

YOUR INVESTMENT FUTURE: WHAT TO EXPECT, HOW TO PLAN, WHOM TO HIRE (FOR WHAT)

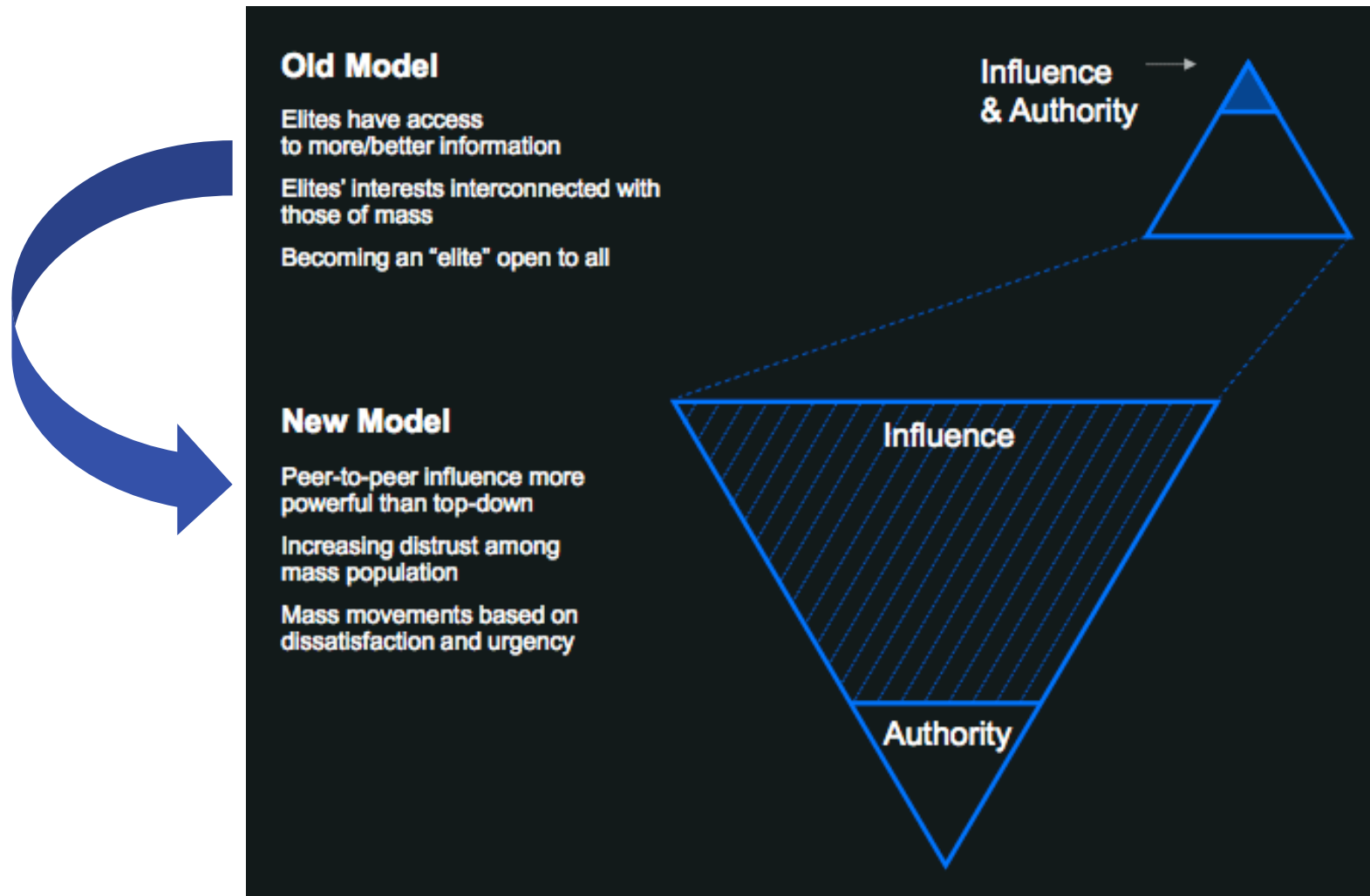
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AGENDA – SESSION OUTLINE

- Industry Trends / Implications
 - Edelman Trust Barometer - 2018
 - The State of Retail Wealth Management
 - 10 Disruptive Trends in Wealth Management
 - Discovering PHI – Study of Motivations
 - Money, Meaning, and Mindsets
- Hiring an Advisor
 - Fiduciary versus Suitability Standard
 - What services and how to value them
 - Who are you and what do you need
 - Advisor comparison questions
- Q & A

