

# INVESTMENTS & WEALTH MONITOR

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## The Future of Wealth Management

*By Anthony B. Davidow, CIMA®*



**INVESTMENTS & WEALTH INSTITUTE®**

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**B**y 2030, at least 80 percent of advisors will offer goals-based advice, similar to your fitness monitor, tracking progress relative to the various goals (investments, education, retirement, and wellness) (McKinsey & Company 2020).

It's easy to imagine that by 2030, investors will use wearable technology to track progress relative to their goals, just as we monitor our health today with fitness trackers. This would not eliminate the role and value of advisors. Rather, it would shift the focus toward developing comprehensive financial plans, establishing realistic objectives, implementing investment strategies, and monitoring progress toward goals. This is because technology is not a replacement for good advice—it's a tool to provide efficiency and valuable information to help investors achieve desired outcomes.

I believe that the wealth management industry will transform over the next decade, and advisors will need to evolve their practices to meet clients' goals. Wealth advisors will need to reframe their value propositions, integrating financial planning, investment planning, retirement planning, tax management, trust and estate issues, charitable giving, and lending solutions.

In Davidow (2020), I discussed the limitations of modern portfolio theory (MPT) and suggested that goals-based investing represents a more evolved approach to allocating assets by marrying attributes of MPT and behavioral finance. I have suggested that wealth

advisors should consider a broader set of asset classes to meet a wider array of goals. Fortunately, product innovation has made it easier for many investors to access markets and asset classes that were more difficult to access in the past.

Markets transformed rapidly over the past 10 years, and we will see more change over the next decade. This article explores some changes underway and forecasts other shifts that will reshape the wealth management industry, including specific trends in the industry, investments, and technology, and the implications for advisors and clients.

## THE FUTURE OF ADVICE

In the next 10 years, the industry will experience a transformation that will reshape how wealth management looks and how it responds to investor needs, including the following:

- A demographic shift (younger and more diverse advisors)
- More dedicated teams
- Technology as an enabler
- Goals-based investing as the norm
- Environmental, social, and governance (ESG) and direct indexing
- Bifurcation of advice (robo and wealth advisor)
- High-net-worth (HNW) investors demanding highly customized advice
- The rise of super-teams
- Advisors needing to right-size their practices
- Introduction of advisor ratings

Advisors of the future will be younger and more diverse. They will embrace technology and align their portfolios

and purpose. In the next 10 years, we will see a demographic shift across the wealth management industry, with the ranks of female, minority, and millennial advisors growing at twice the rate of advisors overall. The growth will be driven by clients demanding to see more advisors who look like them and the aging demographics of practices dominated by white men. As wealth advisors continue to embrace a team structure to serve the needs of HNW investors, they will seek greater diversity across teams to better match their client base.

According to the U.S. Bureau of Labor Statistics, the wealth management industry is disproportionately dominated by white men (see table 1). Women represent roughly half of the U.S. population but only 32 percent of the nation's financial advisors—yet they are better represented than minority advisors by a wide margin.

Among the generations, millennials are the largest U.S. population cohort and the largest portion of the nation's workforce (see table 2). Millennials grew

**Table 1**  
**PERCENTAGE OF U.S. ADVISORS BY RACE AND GENDER**

Member Group	Percent of Advisor Population
White Male	82.2%
Female	32.1%
Black	6.9%
Asian	8.6%
Hispanic	6.3%

Source: Bureau of Labor Statistics, 2019

up during a period of economic and technological expansion. They are technically proficient, and their world views were shaped by events such as 9/11 and the Global Financial Crisis. Their parents, teachers, and coaches told them that they were special and entitled; consequently, they are often confident and self-assured. This generation was burdened by college debt and few job opportunities after graduation, which impacts their spending and saving habits. Wealth advisors need to engage millennials differently than they engage millennials' parents.

