INVESTMENTS & WEALTH RESEARCH
FOCUS RESEARCH SERIES
ISSUE 1
2021

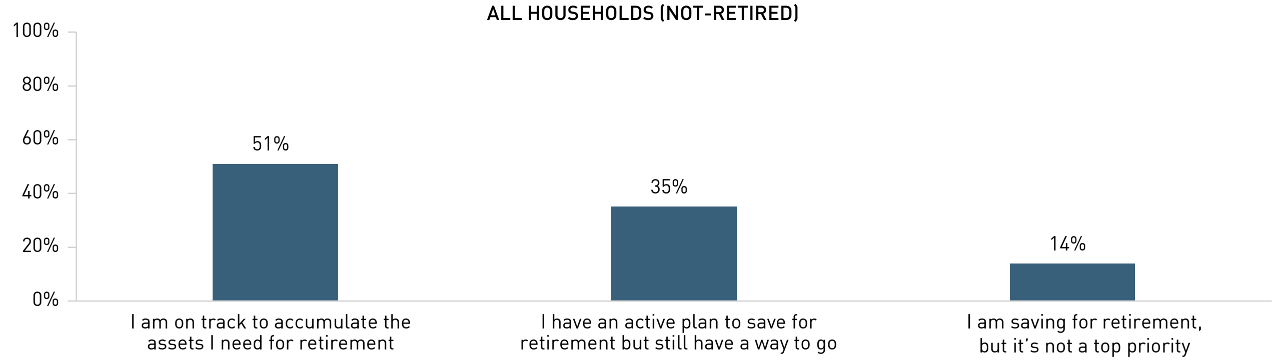
ADVISORS AND INVESTORS ARE REVISITING PRIORITIES

By Ed Louis, Senior Analyst, Wealth Management, Cerulli Associates

In this edition of *Investments & Wealth Research*, Cerulli Associates examines investors' thoughts around their financial goals and their progress in achieving them. The COVID-19 pandemic has forced investors (and advisors) to refocus priorities because most aspects of life have been altered by the pandemic's impact. Practices that successfully adapt, however, are playing a crucial role in helping their clients weather the continued uncertainty that exists in addition to creating opportunities to thrive in an eventual post-pandemic world.

FIGURE 1

RETIREMENT PLANNING SITUATION BY RETIREMENT STATUS, Q2 2020



Analyst Note: Respondents were asked, "Thinking about your overall financial/retirement planning situation, which of the following phrases best describes you and your family/household?"
Sources: Phoenix Marketing International, Cerulli Associates

FIGURE 1 HIGHLIGHTS: Half (51 percent) of not-retired investors believe they are on track to meet their retirement goals.

KEY IMPLICATIONS: Advisor-directed investors, who rely most heavily on their advisors, report by far the highest (66 percent) belief that their retirement accumulation is on track, and self-directed investors (22 percent) are the most likely to indicate that they have yet to prioritize saving.* Often, investors will choose to avoid analyzing their financial future in fear of an undesirable outcome. However, working closely with an advisor allows clients to offload many of their retirement-savings concerns. Even if meeting with an advisor does not produce immediate changes, the exercise of considering all the variables involved helps investors become more comfortable with the potential range of outcomes they may encounter and the strategies they can use to optimize them over time.

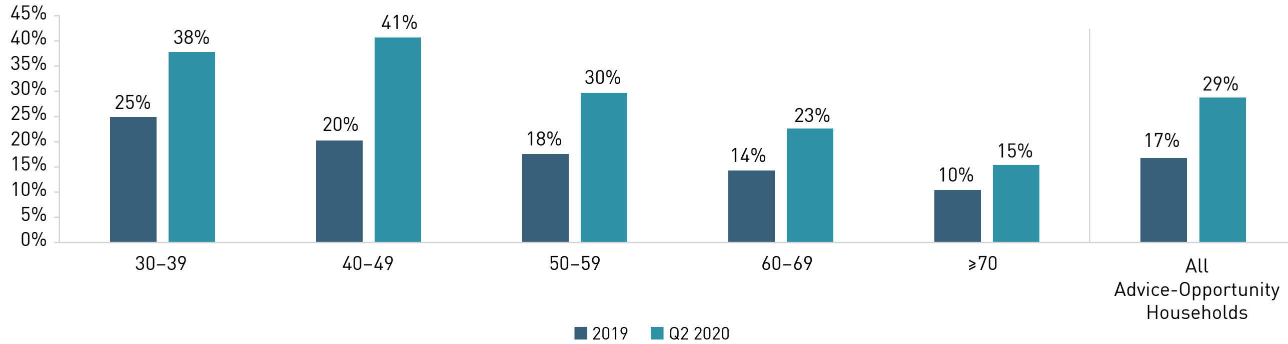
** Datapoint is not shown in figure 1.*

Investments & Wealth Research is offered exclusively to Investments & Wealth Institute® members. This article was created by and published in partnership with Cerulli Associates.

