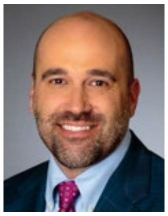
The True Value of Financial Advice



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Have you been to a financial services conference lately? Then you know that the tectonic force shaking our industry is technology.

Except, that's not entirely true.

The landscape is changed. And technology is being increasingly used in ever more sophisticated ways. But the real seismic shift shaking the ground beneath our feet isn't digital transformation – it's the Copernican Revolution.

It's a radical change in perspective that puts the individual – not the institution – at the center of the financial services universe.

It's an exciting time, because even though some have always seen the world this way – for example, financial advisors – the rest of the industry is finally catching up.

Advisors can now access more product, more technology, and more services to help them deliver on the promise of individualized, goals-based advice.

Of course, they also face more risk.

The biggest risk to the future of advice? Probably not the one you're thinking of. It's not Robos or Artificial Intelligence – it's creeping normality.

Like the unsuspecting frog in a slow-boiling pot, advisors are acclimating to the idea that their value can be easily quantified and commoditized.

Commoditized, Low-cost Advice?

It's a dangerous proposition, perpetuated by large institutions staffed with quants who think anything can be priced efficiently. Institutions aiming for a slice of the massive advisory market pie, and staffing Financial Planners accordingly.

What's more alarming? Some advisors are starting to internalize it, normalize it, believing they might have to adopt a "low cost" model of advice to stay relevant.

But, like Easter Island's inhabitants who over decades destroyed the forest that sustained them, advisors who buy into this worldview may be contributing to their own undoing.

The truth?

Providing individualized financial advice at scale is a myth.

We've been sold a bag of goods – a tall tale about the value of advice (and of the advisor) that's too simplistic to be true.

It's time to tell the whole story.

Reductionist Arguments About the Value of Advice

Right now, large market participants are determined to control the public dialogue about the value of advice to suit their own purposes.

The typical sound-bite? Financial advisors get compensated for three things: (1) financial planning, (2) investment management expertise, and (3) relational skills.

Against the relentless backdrop of marketing campaigns and ads promoting the value of advice at well below the 1% average, it's easy to see how the simplicity of the math could seduce people.

Cost alone is a silly way to choose an advisor because it puts a price tag on something invaluable. Our individuality.

These market participants want you to believe that, in light of tremendous technological advances, the value of an advisor boils down to relational skills. Everything else can be outsourced or automated.

Software can do the planning. Asset managers can do the investing. The advisor's just there to hang out with the client.

It's a reductionist argument. It demeans the work of advisors and does a disservice to individual investors.

Why?

Because the value of an advisor can't be deconstructed with statistical analysis, and individual parts outsourced to the lowest bidder.

People are more complex than that. Body, mind, and soul – take one away and you lose the essence of what it means to be human. Humans aren't merely the sum of their parts.

The same is true of financial advisors. The nature of advice is more complex than is being implied. Those who reduce the advisor's value down to three things that can be readily divided are pricing advice based on what can be easily seen – which is just the tip of value iceberg.

So much more goes into crafting a plan to achieve a person's financial goals, executing on that plan, and then adjusting it as life happens.

And life does happen.

Individuals – who they are, what their goals are, and how their lives unfold – are idiosyncratic. Goals shift. Priorities change. Their timeline, the sequence of returns, shifts.

Let's be real. The market for advice just isn't efficient. If price is a consequence of market dynamics that assume information is efficient, then price may be one, but it can't be the only (or even the most important) discovery mechanism.

Financial Planning Is More About the Imperfect, Than the Perfect
While actuaries can describe and pool imperfections, mitigating them as a group, advisors don't work with a "pool" of investors. They work one-on-one with human beings. And the "average person" is a far less interesting – and far less predictable – than a real person named Robbie. Well, most of the time, anyway.

In looking after an individual's financial wellness, the science of finance and risk informs a planner's decisions. But like physicians who take advantage of medical advances and technology to improve their practice and the patient experience, advisors still have to diagnose and prescribe for the individual sitting in front of them.

"But, what about technology?" people say, "Doesn't it create efficiencies that drive costs down?" or "Can it do things better or faster than a human being can?"

Yes, it can. And it has.

But the question wrongly assumes advisors don't take advantage of new technology. The great ones do and they have.

It also assumes advisors using technology would perform worse than their automated, advice-at-massive-scale counterparts. That doesn't even make sense.

Advice Might Even Be Too Cheap
Technology has enabled progress. It's made many tasks more efficient. It's increased the precision and speed of decision-making. But it's also increased complexity, for better and worse.

For example, product choice has dramatically increased and along with it, the need for more rigorous screening.

Technology has uncovered risks AND opportunities that advisors couldn't see 20-30 years ago and never had to plan for. Now, they can see them and they have to do something about them.

There are many things technology does well, handling computations in a financial plan for example. But tracking and making adjustments to a financial plan based on the idiosyncratic nature of an individual's life circumstances and goals takes a sophisticated level of human understanding and intervention.

Yet, advisors are now supposed to be compensated less (and sometimes painfully little) for having to do even more.

What's going on here?

The truth is, large market participants with a long-held institutional world-view and product orientation, are trying to convince people that the inexact science of personalized advice can be scaled en masse.

It can't.

You can personalize product at scale, but personalized advice at scale is a logical fallacy.

These market participants are good at selling castles in the air, promising to take care of "you" and saying all the right things about how you're an individual with unique goals and needs.

But they can't deliver the level of personalized advice that an independent financial advisor can. Yes, their marketing is slick. Emotionally compelling, even.

But when it comes down to execution? "Pay no attention to the man behind the curtain."

The simple truth is, the Copernican Revolution in financial services has happened. They know it. It's a new world and they're trying to stake their claim, even going so far as to try to commoditize and usurp relational value by jumping into the planning game.

But in the value chain, if value commands a premium price, then I'd argue that advice today is too cheap – not over-valued like the tale that's being told.

Putting a Price Tag on Our Humanity
There's an intrinsic value to individualized advice that you can't quantify, but know intuitively to be worth more than a commoditized service.

If you live in Charlotte, NC, can a financial planner with 700 clients in a city 500 miles away possibly know you as well as one who shares the experience of living in your community?

Would they know that you have a child with a disability or that your parents recently came to live with you unexpectedly? That you're getting a divorced?

That your dream is to travel the world? Or open a family restaurant? Do they take into account that you tend to use humor as a defense mechanism? That you love a good martini? Can they tell when you're having a bad day and make a pretty good guess at why?

It's interesting that the things Artificial Intelligence does really poorly are the things that make us most human and relatable and knowable – the soft skills, the nuance, the micro-expressions, the body language, our shared consciousness and experience as human beings.

Technology, even when it's 100% flawless in its technical decision-making, can't fully take our humanity into account – body, mind, and soul.

Only another person can account for that. For our idiosyncratic ways, habits, behaviors, the influence of our family, our community. And, I just don't think you can put a price tag on feeling truly seen and understood by another person.

The Future of Financial Advice?
In a world of increasing complexity, we believe the role of the individual independent advisor grows more necessary and more valuable.

The technological advances being made in our industry and shaping people's everyday lives don't undermine the value of advice – they enhance it.

We believe the future is the independent financial advisor. Their role is more important now than ever before. The day you don't think that's true? Check the temp. It might be at the boiling point. ■

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