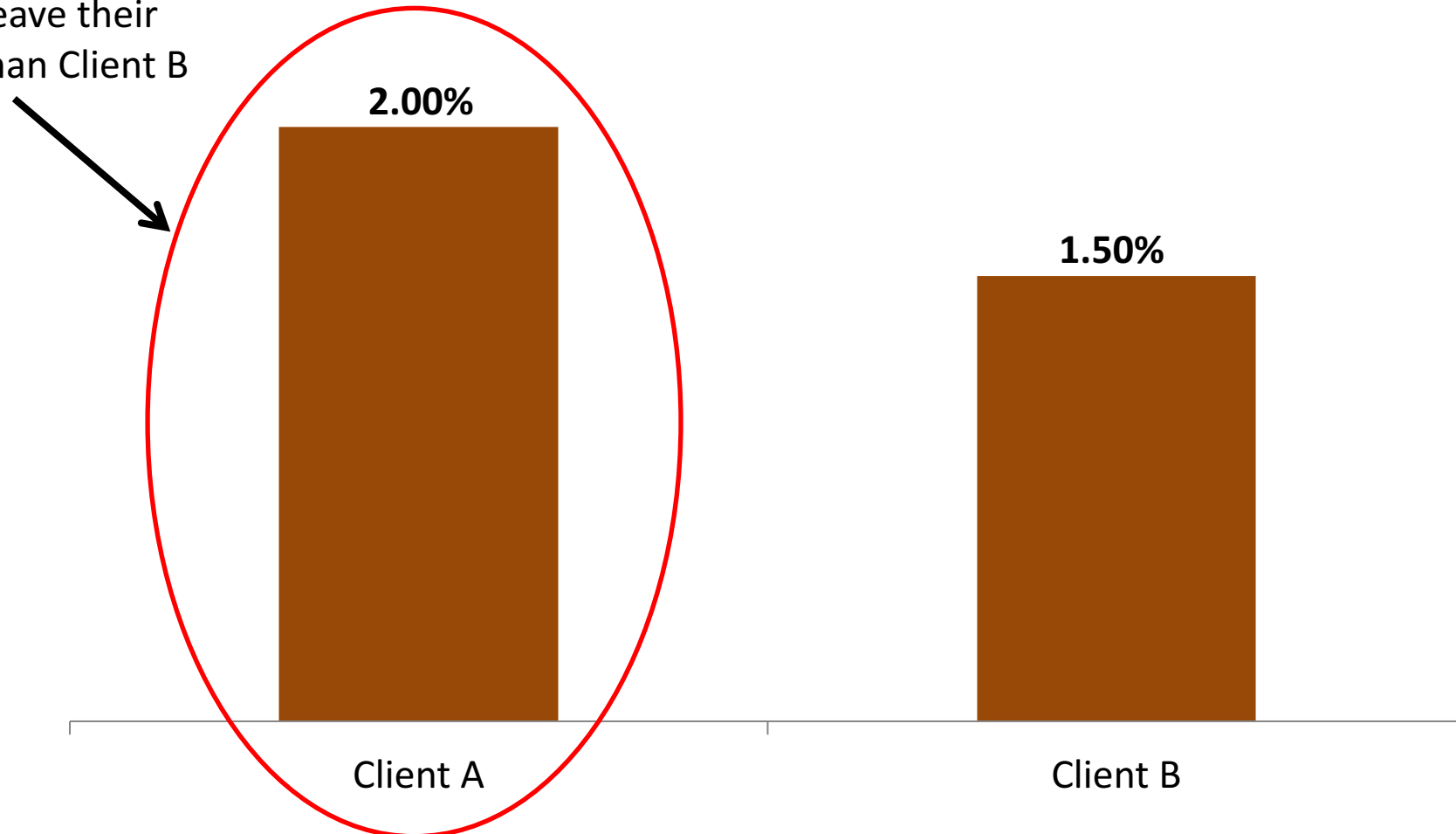
* Values taken from Envestnet's whitepaper, Capital Sigma: The Sources of Advisor-Created Value

Source: Envestnet; Morningstar; Vanguard

Some of what you may guess about investors and fees has been validated

Paying a premium fee is more likely to drive attrition

Client A is more likely to leave their advisor than Client B



But there are some surprises...

