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Tech-Enhanced Client Engagement

Synopsis: The 2022 T3 conference introduced a surprising new theme in the fintech space—a front-office value proposition.

Takeaways: Fintech firms are offering more engaging client portals, there are increasingly powerful prospect engagement tools on advisor websites and a new connection tool helps advisors monitor and track client progress toward their abundance goals.

This year's T3 Advisor conference had a celebratory feel to it, mostly, I think, a celebration of the fact that we were finally able to have the annual gathering of fintech providers and consumers in person. The two previous T3s had been cancelled, and this one had been moved from the fall to a spring time frame. Whatever the reason, the meeting attracted more attendees than ever before—just under 1,000, if you count advisors, operations professionals and vendor representatives, who mingled freely like bees around honey in what must be the most active exhibit hall in the advisor space.

Advisors and operations professionals attend T3 because the exhibit hall provides them with a chance to do a year's worth of tech due diligence in a couple of afternoons, and also check out what's new. And, as T3 CEO Joel Bruckenstein pointed out in his welcoming remarks, unlike at most conferences, the people you talk with at the T3 booths are not salespeople; they tend to be the tech vendor's CEO and senior developer, who can answer very detailed questions, and also put your feature suggestions at the top of their priority list.

Tech engagement

The T3 presentation format is different from any other conference you're likely to attend; the sponsors take turns giving presentations, and the sponsors with the largest booths and highest sponsorship levels (ranging from 'diamond,' 'ruby,' 'platinum plus,' 'platinum ,' 'gold,' 'silver,' and 'kiosk-only') go first. I'm not sure

Bruckenstein allows people to keynote his T3 sessions without making some kind of product announcement, so the obligatory announcement by opening speaker Rich Cancro of AdvisorEngine was an updated/modernized version of AdvisorEngine CRM (formerly Junxure), with enhanced workflow capabilities.

Cancro told the audience what we already knew: that the last two Covid- impacted years had forced the wealth management world to cope with some significant changes, including remote client meetings, $0 trading in the discount brokerage realm (should we replace 'discount' with 'free' in our naming protocol?), and consumer-based investment platforms that are more sophisticated than anything available to advisors five or ten years ago.

So the question is: what's the key to advisory firm success in an increasingly remote world, where clients and prospects can access a growing number of flashy direct-to-consumer investment technology?

Cancro said that advisory firms—and their technology partners—will need to provide better client connection and engagement.

Connection has a number of components. One, which played directly to AdvisorEngine's all-in-one value proposition (CRM, portfolio management, rebalancing and performance reporting, client portal, digital onboarding), is delivering a client experience that is comparable to what the direct-to-consumer vendors are offering. That includes a customized client portal that brings together all aspects of a client's financial situation.

At the same time, Cancro told the group, advisory firms need to become more efficient as they shift their core value proposition from highly-leverageable AUM activities to less-leverageable advice models. When you're meeting with a client remotely, you want to be able to see all of the conversations you've had with the client, and all of the relevant data that you might want to talk about, right on the screen. Having a customizable client screen that pulls data from a variety of sources fits that need.

At the end, Cancro recommended that advisors adopt a 'platform mindset,' where the integration of all client data and workflows makes it easier to personalize your advice and the client experience, and to deliver personalized information through the client portal. Cancro called it a 'unified client experience' and later defined it as 'personalization at scale.'

Planning engagement

The idea of a unified client experience and personalization at scale gave the audience a good introduction to the surprising new theme that came up over and over again in the T3 presentations. In the past, the normal fintech value proposition focused on enhancing a firm's office efficiency, and the feature set was directed more at the back office team than at front office advisors. But during the pandemic, a number of key fintech providers seem to have recognized that their

technology can (and should) also be used to facilitate deeper client connections, and promote greater client engagement.

Of course, different solution providers interpreted this concept in different ways. Kevin Hughes, Chief Growth Officer of Envestnet's MoneyGuidePro planning software, showed how advisors can leverage MoneyGuide to engage prospects. Its 'blocks' features allow prospects to explore their financial situations on advisory firm websites.

"Blocks" are professional-grade planning calculators on a variety of topics like home refinance, retirement income, LTC analysis, income protection, impact investments, student loans, upcoming goals, and HSAs. (MoneyGuide's obligatory T3 announcement was the addition of 19 new blocks.) Prospects would click on the link and get a taste of financial planning—call it prospect engagement. Then, as their exploration uncovered more questions than answers, the prospects might check out other content on the advisor's website and, in the lingo of digital marketing, enter the top of the marketing funnel. Or they might click on Calendly and schedule a meeting with the advisor.