INVESTMENTS & WEALTH INSTITUTE®

FIGURE 2

ADVICE-OPPORTUNITY HOUSEHOLDS BY AGE RANGE, 2019 VS. Q2 2020



Analyst Note: Advice-opportunity households are households that indicate a need for more financial and investment advice, as well as a willingness to pay for such advice services.

Sources: Phoenix Marketing International, Cerulli Associates

FIGURE 2 HIGHLIGHTS: From 2019 to 2020, advice-opportunity households—households that indicate they both need more advice and are willing to pay for it—increased from 17 percent of respondents to 29 percent.

KEY IMPLICATIONS: Increases in both willingness to pay for advice, from 52 percent to 56 percent, and interest in receiving more advice, from 37 percent to 40 percent, resulted in a noteworthy growth in the overlap between the two categories.* Investors in their 40s said they felt the impact of volatility in 2020 the most intensely because, for many, this was the first major market correction since they had accumulated significant assets. Cerulli Associates expects to see additional growth in advice opportunity within this age cohort over the next year because volatility and uncertainty seem likely to continue to dominate the investment landscape in the near term.

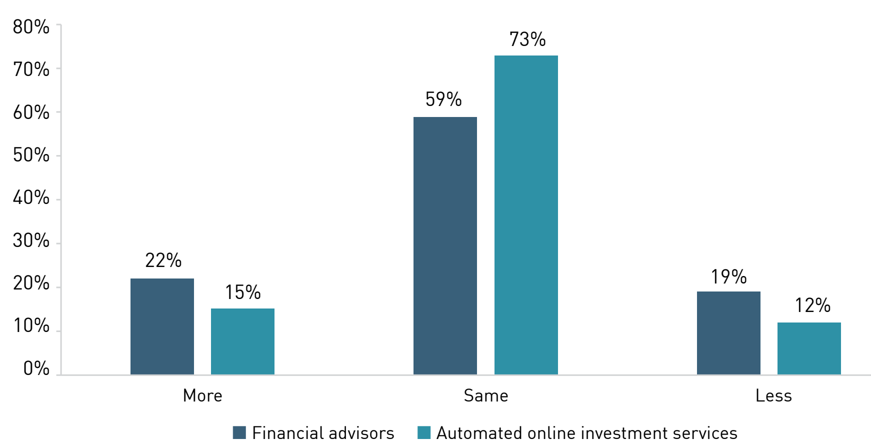
**Datapoint is not shown in figure 2.*

FIGURE 3

INVESTORS: EXPECTED FUTURE USE OF SERVICES, Q2 2020

FIGURE 3 HIGHLIGHTS: More than one in five investors say they will use human advisors more often; only 15 percent say they will use digital advisors more often.

KEY IMPLICATIONS: Investors are split concerning their expected future use of financial advisors. On an age basis, expected decreases were relatively consistent, but projected increases varied widely. Investors younger than age 40 expressed elevated interest, and such interest grew among those in their 40s before declining rapidly among older investors.* This underscores the importance of establishing advice relationships with younger investors, often before substantial wealth accumulation. Prospective clients in this segment are desperate for help in sorting out their competing financial priorities but often draw little interest from traditional advisors.



Analyst Note: Respondents were asked how they thought the longer-term lifestyle changes brought about by the COVID-19 pandemic will affect the future level of need for each of the services listed.

Sources: Phoenix Marketing International, Cerulli Associates

Digital tools can help fill the void, especially in regard to investment management, but they lack the empathy and customized advice investors seek on the other financial quandaries they face.