Paying a lower than average fee is actually more likely to drive attrition than loyalty

Client A is more likely to leave their advisor than Client B



0.50%

Client A

1.00%

0.50%

Client B

50 – 100 bps of revenue premium with better client retention

And affluence does not necessarily drive higher price sensitivity

- Households with **more than \$250K** in assets are **less price sensitive**
- Households with **less than \$250K** are **more price sensitive**
- → **Setting your fees lower than average will likely attract clients with less wealth and a higher propensity to leave you**

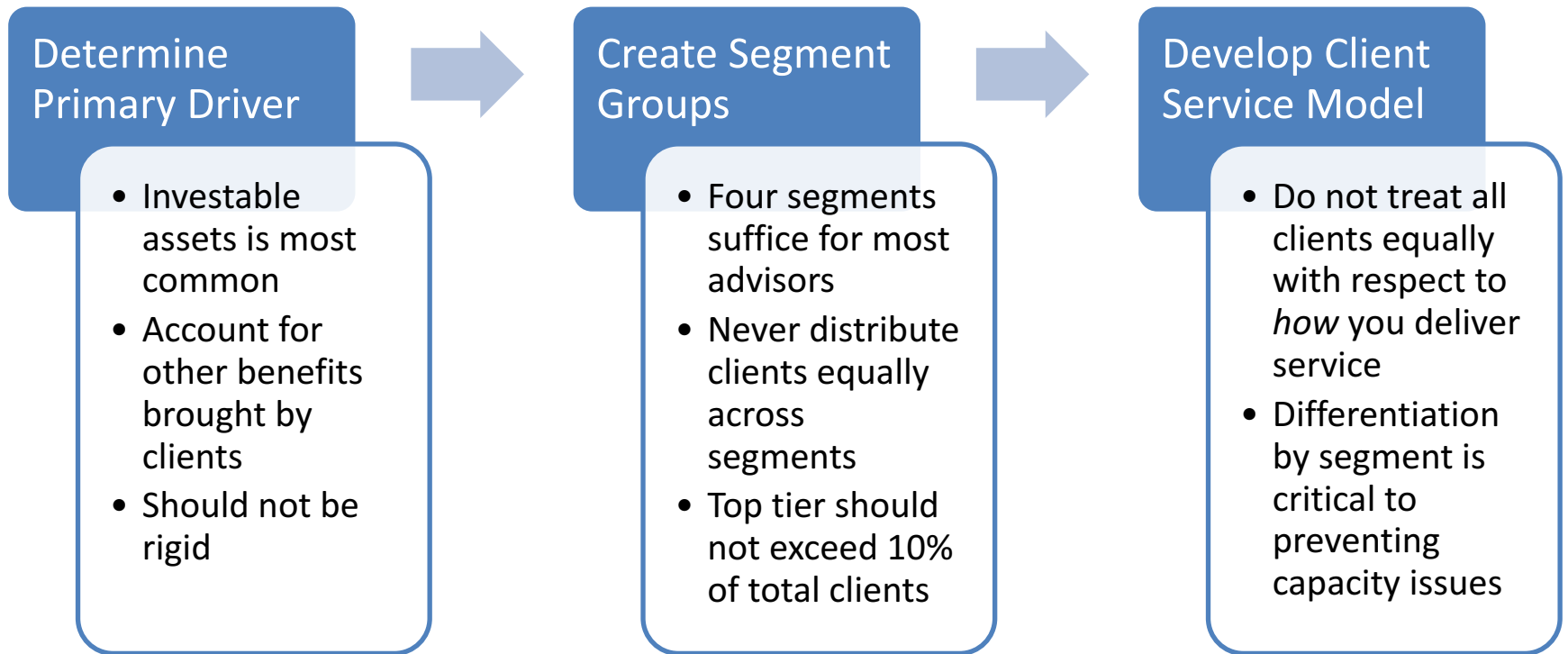
Why is this the case?