Younger advisors will recognize the importance of technology to provide scale and efficiency, and they will not view it as a threat to their value propositions. Large wealth management firms will still invest heavily in technology as margins continue to come under pressure. There will be a more pronounced bifurcation between highly customized and personalized advice for HNW

investors and more digital-advice offerings for smaller clients (financial planning, asset allocation, direct indexing).

Goals-based investing will become the norm, with technology evolving to more efficiently track progress relative to multiple goals simultaneously. Technology also will make it easier to align investor preferences in portfolios, whether that means incorporating sustainability screening or direct indexing, letting investors create their own baskets of stocks. Women and millennials will continue to embrace sustainability and direct indexing, and the appeal will expand to other constituents as the benefits become more universally accepted.

Clients' portfolios are the means to clients' desired outcomes. But adopting a goals-based approach does not mean that wealth advisors should ignore performance. It means they should change the utility function to solve for a client's objectives. HNW families obviously want

and expect access to the best investment strategies. However, if the top-performing strategies come with high volatility and high turnover, then their value may be negated on an after-tax basis.

I tend to think of asset classes as puzzle pieces (see figure 1). If assembled correctly, portfolios can solve for specific goals. Each investment fills a specific role in the overall portfolio, and if the pieces fit together well, they clearly reflect the portfolio's purpose. But if the pieces are put together haphazardly, the portfolio may not achieve an investor's long-term goals and objectives.

Technical advancements and increased pressure on advisors' economic models will push smaller investors toward robo-offerings. These clients likely will have access to a service center only—no financial advisor. Large wealth management firms already are moving in this direction. Although technology provides efficiency, these firms cannot afford to pay advisors to provide commoditized solutions. Studies have suggested that technology will lead to a dramatic reduction in the number of advisors and that many advisors will retire without adequate succession plans.<sup>1</sup>

Tech-enabled solutions will let wealth advisors serve more clients more

Table 2

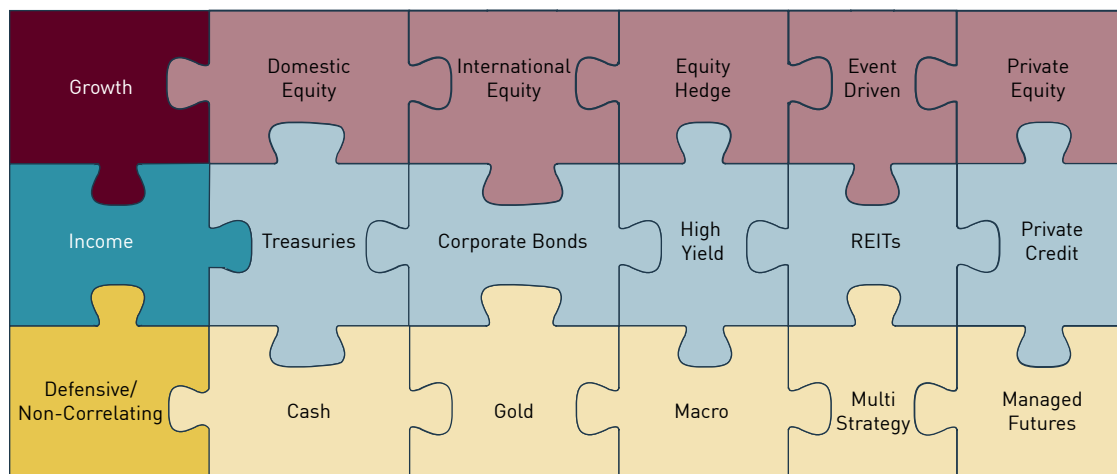
**GENERATION BREAKDOWN**

Generation	Birth Years	Population (%)	Labor Force (%)
Millennial	1981-1996	72.5 million (22.0%)	59.4 million (31.6%)
Gen X	1965-1980	62.5 million (19.8%)	53.4 million (28.3%)
Boomer	1946-1964	72.0 million (21.8%)	36.1 million (19.2%)

Source: Pew Research Center, U.S. Census Bureau

Figure 1

**GOALS-BASED INVESTING**



efficiently, but HNW families will demand greater customization and integration to solve for their complex needs. Wealth advisors serving HNW investors will need dedicated teams with expertise across a range of disciplines: investment management, tax management, trusts and estates, and handling concentrated positions. To provide the in-depth support necessary, wealth advisors will need to right-size their practices, determining how many HNW families they can accommodate. There will be more super-teams with six or more people at wirehouses, many of which will go independent as they outgrow this model.