EDELMAN TRUST BAROMETER – 2018 ¹



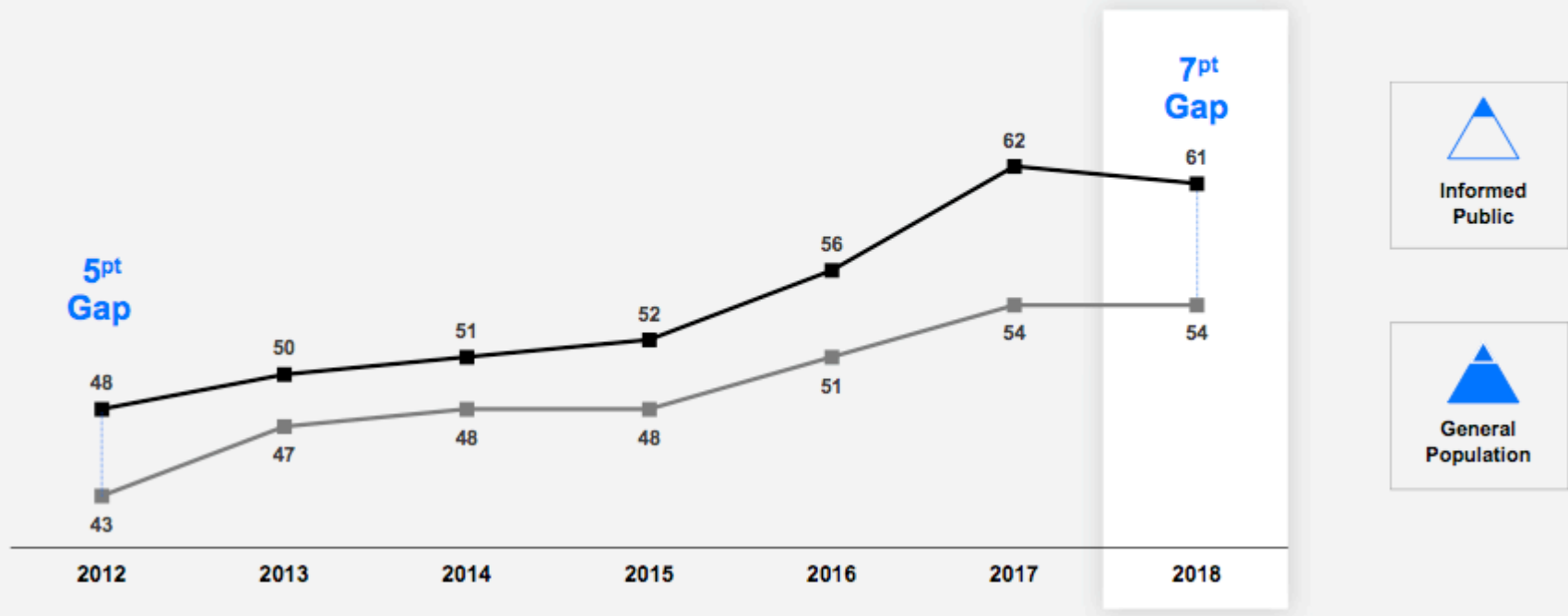
¹ 2018 Edelman Trust Barometer – Financial Services Edition

http://cms.edelman.com/sites/default/files/2018-03/Edelman_Trust_Barometer_Financial_Services_2018.pdf

EDELMAN TRUST BAROMETER – 2018 ¹

Five Year Rise in Financial Services Trust Stalls

Percent trust in the financial services sector, general population and informed public, and change from 2012 to 2018



¹ 2018 Edelman Trust Barometer – Financial Services Edition

http://cms.edelman.com/sites/default/files/2018-03/Edelman_Trust_Barometer_Financial_Services_2018.pdf

THE STATE OF RETAIL WEALTH MGMT¹

Assets in Discretionary Accounts

2014	2015	2016	2017
10%	11%	12%	15%

Average Fees for Households with Managed Assets of \$1 Million to \$1.5 Million

2014	2015	2016	2017
1.16%	1.16%	1.13%	1.08%

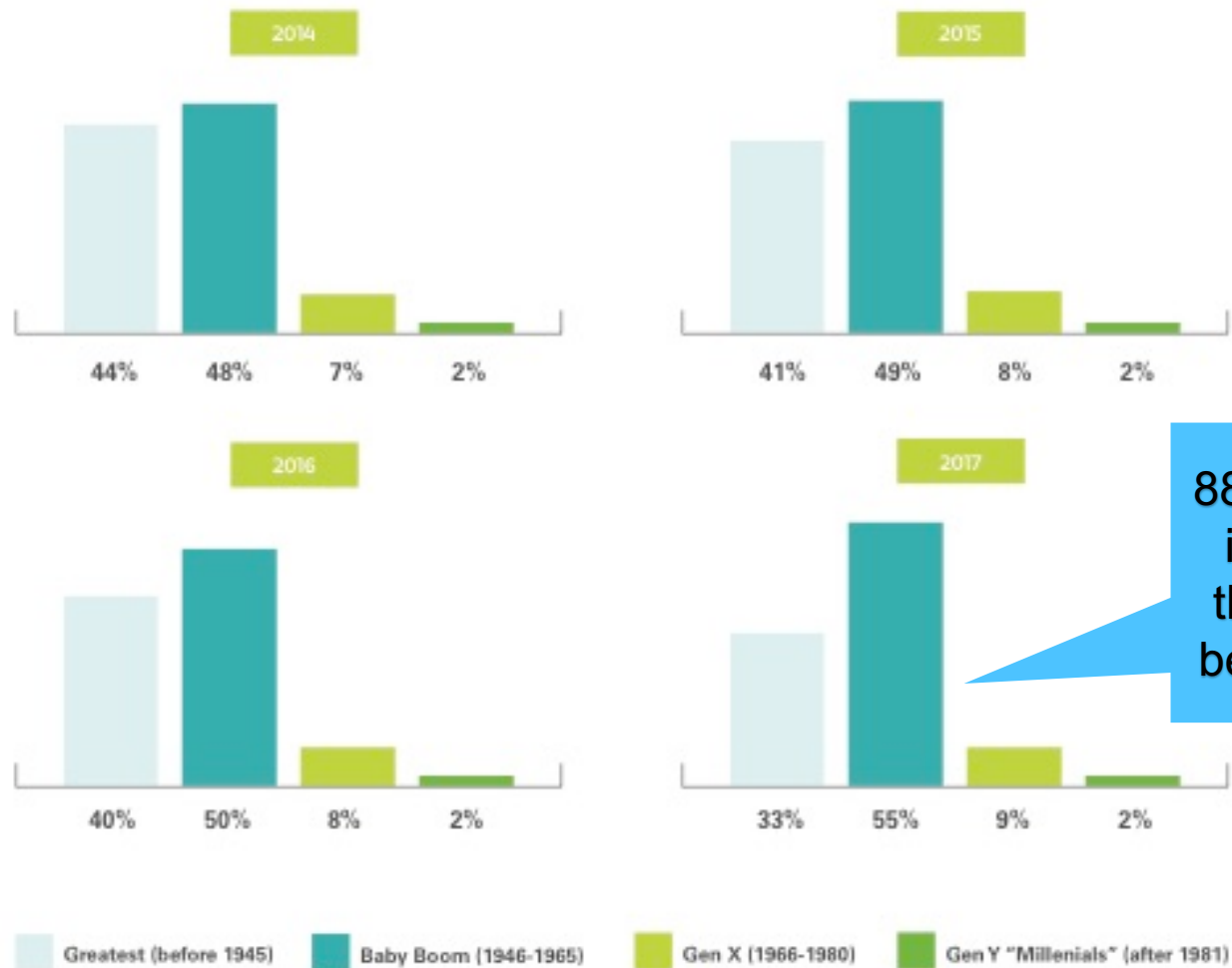
Fees on New Accounts (Last 12 Months) for Households with Managed Assets of \$1 Million to \$1.5 Million