Viewing the issue from the advisor's perspective

- Compressing revenue hinders the ability of the financial advisor and their firm to invest in staff, training, and resources to support a strong client experience
- And advisor experience tells us that client expectations of services will not decline with a lower price paid
- An advisor and their firm is therefore left with less infrastructure to support a growing client base and its demands



Developing a Client Segmentation Model

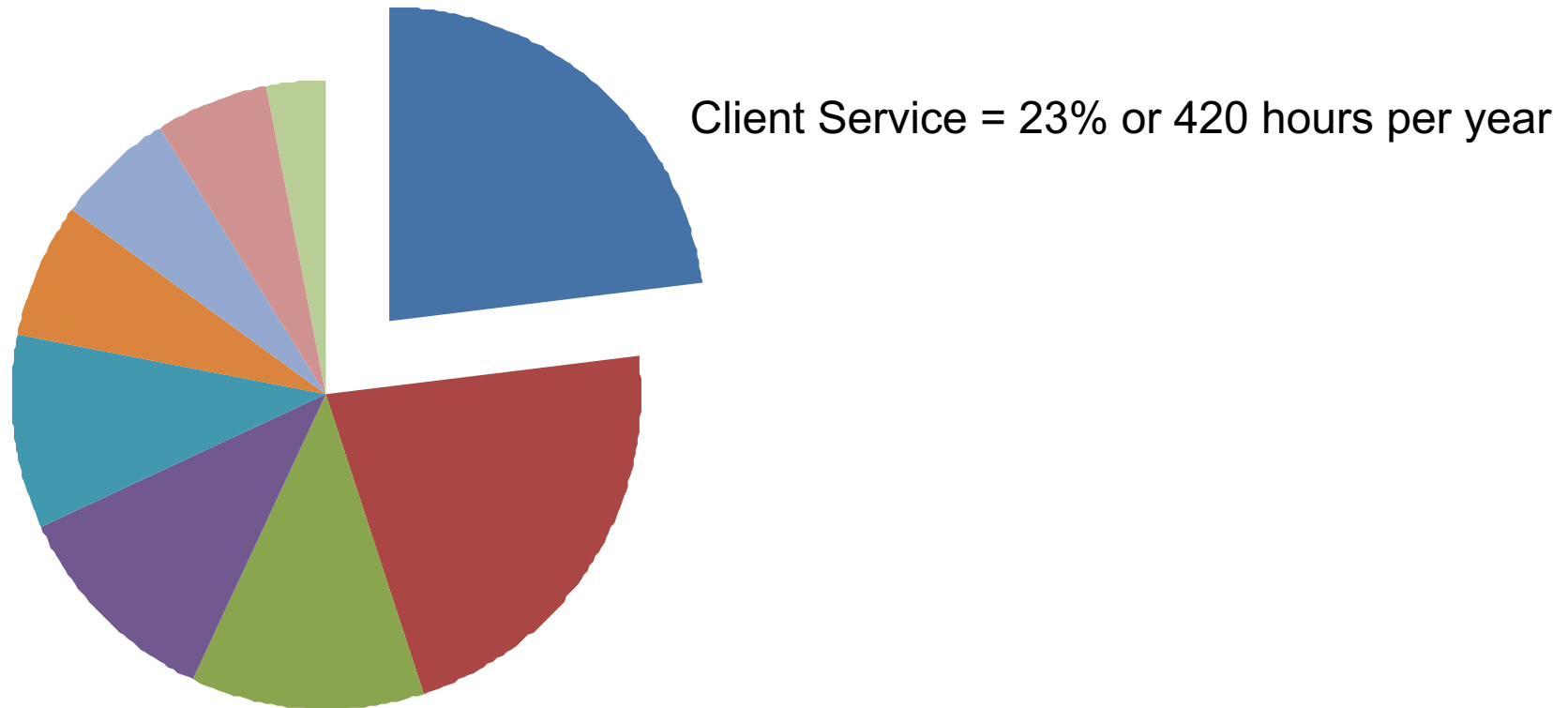


Creating a Tiered Client Service Model

| Client Tier | Meetings | Phone Calls | E-mails | Client Appreciation | Newsletter |
|-------------|---------------|---------------|---------|---------------------|------------|
| A | Quarterly | Monthly | Weekly | Semi-annual events | Monthly |
| B | Semi-annually | Quarterly | Monthly | Annual event | Monthly |
| C | Annually | Semi-annually | Monthly | N/A | Monthly |
| D | On request | Annually | Monthly | N/A | Monthly |