Advisor ratings on a range of issues—performance, service, investment expertise, and diversity of practice—will emerge. Investors will be able to scan the ratings to quickly select the best advisor or replace an advisor. Depending on how well an advisor is rated and adapts to this model, it can be a threat or an opportunity.

Several organizations already rate wealth advisors and registered investment advisors (RIAs), e.g., *Barron's*, *WealthManagement.com*, *Financial Times*, but firms often pay to have their advisors included, and recognition is often based on practice size. Client satisfaction likely will drive future ratings, with reviews coming from clients and prospects via apps that function like Yelp, Expedia, or Groupon. The ratings will focus on what matters to clients: the team's expertise level, quality of services, resource depth, advisor empathy, and ability to achieve investor goals. Consumers will determine ratings based on experience rather than firms paying to participate.

## TRENDS AND OPPORTUNITIES

Several trends will play out over the next 10 years, including:

1. The RIA segment will continue to grow.
2. Wealth advisors will need to redefine their value propositions.

3. Wealth advisors will have greater control of their businesses, i.e., leverage.
4. New economic models will evolve.
5. New competitors will emerge.

More and more advisors will consider going independent, either joining an RIA aggregator or hanging out their own shingles to remove conflicts of interest and/or improve their economic models. These advisors will tout their independence, fiduciary status, and alignment in serving clients. RIAs also will recognize that size provides efficiencies, and RIA consolidation will accelerate.

Wirehouses will not become obsolete in serving HNW investors, but they will need to reinvent themselves by emphasizing advisor education initiatives, unique access to investments, and depth of resources. They will need to work harder to retain quality advisors, because the pendulum will shift in the advisor's favor in the coming years. Wealth advisors will have more options to stay with their current firms or to go independent. Investors will continue to question advisors' independence and economic value, and they will continue to scrutinize fees.

The economic arrangements among wealth advisors, asset managers, and wealth management firms will come under pressure, and different pricing models will emerge to better align fees and value. According to McKinsey (2020), "In 2030, up to 80 percent of new wealth management clients will want to access advice in a Netflix-style model—that is, data-driven, hyper-personalized, continuous, and, potentially, by subscription."

I would not be surprised to see new competitors emerge, including firms from outside the financial services industry—e.g., Google, Amazon, Apple, Walmart—especially for the lower end of the market. As the retail market is

becoming more commoditized and tech-enabled, a nontraditional provider may be better equipped to emerge as a formidable competitor. The tech giants have shown a willingness to enter new markets, and they understand technology's value in meeting consumer demand. Retail investors who don't value advisors and are driven to find the lowest price may spur an outside competitor to develop a better algorithmic mousetrap, at a considerable discount to the market.

## INVESTMENT OPPORTUNITIES

From an investment perspective, we have seen some big changes of late and will see a continuation of product innovation. Investment trends to watch over the next 10 years include the following:

- The private market will become more available to Main Street.
- Hedge funds will re-emerge but with lower pricing.
- Sustainable investing will become more mainstream.
- Direct indexing and active exchange-traded funds (ETFs) will emerge as viable investment options.
- Model portfolios will continue to evolve to meet advisor and investor demand.