Advisors can monitor all of these prospect interactions on a dashboard that shows who has logged onto which blocks, and see the information that has been entered. This helps them know who to reach out to, and what topic they seem to be interested in, facilitating a more informed initial connection.

Blocks are also a solution for advisors who want to engage in modular planning—to create a comprehensive financial plan one step at a time.

I found it interesting that the Right Capital presentation followed the same general theme: engage prospects in the financial planning process before they ever come into the office.

Right Capital is now a solid number three in terms of market share in the planning software category, positioned as a comprehensive solution with less operational complexity than MoneyGuidePro or eMoney. Ted Denbow, Right Capital's Vice President of Sales, showed the audience how prospects can participate in an iterative process of self-discovered tax projections, various Roth conversion analyses (illustrating future tax rates before and after RMDs are reduced), budgeting and Social Security optimization. The goal, he said, is to bring people into the data gathering process and let them play with the assumptions themselves, so they can get a better idea of the choices and tradeoffs. The goal is to drive deeper engagement if and when they become planning clients.

If direct client engagement with planning tools is a new theme in the fintech world, Andrew Altfest, founder and CEO of the FP Alpha planning solution, has taken the trend to its logical conclusion.

FP Alpha's core offering is machine learning expertise in 16 areas of a client's financial life that are not covered by the traditional planning software solutions: elder care, the nuances of life, home, auto and long-term care insurance or deeper dives into federal and state estate tax regimes. "Those areas of expertise are very hard to scale," Altfest noted, adding that even the advisor who HAS mastered all these areas would have to spend a lot of time reading through the client's insurance and estate documents in order to provide expert advice. Altfest's first announcement was a new Estate Planning Snapshot, which uses OCR technology to read a client's will, revocable or other trust, and provides advice and observations that advisors can pass on to clients.

Altfest also announced a new tax snapshot feature which pulls data from a client's tax return and makes observations about the client's current tax bracket and any missed opportunities.

So what does this have to do with the theme of tech-facilitated client connections? These new tools were included in something called Prospect Accelerator, which, similar to the MoneyGuidePro blocks, lets advisors add a link to their website. Prospects upload documents or financial information into the system and receive an overall financial wellness score. If the prospect wants to improve on their score, the next step would be to contact the advisor.

The advisor, meanwhile, begins this new client relationship with a head start on his/her financial situation—theoretically facilitating a stronger (that word again) initial connection.

Portals and personalization

Tricia Haskins, Head of Integration Solutions at Fidelity Investments, hosted a panel discussion on digital empowerment that touched strongly on the connection theme. She noted a trend in the advisor space toward what she called 'digital personalization,' which means segmenting clients by more than the usual differentiators of age and wealth; by a variety of personal characteristics that drives deeper insight and... connection.

Her panelist guests were Trevor Chuna, Chief Technology Officer of the Sequoia Financial Group, and Matt Meinecke, Director of Technology at RFG Advisory. Chuna said that Sequoia is working to capture next-level data from clients and public data sources, in order to create more personalized service—what he called a shared advisor-client experience.

This led to the most explicit articulation of the 'back-office-to-front-office' pivot that I heard at the conference. "The tech solutions here at T3 used to be mainly focused on the operations people," Chuna told the group. "Today, the new features are helping advisors create better client interactions."

Meinecke said that the profession is on the cusp of being able to drive a greater degree of personalization and authenticity. He cited increasingly sophisticated client portals as an example of more sophisticated digital connections. "In the past, tech's reputation has been that it depersonalizes," he told the audience. "But with the improvements in data capture and data flow, it is now starting to add to the personalization.

Connecting with client goals

The connection theme emerged once again as Tom Aviles, VP of Business Development at Morningstar, gave a presentation entitled 'How Can I Deliver Personalized Advice at Scale?'

How can you? Similar to what the planning software vendors are doing, Morningstar allows advisors to place links on their website that take prospects to an assessment tool that will engage them in a variety of ways, and perhaps intrigue them about financial planning services. Aviles' (obligatory) announcement was a new 'goals-values-risk profile' instrument, which leverages the Finametrica technology that the firm purchased last year. "The idea is to get to know your prospects before you ever meet them," he said.

The instrument starts by helping prospects clarify their personal goals. Aviles said that most conversations designed to elicit client goals tend to miss the mark; simply asking a client, on the first meeting, *What are your goals?* tends not to be helpful or productive. The 'goals-values-risk profile' instrument improves this exercise by giving the client a master list of possible goals. Aviles said that Morningstar's research shows that when clients gave answers to their advisors' generic goals question, and then were presented with the master list of goals, 73% of them changed their goals, and 26% actually changed their top goal.