2014	2015	2016	2017
1.13%	1.12%	1.07%	1.04%

¹ *The State of Retail Wealth Management – PriceMetrix – Part of McKinsey & Company*
<https://www.pricemetrix.com/state-retail-wealth-management-2017/>

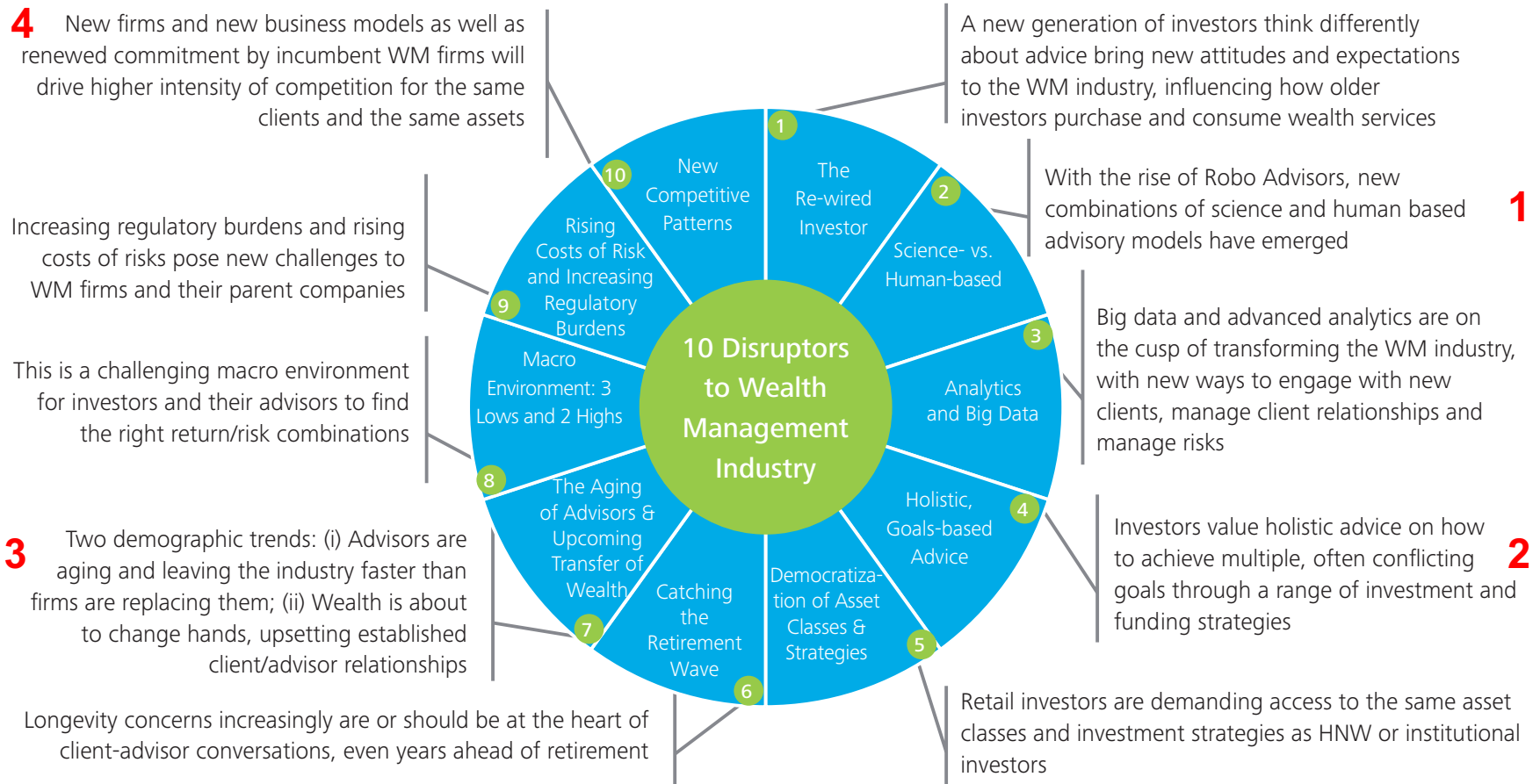
THE STATE OF RETAIL WEALTH MGMT¹

Generational AUM



¹ *The State of Retail Wealth Management – PriceMetrix – Part of McKinsey & Company*
<https://www.pricemetrix.com/state-retail-wealth-management-2017/>