** Datapoint is not shown in figure 3.*

TABLE 1

RETIREMENT PLAN PARTICIPANTS: DESIRED RETIREMENT PLANNING CHANGES BY AGE, Q2 2020

	Head of Household Age				
Desired Retirement Planning Changes	30–39	40–49	50–59	60–69	All Households
Starting to plan/save sooner	32%	43%	28%	39%	34%
A better understanding of financial laws and regulations	18%	9%	20%	20%	19%
More free time to think about and plan financially	22%	15%	21%	10%	15%
Having more information/interaction from financial professionals (e.g., your advisor, accountant)	11%	13%	9%	11%	10%
Having more information/interaction from financial companies (e.g., the firm where you invest)	12%	15%	10%	6%	9%

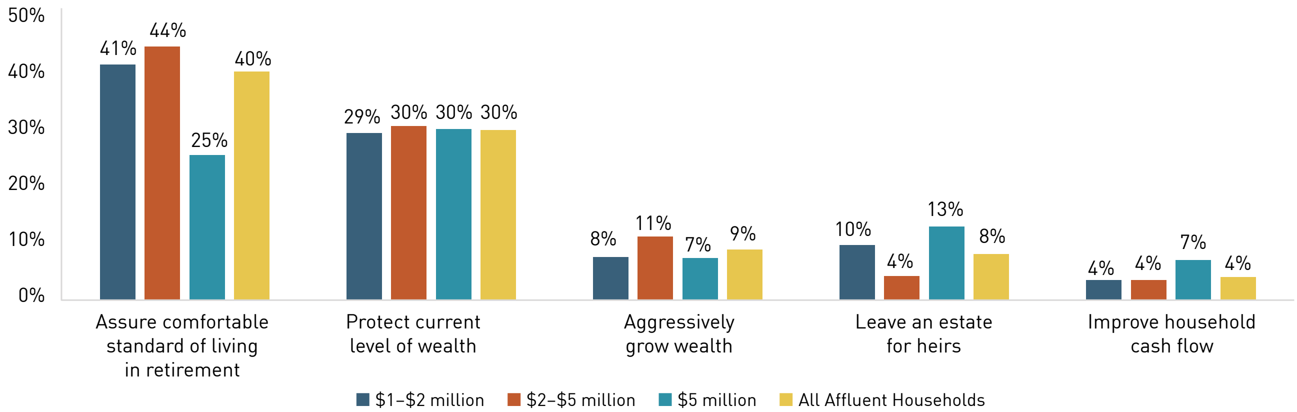
Analyst Note: Participants were asked, "Aside from having more money, if you could improve or change one other aspect about your financial/retirement planning situation, what would it be?"
Sources: Phoenix Marketing International, Cerulli Associates

TABLE 1 HIGHLIGHTS: Not having a better understanding of the regulations governing savings plans is the second-most commonly cited regret (19 percent).

KEY IMPLICATIONS: The number-one regret of investors with regard to saving for their retirements is not having started earlier (34 percent). This result is consistent across all advice orientations and age groups except for respondents younger than age 30, who are so early in their investing lives that regret about not starting earlier would be unlikely at best. The widespread implementation of automatic enrollment into salary deferral programs such as 401(k) and 403(b) plans is aimed directly at addressing savers' most common regret. The key to improving long-term outcomes is assuring that, whenever possible, the better choice is also the path of least resistance.

FIGURE 4

AFFLUENT HOUSEHOLDS: MOST IMPORTANT FINANCIAL GOALS BY INVESTABLE ASSETS, Q2 2020



Analyst Note: All affluent households include those possessing $1 million or more in investable assets. Percentages may not sum to 100 percent due to rounding.