Developing a Realistic Service Plan

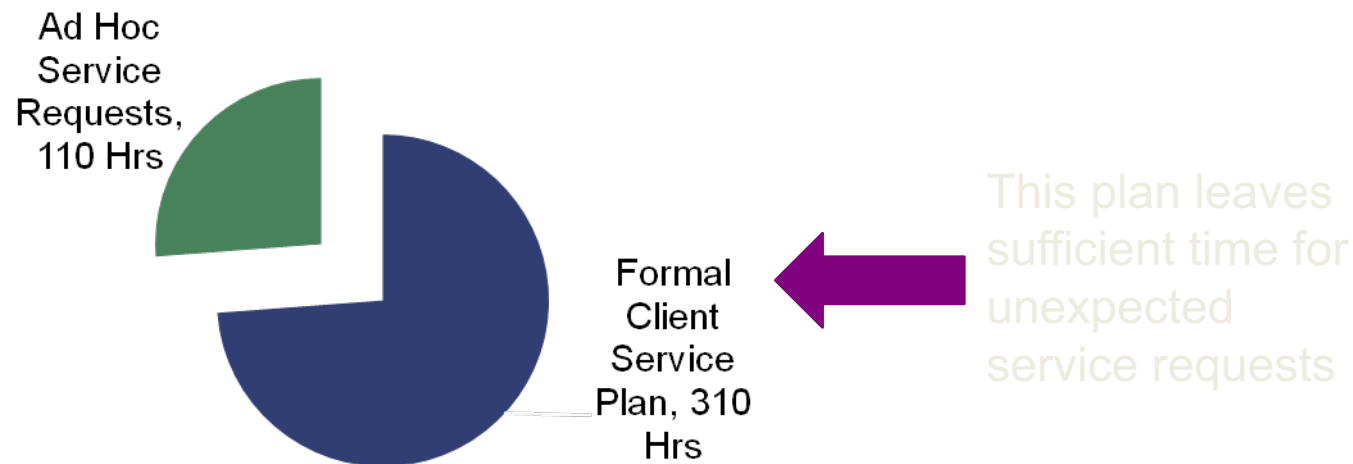
Advisor Time Spend



Source: Best Practice Research and GDC Research

Validating the Feasibility of a Service Model

| Client Segment | Number of Clients | Number of Meetings/Yr | Number of Calls/Yr | Total Meeting & Phone Hrs |
|----------------|-------------------|-----------------------|--------------------|---------------------------|
| A | 10 | 4 | 12 | 100 |
| B | 30 | 2 | 4 | 120 |
| C | 40 | 1 | 2 | 80 |
| D | 20 | 0 | 1 | 10 |
| Total | 100 | 140 | 340 | 310 Hours |



The background consists of several overlapping geometric shapes in various shades of blue. A large, dark blue triangle points towards the left side of the frame. Other lighter blue shapes, including a parallelogram and several smaller triangles, are layered behind and around it, creating a sense of depth and movement. The overall composition is clean and modern.

Executing the Transition

Prioritizing Client Conversion



Prioritizing Client Conversion

- **Identify clients to convert**
 - Within each group, those with the most likelihood of success
 - Clients with whom you have strong personal relationships
- **Assess and analyze accounts and assets**
 - Qualified accounts
 - Non-qualified accounts that may produce tax losses as assets are sold in conversion
- **Tips to consider**
 - Don't rely on small client conversions as they don't provide enough revenue initially
 - Do have a prioritized list and timetable to conversion

Have the Conversation

Top Ways to Explain Your Fees

- 1) As an Investment Advisor Representative (IAR), you are a fiduciary and must adhere to the **highest ethical standard** in the industry
- 2) Your goal is to build a deeper relationship with clients, so that you may **address their needs** more effectively
- 3) You are **seeking more robust solutions** to help them reach their goals, including access to multiple layers of professional management
- 4) Your fees rise and fall with the value of their portfolio, which means **your interests are aligned with theirs**
- 5) You are **paid for advice, not product**
- 6) Fees support an ongoing relationship so that you can be there **when they really need you**

Let's Talk About Fees

The Facts

- Investors want transparency
- **Only 26.3%** of investors would select the low-cost service provider*
- **66.3%** selected advisors they trusted the most*

Let's Talk About Fees

Do you voluntarily explain your fee structure to clients?

Only **14%*** say yes.

Source: Paladin Advisor Research & Registry Survey of 100 RIAs and IARs

Communicating Fees: Common Fears

Advisors are sometimes concerned they will hear:

“Are you charging me *twice* for the same advice?”

“Why would you make changes if this has worked for so many years?”

“Are the mutual funds you sold me before bad?”

“I assume you’re making more money from this change.”

Have the Conversation

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How to Start...

The conversation is different depending on the client

- Messaging with **existing** clients
- Messaging with **new** clients

Evolution of Client Solutions

New technology offers advantages in solving for client needs

1960



1968



1984



1999



2015



How can you establish your value?



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