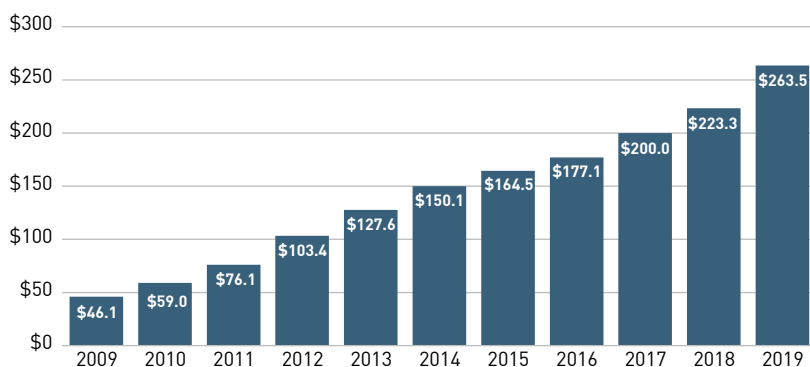
There are considerably more private companies than public companies, a trend that I expect to continue (see Davidow 2019). Private companies are remaining private longer because they have alternative sources of capital and are better able to execute long-term strategies as private companies, which don't need to respond to shareholders' short-term demands.

With growing demand from HNW families and the product evolution to meet that demand, more private-market opportunities will be available to a larger group of investors. Recognizing this demand, large asset managers and private equity firms have begun to offer these investments to a broader array of investors through feeder and registered

Figure 2

## THE GROWTH OF ACCREDITED INVESTOR PRODUCTS

ALTERNATIVE INVESTMENT STRATEGIES AVAILABLE TO ACCREDITED INVESTORS (\$B)



Source: iCapital Network with data provided by AI Insights, 2020

funds. In a rare move, we have seen regulators acknowledge the need to make these once-elusive investments more readily available, including in retirement plans.

Registered funds have helped democratize this asset class by bringing private equity, private credit, and real assets to HNW investors (see figure 2). Registered funds provide a bridge between the classic limited partnership structures and the more liquid structures available at lower minimums. These options are made available largely through tender offer funds, interval funds, non-traded real estate investment trusts (REITs), and business development companies, and they provide a robust menu for HNW investors. Wealth advisors should expect to see some trade-offs in providing better liquidity, and managers will need to deliver high-quality products to the marketplace.

With the mainstreaming of private-market investments, wealth advisors will need to take the lead in educating investors about the role these investments play in a diversified portfolio, as well as their structural trade-offs. The wealth advisor's value proposition will continue to shift from managing portfolios to playing quarterback and bringing together the right pieces of the puzzle in appropriate weights.

In the next decade, hedge funds will come back into vogue as market volatility, greater disparity between the winners and losers, and rising geopolitical risks all re-emerge. This next generation of hedge funds will use a multifaceted approach to respond to market conditions, and wealth advisors will need to understand the differences between strategies and how to combine them effectively. However, to gain broader acceptance from HNW investors, hedge-fund strategies will need to have reduced fees and lower minimums.

Sustainable investing has grown rapidly over the past several years, and it is becoming a much more mainstream investment approach. With more sustainable investment strategies coming into the market, and more technology being developed to analyze the underlying holdings, wealth advisors need to take the lead in educating investors and building a stable of sustainable investment options. Investors are beginning to understand that screening and weighting securities based on sustainability helps identify good companies with sound policies regarding the environment, social issues, and board governance.

With the introduction of fractional shares and the growing interest in reflecting values in portfolios, direct indexing is poised for substantial growth in the next 10 years. Direct indexing lets

investors customize their baskets of securities to reflect their views. Active ETFs and direct indexing can help stem the outflows that many active managers have experienced over the past decade or so by replacing more-expensive active management options. This is not to suggest the demise of active management. I am merely observing that the overall pie can grow by offering more investors more options. Good active managers will thrive, and better options will replace weaker ones.

The number of model providers, model diversity, and models' overall acceptance in the marketplace will continue to grow. Asset allocation models that can help investors achieve their goals will become increasingly valuable to wealth advisors and clients, providing scale, efficiency, and better outcomes. As model providers develop longer track records and loyal adopters, they will become a much larger portion of asset managers' business. Open-architecture models should gain market share relative to proprietary-only models as advisors demand the best-of-the-best solutions, and models will need to expand the number and type of underlying investments. Alternative investments would be a logical evolutionary step, but solving the differentiated fee issues may be challenging initially.