10 DISRUPTIVE TRENDS IN WEALTH MGMT¹



¹ *10 Disruptive Trends in Wealth Management – Deloitte Development, LLC*
<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-disruptors-in-wealth-mgmt-final.pdf>

10 DISRUPTIVE TRENDS IN WEALTH MGMT¹

1. **Winning Model:** Hybrid combining Robo and Human Advice
2. **Process:** Shift to holistic goals based advice that measure performance on achieving goals vs benchmarks
3. **Aging:** 43% of US advisors are over age 55 and one-third of this workforce is expected to retire in the next 10 years; thus nearly 240,000 new advisors will need to be recruited/trained

Resource - Unlocking Generational CODES: Understanding What Makes the Generations Tick and What Ticks Them OFF by Anna Liotta

4. **Competitive Patterns:** Independent Registered Investment Advisors (RIAs) will continue to gain market share at the expense of wirehouses

¹ 10 Disruptive Trends in Wealth Management – Deloitte Development, LLC
<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-disruptors-in-wealth-mgmt-final.pdf>

DISCOVERING PHI –CFA INSTITUTE STUDY¹

- ***Intent:*** Move from performance-driven to purpose-driven
- ***Objective:*** Support/enhance process to ensure clients long-term goals are met (i.e., fiduciary – put client’s interests first)
- ***Findings:*** A one point increase in Phi score is associated with -
 - ***28% greater odds of excellent long-term organizational performance***
 - ***55% greater odds of excellent client satisfaction***
 - ***57% greater odds of excellent employee engagement***

¹ *Discovering Phi: Motivations as the Hidden Variable of Performance*, CFA Institute and State Street Center for Applied Research
<https://www.cfainstitute.org/-/media/documents/survey/motivation-as-the-hidden-variable-of-performance.ashx>

DISCOVERING PHI –CFA INSTITUTE STUDY

- **Scores from the findings¹:**

Category	Percentage
High Phi	16.62%
Moderate Phi	29.88%
Low Phi	40.31%
No Phi	13.19%

- **Firm leaders / environments should encourage and include motivations and values in several areas:**
 - **Purpose** – align firm purpose and values with clients
 - **Habits** – devote time and energy to developing habits that align with clients’ purpose and values
 - **Incentives** – redesign incentives² to improved cognitive and emotional functions – avoid short term financial incentives

¹ Phi Scores increased with the age of the respondent.

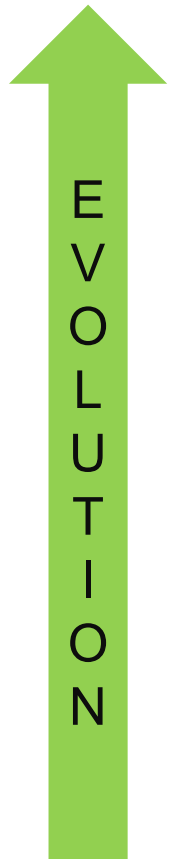
² The study notes that “...39% of investment professionals would be pleased to have a performance bonus on a two-to-five year cycle versus the typical annual bonus.”

MONEY, MEANING, AND MINDSETS¹

Industry should move to this stage

Industry is currently here

Stages of Cultural Evolution (personality style)	Key Features	Theme	Key Values	Investment Examples	Maslow Level
Integrator YELLOW	Integral Self: <ul style="list-style-type: none"> Personal freedom to all without harm to others or the physical environment. Limit the excesses of self-interest. Focus on self-expression and systemic approaches. 	Live life fully and responsibly, with little fear, and with appreciation for all “previous” mindsets.	<ul style="list-style-type: none"> Purpose Service Ethics Common good (high SQ,* e.g., spiritual intelligence) 	Just emerging now. The firm of the future.	<ul style="list-style-type: none"> Higher purpose Service Greater good Relatively little fear
Communalist/ clan GREEN	Rational Self: <ul style="list-style-type: none"> Collaborative. Share resources among all. Reach decisions through consensus. Liberate humans from greed and dogma. 	Seek peace within, and harmony in community.	<ul style="list-style-type: none"> Trust and respect Collaboration Communication Development (high EQ†) 	Bridgeway Boston Common Polen, and ESG firms	<ul style="list-style-type: none"> Transformation, moving past prior levels, seeing past “me” to “we.”
Rationalist ORANGE	Rational Self: <ul style="list-style-type: none"> Search for success and enhance living through strategy and technology. Seek independence and autonomy. Play to win and enjoy competition. 	Act in your own self-interest by playing the game to win.	<ul style="list-style-type: none"> Success Winning Competing Excellence (high IQ‡) 	Hedge funds, many traditional active managers	<ul style="list-style-type: none"> Mastery Autonomy
Guardian BLUE	Guardian Self: <ul style="list-style-type: none"> Bring order and stability to all things and control impulsivity through a higher authority. Sacrifice now for later rewards. Laws and discipline builds character. 	Life has meaning, direction, and purpose with pre-determined outcomes.	<ul style="list-style-type: none"> Organized Principled Practical Detailed Loyal 	Vanguard, traditional bank trust departments	<ul style="list-style-type: none"> Connection Belonging Loyalty
Impulsive/ Egocentric RED	Power Self: <ul style="list-style-type: none"> World is a jungle, full of threats. Proud and defiant, expects attention, demands respect. 	Be what you are and do what you want, regardless.	<ul style="list-style-type: none"> Power Control 	Founder-run firms with a strong personality in charge	<ul style="list-style-type: none"> Security Safety
Tribal Groups, Hunters and Gatherers					Survival



* SQ: Spiritual intelligence is a term used by some philosophers, psychologists, and developmental theorists to indicate spiritual parallels with IQ (intelligence quotient) and EQ (emotional quotient).