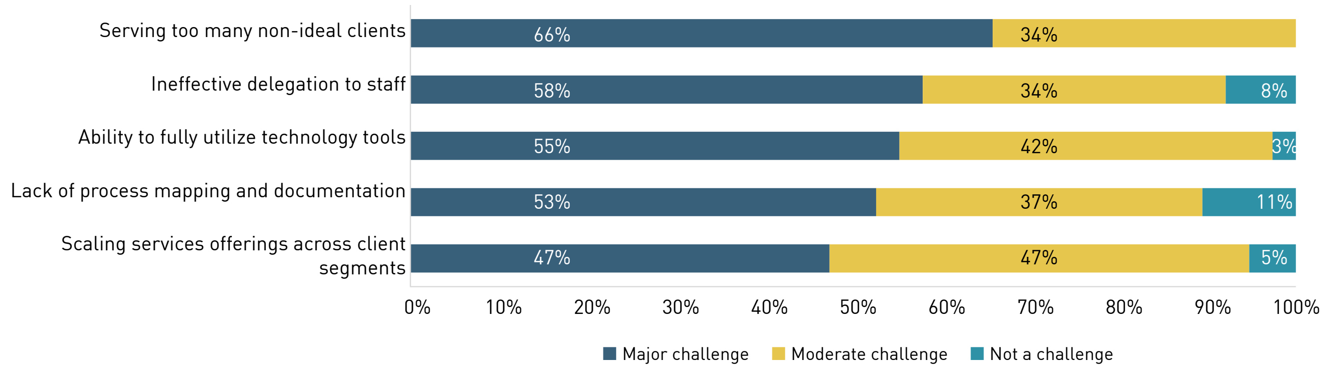
Sources: Phoenix Marketing International, Cerulli Associates

FIGURE 4 HIGHLIGHTS: Assuring a comfortable standard of living in retirement is cited by 40 percent of affluent households as their most important financial goal.

KEY IMPLICATIONS: The top financial concerns among affluent households are understandable given the impact the pandemic has had on households' financial situations. Because of continuing concerns about the economy, job market, and daily cash-flow needs, advisors need to go beyond retirement planning to help clients meet their households' evolving needs. High-net-worth (HNW) households—those with more than $5 million in investable assets—are far more focused on protecting current levels of wealth than aggressively growing wealth; nearly one-third (30 percent) of HNW households cite protecting current levels of wealth as their primary concern. Cerulli Associates notes that if firms want to successfully cater to the HNW market, they must be able to offer appropriate expertise, products, and services to match these clients' most pressing needs and concerns as the COVID-19 pandemic endures.

FIGURE 5

PRACTICE MANAGEMENT PROFESSIONALS: TOP ADVISOR PRODUCTIVITY CHALLENGES, 2020



Analyst Note: Data is based on survey responses from practice management professionals.

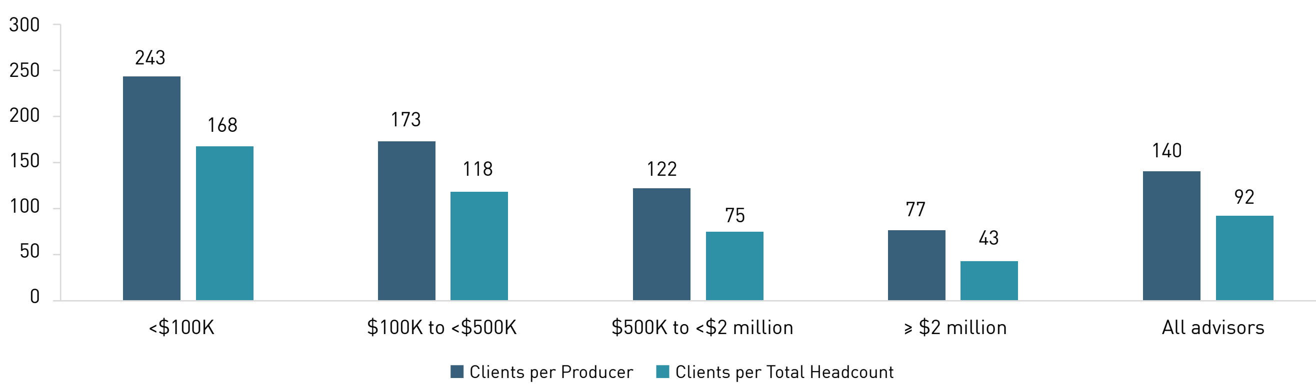
Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association®

FIGURE 5 HIGHLIGHTS: Serving too many non-ideal clients (66 percent) and ineffective delegation to staff (58 percent) most commonly hinder advisors' productivity.

KEY IMPLICATIONS: One of the biggest challenges that a practice faces as its client base expands is defining and implementing a clear client service model. It can be difficult for advisors to segment their client relationships into tiers and match clients with an appropriate level of services. However, making sure that clients receive only the services that are truly relevant does more than simply free up time to focus on larger opportunities. Ensuring that the practice can deliver a consistent, repeatable experience is fundamental for establishing the trust needed to guide clients through volatile markets, thereby organically creating referral opportunities.