Wealth advisors can serve a critical role in educating investors about new and improved products and strategies coming to the market. Some will be beneficial and help in democratizing access to these investments; others will fail to meet client expectations and will leave investors skittish about putting money into markets that seem to favor hedge funds, institutions, and family offices.

## THE FUTURE OF WEALTH MANAGEMENT

The wealth management industry has evolved a great deal over the years. Every time someone has predicted its demise, the industry has re-invented

itself and emerged with different ways of serving investors. When commissions were deregulated on May 1, 1975, the industry responded by introducing wrap-fee accounts and shifting toward advisory fees to better align with client interests. When the industry noticed that separately managed accounts had limitations and that advisors found it difficult to get client permission for every trade, the industry introduced discretionary programs that provided scale and efficiency in executing orders across multiple accounts without requiring permission. When the industry noticed that advisors were struggling to integrate multiple wrap accounts, it invented unified managed accounts to capture family holdings more efficiently in a single account.

How will the industry respond to the new set of challenges? A few ways in which the industry may change over the next 10 years include the following:

- Wealth management division spin-offs
- Education as the differentiator
- Scale and efficiency at a premium
- All firms offering commission-free trading
- Use of artificial intelligence to target services

## WEALTH MANAGEMENT SPIN-OFFS

With increased scrutiny regarding conflicts of interest, one or more wirehouses may spin off their wealth management divisions in the next 10 years. To improve overall economics, wealth management firms encourage advisors to cross-sell affiliated asset manager and banking products. Affiliated asset managers have had a tough time selling products to affiliated broker-dealers and will face increased pressure from regulators and investors to separate these two businesses. Regulators are concerned that investors do not fully understand the built-in conflicts or the related economic arrangements among

affiliates. Disclosure does not solve the problem, and investors are leery about advisors pushing house-products.

I predict that a large bank will separate its businesses and eliminate these potential conflicts of interest. If one bank splits its businesses into discrete organizations, others likely will follow suit, especially if a split-off business demonstrates the ability to grow.

## EDUCATION AS A DIFFERENTIATOR

In a crowded marketplace where investors have a difficult time differentiating among firms, wealth advisors will need to lead with education. Internal and external credentialing will become increasingly important for advisors to improve their knowledge and distinguish them from the pack. Specialized advanced training will be at a premium. A big part of a wealth advisor's value proposition will be in imparting knowledge around complex investments, product evolution, and issues such as estate planning, charitable giving, and dealing with concentrated positions.

Educational organizations such as the Investments & Wealth Institute, the CAIA Association, the Financial Planning Association, and the CFA Institute must continue to evolve training curricula to address the changing landscape. The curricula must be appropriate for wealth advisors and the clients they serve, addressing their specific needs, and incorporating a changing array of investment strategies. These organizations will need to recognize the investment and non-investment challenges facing wealth advisors and offer continuing education, thought leadership, and materials to help advisors continue to hone their craft.

## SCALE AND EFFICIENCY ARE AT A PREMIUM

The wealth management industry will continue to face fee compression, and successful firms will need to seek scale and efficiency to survive the next

10 years. Squeezed margins mean that wealth management firms will need to change their coverage models, with smaller accounts migrating to automated advice solutions and advisor teams serving larger, more complex relationships. Advisors emphasize capturing a larger slice of the wealth pie to augment falling fees.

Wealth advisors and their offices are the biggest cost components, so firms will disintermediate advisors wherever possible, jettisoning smaller accounts to a service center model. Firms will cut operations and administrative support to rein in costs and leverage technology to replace human interactions where they can.

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Of course, the trade-off may involve losing wealth advisors to an RIA model and disenfranchising investors who migrate to the lowest-cost solution. The search for efficiency has been underway for the past several years, and growing the client base while shrinking the cost structure will continue to be a difficult balancing act. Some firms will be able to take market share; others may be consolidated into other firms.