† EQ: Emotional intelligence (EI), also known as emotional quotient (EQ) and emotional intelligence quotient (EIQ), is the capability of individuals to recognize their own emotions and those of others, discern between different feelings and label them appropriately, use emotional information to guide thinking and behavior, and manage and/or adjust emotions to adapt to environments or achieve one’s goal(s).

‡ IQ: An intelligence quotient is a total score derived from one of several standardized tests designed to assess human intelligence.

Source: Beck and Cowan, *Spiral Dynamics* (1996)

MONEY, MEANING, AND MINDSETS¹

- Industry is currently **Orange** – success / winning / excellence – high IQ
- Industry should move toward **Green** – trust / respect / collaboration – high EQ – embrace move toward ESG
- Robo-Advising may catalyze enhanced advisor communication in the creation of “household alpha” (the value of holistic advice)
- How can we measure Trust? Jim suggests client surveys for opinions / feedback and more training on emotional intelligence
- Suggests advisors have “skin in the game” such that if “household alpha” is strong, tweak fees upward, but if low, tweak fees downward
- Pending retirement of many advisors will be significant issue to address. Firms with leaders in **Green** or **Yellow** stages are better positioned

¹ *Money, Meaning, and Mindsets: Radical Reform for the Investment Industry* by Jim Ware with Keith Robinson and Michael Falk
<http://www.focusgroup.com/wp-content/uploads/2015/11/Money-Meaning-Mindsets.pdf>
Read my interview with Jim - <http://investmentsandwealth.org/getattachment/99866d4c-8c16-40cb-8f89-1ea9a3a7c300/IWM18MayJun-MoneyMeaningMindsets.pdf>

REGULATORY SERVICE STANDARDS¹

*SUITABILITY (Think “brokers/trading”) - **LOWER***

- ❖ *Know and Understand your Needs and Objectives*
- ❖ *On the basis of the above, recommend investments/actions that are **“SUITABLE”***

*FIDUCIARY (Think “advisor/planner”) - **HIGHER***

- ❖ *Know and Understand your Needs and Objectives*
- ❖ *On the basis of the above, recommend investments/actions that are in your **“BEST INTERESTS”** (i.e., higher priority than the advisor)*

¹ Excellent references and links on Gary Karz’s website - <http://www.investorhome.com/fiduciary.htm>

PUTTING INVESTORS FIRST¹

Demanding that financial professionals abide by these rights helps you build trust in the person and/or firm you engage with, and thereby collectively restore trust, respect, and integrity in finance.

WHEN ENGAGING THE SERVICES OF FINANCIAL PROFESSIONALS AND ORGANIZATIONS, I HAVE THE RIGHT TO...

1. **Honest**, competent, and ethical conduct that complies with applicable law;
2. Independent and **objective** advice and assistance based on informed analysis, prudent judgment, and diligent effort;
3. My financial **interests** taking precedence over those of the professional and the organization;
4. **Fair** treatment with respect to other clients;
5. Disclosure of any existing or potential **conflicts** of interest in providing products or services to me;
6. **Understanding** of my circumstances, so that any advice provided is suitable and based on my financial objectives and constraints;
7. Clear, accurate, complete and timely **communications** that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all **fees** and costs charged to me, and information showing these expenses to be fair and reasonable;
9. **Confidentiality** of my information;
10. Appropriate and complete **records** to support the work done on my behalf.

¹ CFA Institute resources - <https://www.cfainstitute.org/research/future-finance/investors-first>

WHAT DO ADVISORS PROVIDE?¹

KEY QUESTION – WHAT SERVICES DO YOU VALUE?

TABLE 1: PRACTICE-TYPE DEFINITIONS, 2010

Emphasis on Advice vs. Investment Management	Practice Type	Definition	Planning Services Offered
<p>Less</p> <p>Money Manager</p> <p>↓</p> <p>Wealth Advisor</p> <p>↓</p> <p>More</p>	Money Manager	Builds portfolios of individual securities for clients and focuses exclusively on asset management.	Securities selection, investment planning
	Investment Planner	Emphasizes asset management as the primary service; also may offer modular services such as retirement planning or education funding.	Asset management plus retirement and education planning
	Financial Planner	Develops complete financial plans for clients based on an extensive analysis of assets and liabilities.	Full range of planning services including income, tax, and insurance
	Wealth Manager	Specializes in comprehensive wealth management and transfer issues including stock-option planning, executive compensation, complex trust and estate planning, and charitable giving.	Complete range of planning services; emphasis on complex estate, charitable giving, and business planning

Cerulli Associates, Cerulli Associates–Investment Management Consultants Association Advisor Surveys

¹ – 2010 Survey of Advisors – published by Investments & Wealth Institute (formerly IMCA) 2011