FIGURE 6

CLIENT COVERAGE RATIOS, 2020



Analyst Note: Clients per producer includes principals/owners, senior advisors, and producing junior advisors. Total headcount includes all advisors and staff.

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

FIGURE 6 HIGHLIGHTS: Practices serve an average of 140 clients per producing advisor.

KEY IMPLICATIONS: Technology provides a scalable way to serve more clients without compromising service quality. This is particularly valuable for smaller practices that may struggle with capacity constraints, given their tendency to work with less-affluent clients. Among practices with less than $25 million in assets under management, 68 percent have a core market of investors with less than $500,000, compared to 39 percent of all advisors.* However, these smaller practices typically also are time- and resource-constrained, which amplifies the challenges that advisors encounter when implementing technology. Strategic partners can help these sub-scale practices, particularly in the independent space, manage their technology options and integrate their stack to maximize return on investment.

** Datapoint is not shown in figure 6.*

TABLE 2

PRACTICE MANAGEMENT PROFESSIONALS: TOP ADVISOR HUMAN CAPITAL CHALLENGES, 2020

	Practice Management Professionals		
Challenge	Not a Challenge	Moderate Challenge	Major Challenge
Structuring roles and responsibilities	3%	42%	55%
Hiring quality staff	13%	34%	53%
Recruiting established advisors to join the firm	13%	37%	50%
Establishing career paths for staff	5%	45%	50%
Merging established advisors into teams	11%	45%	45%
Grooming junior advisors	5%	58%	37%
Retaining high-performing employees	14%	59%	27%

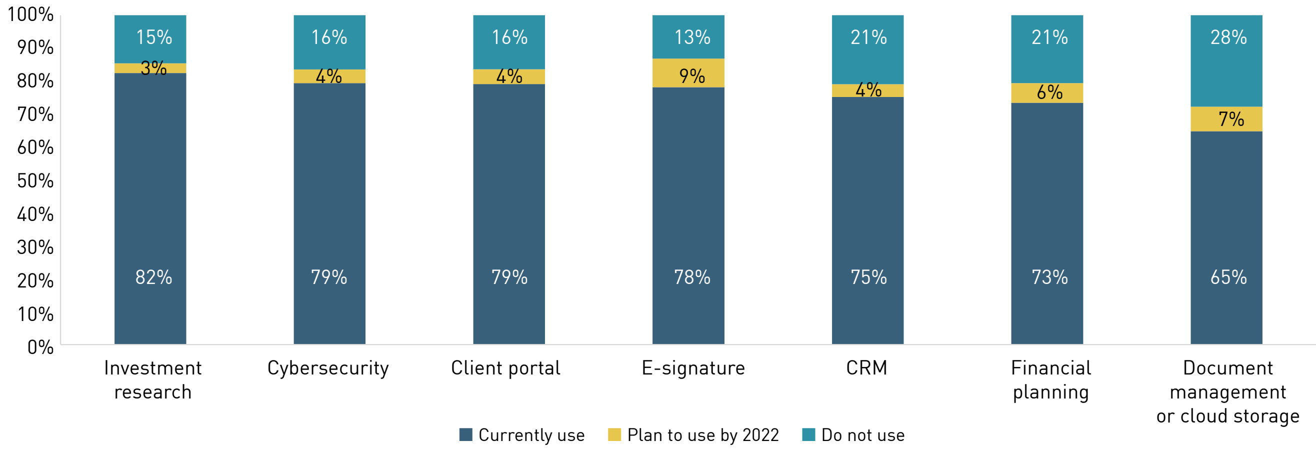
Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

TABLE 2 HIGHLIGHTS: More than one-half of practice management professionals consider structuring roles and responsibilities (55 percent) and hiring quality staff (53 percent) to be major human capital challenges for advisors.

KEY IMPLICATIONS: Practices can negate the benefits of hiring junior advisors or specialized staff when they fail to clearly delineate the roles and responsibilities of team members. Advisors often find themselves wearing multiple hats as they build their book of business. As their practices grow and client bases expand, however, capacity constraints can hinder further growth. Although these advisors may look to teaming as a solution, it is critical that they align expectations with their partners, delegate properly, delineate roles clearly, and determine a shared vision for the team. Unstructured or informal teaming arrangements can introduce redundancies, create confusion for staff, and rob the practices of efficiencies that they could reap by integrating processes.