## COMMISSIONS WILL BE FREE

Commissions have been falling dramatically over the past several decades, and Schwab and Fidelity already have announced commission-free trading. In reality, those firms already were less

dependent on commissions. They were trying to gain market share from wire-houses, which had moved away from commissions as their primary revenue source decades earlier. Trading inevitably will become commission-free across the industry in the not-too-distant future. As with free ETFs, this simply will mean that the firm is capturing revenues elsewhere including payment for order flow, margin, and revenue-sharing arrangements. Schwab and Fidelity gave away trading commissions in an attempt to open more accounts and generate more revenue from cash sitting idly in money market funds.

These large firms do not arbitrarily give things away. They can shift their economic models to give up revenue in one business unit and recoup it in another. There is nothing wrong with this per se, but investors need to understand that free isn't always free.

## ARTIFICIAL INTELLIGENCE

Can firms use artificial intelligence (AI) to learn more about a client's needs? Can they teach computers how to identify client behaviors? Wealth management firms have been seeking this holy grail for years, trying to understand what clients want and need before clients know it themselves. AI could help advisors know the best strategies for clients, cross-sell products, and anticipate client decisions to switch firms.

Wealth management firms are investing in this technology to gain an edge. They have made progress with risk-profile questionnaires, propensity models, and trend analysis, but they are still searching for computers that can teach themselves using AI. In the next decade, however, AI is likely to be able to help wealth management firms maximize client relationships and solve complex problems. AI will help advisors anticipate client needs, provide better outcomes, and deepen client relationships. However, AI probably can't replace a good wealth advisor or help

investors weather market volatility, because AI lacks empathy and the ability to read nonverbal cues.

## RESPONDING TO THE CHANGING LANDSCAPE

Wealth advisors likely will need to anticipate changes and adapt their practices to respond to the ever-changing wealth management landscape. Those who resist these sweeping changes will be left behind, and those who embrace change likely will flourish. Whether or not all my predictions come true, it is safe to assume that there will be dramatic changes in the wealth advisor's value proposition and the way advisors serve clients. Successful advisors will embrace technology as a tool, not fear it as a threat to their value propositions.

Wealth advisory practices will need to adopt team-oriented models and become younger and more diverse in order to relate to the investors they serve. They'll need more women, millennials, and minorities within their ranks. These teams will need to possess a broader set of capabilities, evolving beyond merely providing portfolio-level advice and right-sizing practices, in order to serve clients well. Wealth advisors will need to embrace a goals-based investing process to solve simultaneously for a client's various needs.

Wealth advisors will need to hone their investment acumen and expand their toolboxes to include alternative investments (private markets and hedge funds) and sustainable investing, and they will need to educate clients regarding the roles and uses of these strategies and the structural trade-offs. As wealth advisors evolve their practices, they likely will consider multiple business models and must determine which models best align with their practices and clients' interests. These advisors will need to invest in themselves by participating in advanced educational programs that help them meet clients' goals.

Wealth advisors also may need to evolve their practices and economic models to better align with their value propositions. Asset-based fees are preferable to commissions but still leave advisor compensation tied to portfolios.

Subscription models, performance fees, project-oriented pricing, retainer fees, and hourly fees may evolve as preferable future models. Like everything else in our industry, investors will affect the way fees are paid and the fee level that makes sense for all parties.

Successful wealth advisors will embrace this changing landscape and flourish by adapting their value propositions and the way they serve investors. Advisors who fail to anticipate these changes will risk becoming obsolete. 🟡

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## ENDNOTE

1. See, for example, [https://www.ey.com/en\\_us/banking-capital-markets?WT.mc\\_id=10646466&AA.tsrc=paidsearch&s\\_kwcid=AL!110073!10!76897234539395!76897287603250&msslkid=7462ffa7609d1429ff949f7d24f97553](https://www.ey.com/en_us/banking-capital-markets?WT.mc_id=10646466&AA.tsrc=paidsearch&s_kwcid=AL!110073!10!76897234539395!76897287603250&msslkid=7462ffa7609d1429ff949f7d24f97553).

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