WHAT DO ADVISORS PROVIDE?¹

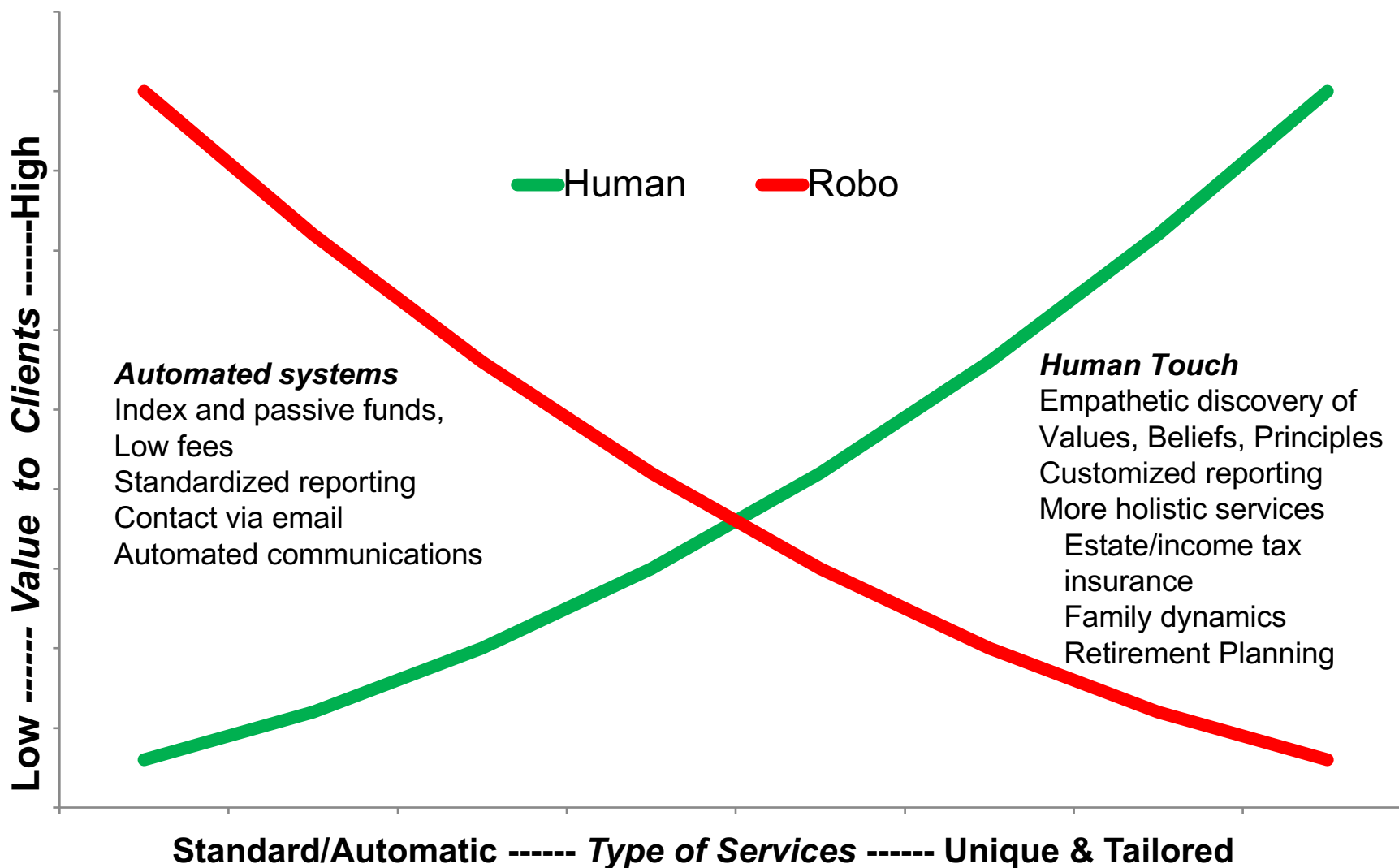
TABLE 7: SERVICES OFFERED BY PRACTICE TYPE, 2010

Service	Money Manager	Investment Planner	Financial Planner	Wealth Manager	All IMCA Advisors
Asset Allocation	92.9%	99.8%	100.0%	100.0%	99.6%
Retirement Income Planning	66.1%	94.0%	100.0%	94.2%	94.6%
Retirement Accumulation Planning	66.1%	90.5%	96.1%	88.5%	90.9%
Investment Manager Due Diligence	57.0%	90.0%	84.0%	98.5%	88.4%
Estate Planning	21.6%	85.9%	97.0%	100.0%	88.4%
Insurance (life, health, liability, etc.)	37.0%	83.5%	98.1%	88.1%	86.3%
Education Funding	43.3%	84.5%	88.4%	81.5%	83.7%
Charitable Giving	22.8%	67.7%	80.4%	88.5%	72.1%
Employer Benefits Retirement Planning	7.1%	66.6%	84.4%	73.8%	70.1%
Cash Management	22.8%	66.3%	83.7%	70.8%	69.9%
Elder Care Planning	22.8%	63.0%	68.1%	50.0%	61.3%
Trust Services	42.5%	54.6%	66.0%	76.2%	59.9%
Tax Planning	22.8%	55.3%	64.0%	72.3%	58.6%
Business Planning	29.9%	52.4%	59.6%	72.7%	56.1%
Private Banking	14.2%	27.2%	33.8%	45.5%	30.8%
Concierge and Lifestyle Services	0.0%	25.7%	27.2%	35.0%	26.4%
Other Services	0.0%	0.5%	2.8%	6.2%	1.8%

Cerulli Associates, Cerulli Associates–Investment Management Consultants Association Advisor Surveys

¹ – 2010 Survey of Advisors – published by IMCA first quarter 2011

HOW ARE ADVISOR SERVICES VALUED?