FIGURE 7

ADVISORS: TOP TECHNOLOGY USES, 2020



Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

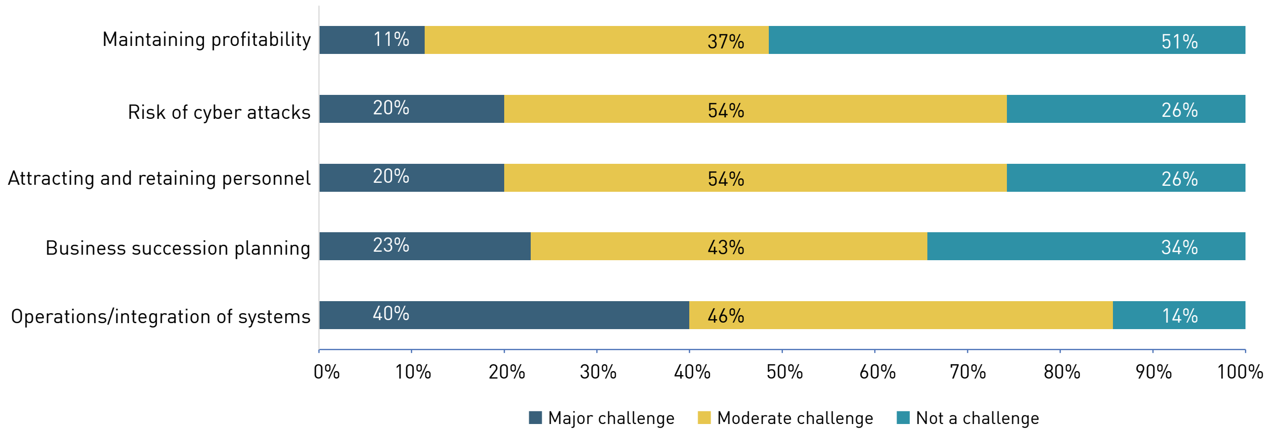
FIGURE 7 HIGHLIGHTS: Nearly three-quarters (73 percent) of advisors use financial planning technology and an additional 6 percent plan to use it by 2022.

KEY IMPLICATIONS: Social-distancing measures implemented during the COVID-19 pandemic have forced advisors to adopt technology tools that they may have been reluctant to use previously. E-signature, document management, and client portals have become essential, alongside video-conferencing technology for virtual meetings with clients and staff. Although the industry still is lagging many others in technology use, investors' expectations and preferences are evolving. Practices must continue to adapt as well, to keep pace. Currently, half (51 percent) of advisors do not use technology for marketing or prospecting.*

** Datapoint is not shown in figure 7.*

FIGURE 8

HNW PRACTICES: GREATEST BUSINESS CHALLENGES, 2020



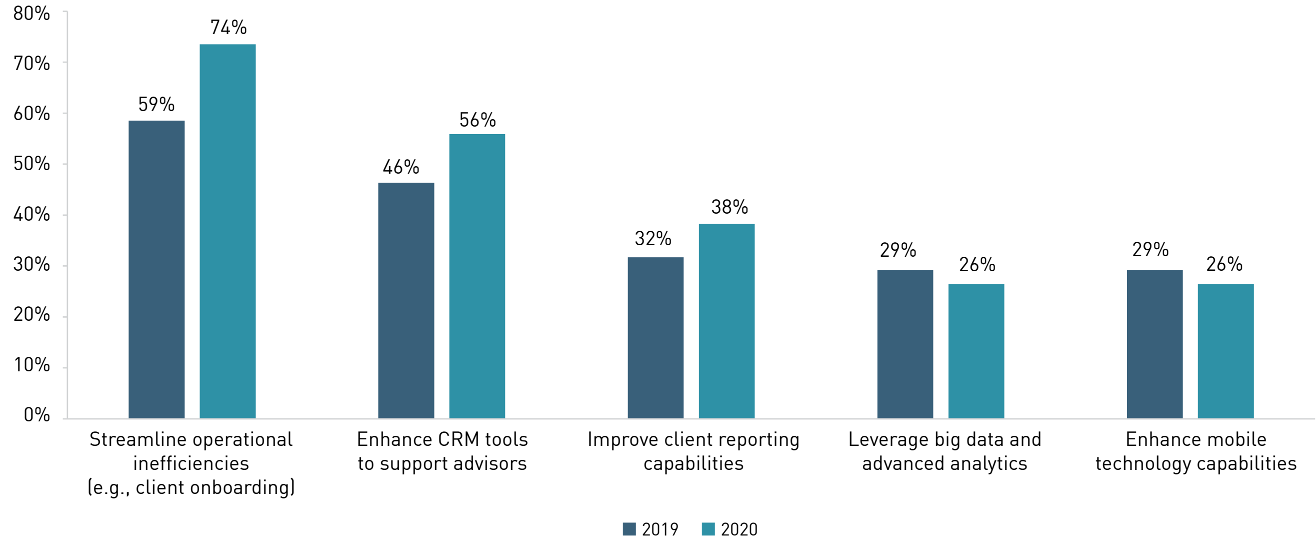
Source: Cerulli Associates

FIGURE 8 HIGHLIGHTS: Two-fifths (40 percent) of surveyed HNW practices considered operations and integration of systems as their greatest business challenge in 2020.

KEY IMPLICATIONS: When it comes to tackling integrating systems and operations, firm size is a major factor to consider. For larger firms with existing proprietary systems, developing unified platforms in-house for advisors to operate within has become a standard for firms looking to both gain an operational edge and create a better experience for advisors and clients. For smaller firms without the budgets to invest in in-house development, outsourcing to third-party providers (e.g., Addepar or Black Diamond) can create greater efficiencies through data aggregation, analytics, and reporting tools. Ultimately, modernizing the technology platforms will help firms of all sizes develop deeper client relationships and create operational efficiencies leading to continued growth.

FIGURE 9

HNW PRACTICES: MOST IMPORTANT TECHNOLOGY INITIATIVES, 2019 VS. 2020



Analyst Note: Respondents were allowed to select up to three initiatives.

Source: Cerulli Associates

FIGURE 9 HIGHLIGHTS: Streamlining operational inefficiencies exhibited the largest year-over-year increase as the top technology initiative among surveyed HNW practice leaders.

KEY IMPLICATIONS: Along with increased operational efficiencies, Cerulli Associates also believes that a smooth client experience resulting from systematized and technologically supported advisors should remain top-of-mind for executives and practice management professionals.

An executive at a large multi-family office reports that the firm has invested heavily in a proprietary goals-based planning software in recent years that "calculates probabilities of success within certain investments and plans and also allows us to paint a complete picture of the family unit's balance sheet." Firms that offer a wide range of services and help clients see how all aspects of their financial plan work together can enhance the client experience and generate more referrals. Leveraging consolidated reporting and financial planning platforms can give firms an edge over those with fragmented technology.

Ed Louis is a senior analyst, wealth management at Cerulli Associates. Contact him at elouis@cerulli.com.

Published by Investments & Wealth Institute, 5619 DTC Parkway, Suite 500 | Greenwood Village, CO 80111 | www.investmentsandwealth.org

Working Remotely?

Explore these online offerings for our three certification programs.

Get started today on adding more value to your client relationships with advanced expertise in investment, wealth, or retirement management. In these turbulent times, your clients need your expertise more than ever.

Looking for CE?

Each Institute certification program offers up to 28 hours of CFP® certification CE and up to 40 hours of CIMA®, CPWA®, and RMA® certification CE.

CIMA® Certification Online/Hybrid Programs

Chicago Booth:

Virtual Learning: May 12–August 6, 2021
Apply by May 10, 2021

Virtual Learning: September 8–December 3, 2021
Apply by September 21, 2021

Yale SOM:

Fully online program
Apply now

CPWA® Certification Online/Hybrid Programs

Chicago Booth:

Self-study: September 2021–March 2022
In-person class: March 20–24, 2022
Apply by September 3, 2021

Yale SOM:

Fully online program
Apply now

RMA® Certification Online/Hybrid Programs

Investments & Wealth Institute:

Fully Online Program
Virtual Learning: May 4–August 3, 2021
Apply by May 3, 2021

Virtual Learning: June 24–September 14, 2021
Apply by June 23, 2021

Virtual Learning: September 21–December 16, 2021
Apply by September 20, 2021

INVESTMENTS & WEALTH INSTITUTE®

Learn more or apply at:
www.investmentsandwealth.org/getcertified

*In-person class dates, times, and locations will be closely monitored. If COVID-19 conditions should change, virtual/online options will be provided.