WHO ARE YOU & WHAT DO YOU NEED¹?

ASSESS YOURSELF FOR KNOWLEDGE/SOPHISTICATION **AND** THE NEED FOR CONTROL

Knowledge

1. How experienced are you in investments?

1	2	3	4	5
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Not very experienced

Very experienced

2. How much do you know about the securities markets?

1	2	3	4	5
---	---	---	---	---

Not much

A lot

Control

1. How much time do I want to/can I devote to my finances?

1	2	3	4	5
---	---	---	---	---

Less than one hour/week

35% or more of my time/week

2. Am I looking for an advisor or strictly a money manager?

1	2	3	4	5
---	---	---	---	---

Advisor

Money Manager

3. How involved do I want to be? Should I be?

1	2	3	4	5
---	---	---	---	---

Not involved

Want and expect to be involved

4. Am I looking for one person/firm to handle 100% of my assets or am I looking for several firms? How important is simplicity to me?

1	2	3	4	5
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Prefer one person/firm

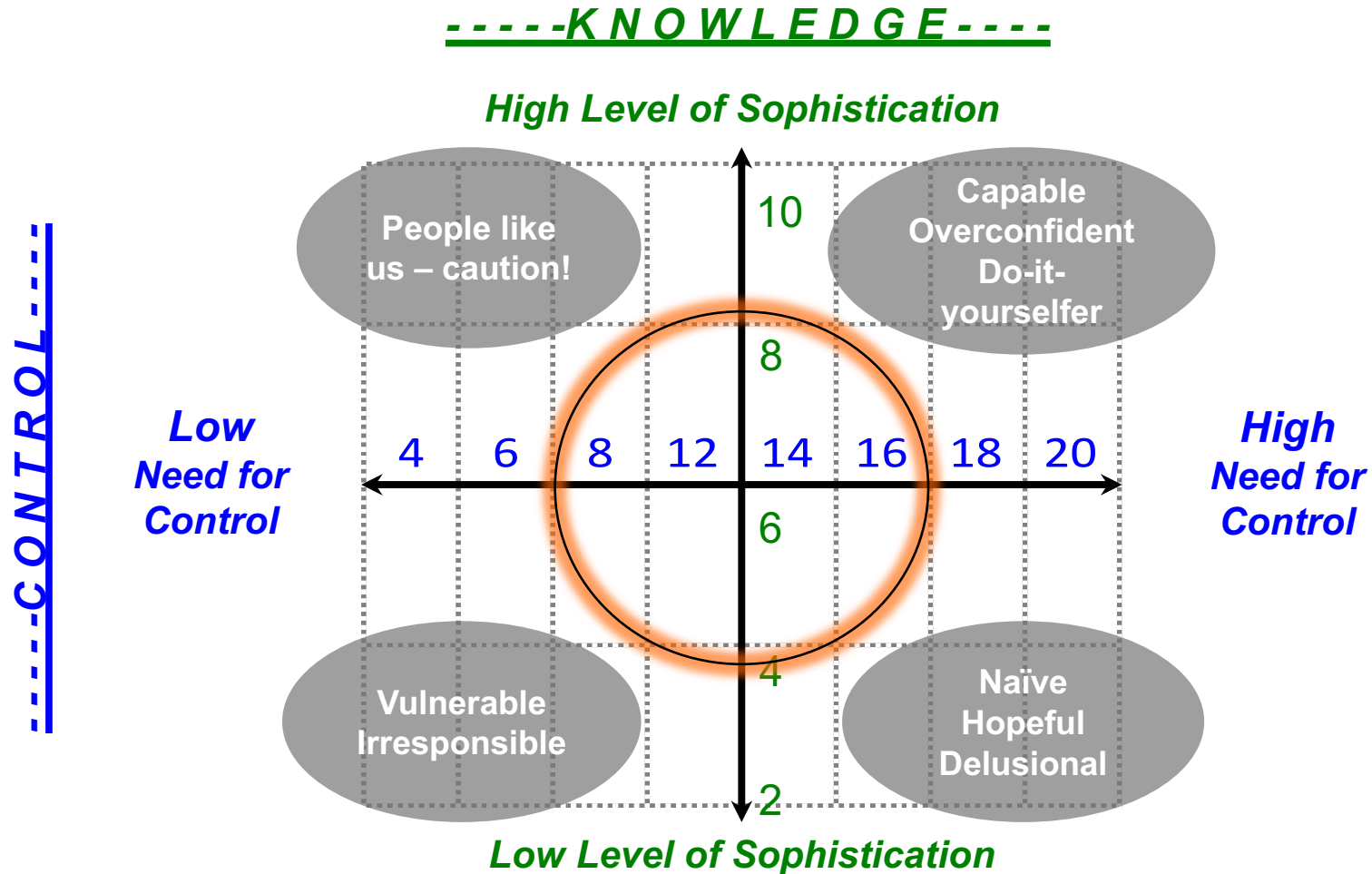
Prefer multiple persons/firms

Add up your scores for all questions in both categories – and plot them on the chart on the following page

¹ – Taken from *Wealth Management Unwrapped* by Charlotte Beyer

WHO ARE YOU & WHAT DO YOU NEED¹?

ASSESS YOURSELF FOR KNOWLEDGE/SOPHISTICATION **AND** THE NEED FOR CONTROL



¹ – Taken from *Wealth Management Unwrapped* by Charlotte Beyer

WHO ARE YOU & WHAT DO YOU NEED?¹

WHAT IS MOST IMPORTANT?

Assign a percentage to each according to your perception of what is most important to you - *the total must equal 100%*

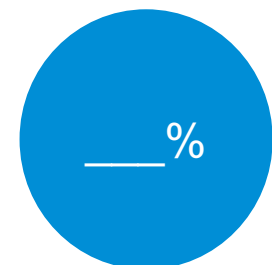
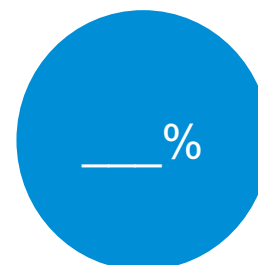
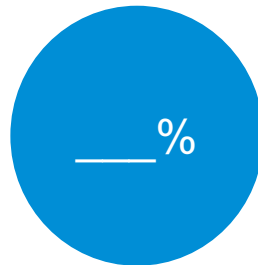
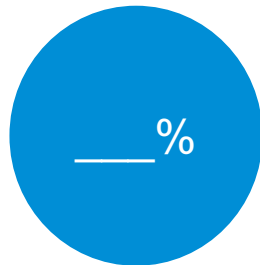
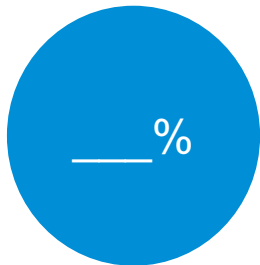
People

Philosophy

Process

Performance

“Phees”



**Who
they
are**

**What
they
believe**

**How
Decisions
are made**

**How
have they
done**

**What
they
charge**

¹ – Taken from *Wealth Management Unwrapped* by Charlotte Beyer

ADVISOR QUESTIONS

Questions	Advisor 1	Advisor 2	Advisor 3
1. What is your education and professional background, what certifications do you hold? Also, do you have any continuing education requirements or policies you maintain?			
2. What legal practice standard (i.e., suitability or fiduciary) apply to your services and what (if any) are the professional ethics codes required by professional organizations with whom you maintain an affiliation?			
3. Have any of your professional designations or securities licenses been revoked or subject to complaints? If so, please explain.			
4. Do you prepare a written investment policy statement that describes objectives, assumptions, and the process for investment management for clarity and accountability?			
5. Explain how you get paid and any fees paid to others on my investments. How frequently is this information reviewed with me for evaluation and accountability?			

ADVISOR QUESTIONS

Questions	Advisor 1	Advisor 2	Advisor 3
6. Is your investment program “open architecture” (i.e. specific investment solutions are not profit centers for your firm).			
7. How much time do you expect to spend regarding performance/objectives and how frequently will we meet/discuss results?			
8. Does your investment consulting process include active collaboration with my other advisors (i.e. estate attorney, CPA, etc.)?			
9. Describe the due diligence process you use for identifying which investment products you use in formulating recommendations for clients.			
10. How do you measure my tolerance for risk in tailoring the investment plan for my asset allocation target and time horizon?			
11. What is your opinion on passive versus active investment solutions? (i.e., index versus actively managed funds)			

ADVISOR QUESTIONS

Questions	Advisor 1	Advisor 2	Advisor 3
12. What is your long term career plan and do you have a succession plan for your business?			
13. Beyond investment activity, what other supporting services can and do you sometimes provide aligned with client circumstances?			
14. How long have you been working with clients in your capacity as a financial advisor?			
15. Can you describe whether (and why) there are any groups or categories of potential clients who you choose to avoid or decline?			
16. Can you describe how you manage potential conflict of interest situations (i.e., when there are outside influences that could potentially impact your view of client issues)?			

QUESTIONS...



ADDITIONAL RESOURCES

On Trust

- [Building Trust: In Business, Politics, Relationships, and Life](#) – Robert C. Solomon and Fernando Flores
- [Daring Greatly: How the Courage to Be Vulnerable Transforms the Way We Live, Love, Parent, and Lead](#) – Brene Brown
- [Trust Inc.](#) – Nan S. Russell
- [Practical Wisdom](#) – Barry Schwartz and Kenneth Sharpe
- [Who Can You Trust?: How Technology Brought Us Together and Why It Might Drive Us Apart](#) by Rachel Botsman

Due Diligence for Advisors

- [The Geometry of Wealth](#) by Brian Portnoy
- [Negotiating Your Investments: Use Proven Negotiation Methods to Enrich Your Financial Life](#), by Steven G. Blum
- [Wealth Management Unwrapped](#), by Charlotte Beyer
- Nice 2 page checklist/description at the following website – [Due Diligence – How to Hire a Financial Advisor](#)
- CFA Institute downloadable listing of the [Statement of Investor Rights](#)
- [Reclaiming Conversation: The Power of Talk in a Digital Age](#) by Sherry Turkle
- [Payoff: The Hidden Logic That Shapes Our Motivations](#) by Dan Ariely

Resources/reading on the topic of ethics can be found at the following CFALA Link –

[https://www.cfala.org/files/Advocacy%20%26%20Ethics%20Reading%20and%20Resource%20List\(1\).pdf](https://www.cfala.org/files/Advocacy%20%26%20Ethics%20Reading%20and%20Resource%20List(1).pdf)