The company has updated the Morningstar Risk Ecosystem so that it now assesses clients' risk preferences for each of multiple portfolios. But perhaps the most interesting part of the presentation came when Aviles demonstrated how Morningstar provides a risk score for existing and proposed client portfolios. At some of the competing firms, a portfolio's risk score can range from 1-100. The Morningstar Risk Ecosystem can now go higher than 100, to accommodate clients who might be all in on crypto or Tesla.

To demonstrate, Aviles showed the audience a portfolio with a risk score of 79, and asked us to guess what the risk score would move to if he added a 5% allocation to GameStop. The guesses mostly ranged around the 100 level, but in the live demo, that modest allocation moved the needle all the way up to 279. (!)

Components of Engagement

Neesha Hathi, the Chief Digital Officer for Schwab Advisor Services, continued the theme when she told the audience that the pandemic experience created a higher standard for advisors in both the digital experience and the quality of human interaction. "Clients today expect more efficiency in their tech interactions," she said, "but they also expect people to help them with complex tasks." Schwab research indicates that 80% of investors want access to a suite of digital financial tools and online planning capabilities, but 59% also say they want to be able to talk with a professional when they have questions.

What is the right balance of this enhanced client engagement between personal and tech? And how is that changing as a result of the connection/engagement initiatives bubbling up all over the fintech world?

Hathi answered the question in the form of spectrum lines from a left side (the services are exclusively provided by *people*) to a right side (*technology* is the primary provider). For account management, the situation today is balanced about evenly between the two (Hathi put the indicator right at the middle of the line), but for the future, Hathi's indicator moved over to the far right side of the spectrum, indicating that this service will be handled primarily through technology.

Investment management? Today: somewhere toward the left middle. In the future, about 75% over to the right.

Planning and goal tracking? Today, roughly a quarter of the way from left to right. In the future, right in the middle.

Relationship management? Today, pretty close to the left extreme. In the future, maybe 35% toward the right side of the line.

Then Hathi provided her own articulation of the theme of T3 2022. "In the past, technology's value proposition was that it drove scale," she said. "Increasingly, the value proposition is client service and personalization." She envisioned software that tracks client tasks, and organizes and tracks the tasks performed on behalf of clients for an annual service report. (Did she know that Knudge and Hubly provide that now?) She envisioned tech-supported goal-setting (which we've already seen from Morningstar), and increasingly sophisticated (CRM?) methods for tracking client goals to completion—including digital nudges on issues that clients need to address (Knudge and Advisor360 do this already).

Hathi concluded by asking the audience to think about whether they were making the pivot from tech for efficiency to tech for client connection, and whether they were investing enough in the new solutions. And she suggested that investing *money* was not enough; increasingly, advisors were going to have to invest *mindshare* in thinking about what kind of client engagement they want to facilitate, and what aspects of it would be handled digitally.

Abundance engagement

On this connection/engagement theme, I've saved the most interesting presentation for last. Some of you may remember Reed Colley, who founded Black Diamond way back in 2003, and sold it eight years later to become Advent's portfolio reporting system. Colley is back with a new venture that directly addresses the concept of tech-facilitated client connection.

Colley introduced Summit Wealth Systems, which was unluckily launched a few months before Covid shut down in-person everything. Colley said that performance reporting software is great at facilitating conversations about investment returns, but it doesn't address the more important conversations that clients want to have with advisors. Nor does a program that compares a client's model portfolio allocations to a benchmark directly help clients know whether they're improving their (Colley's term) abundance.

What clients really want, said Colley, is an advisor/tech relationship that will facilitate their path to abundance. Defined as? "Everybody's definition of abundance is personal," he told the group. "It's an alignment of what I'm doing and what I want to contribute as 1) an impact on the world, 2) time with loved ones, and 3) experiences."

Advisors, he continued, are trusted guides on this personal journey. Summit allows them to deepen their client engagement by linking client values and purpose with software that tracks their progress toward their personal definition of abundance.

Summit is built around what looks like traditional portfolio management and accounting software, with the usual rebalancing and portal features. Where it differs is what Colley calls 'wealth modeling,' where clients set goals for their lives, and the software allows them to track, through the client portal and mobile app, not only their financial progress toward funding these goals, but also their personal progress, the goals that are not financially-related, but which might actually be the largest contributions to their sense of abundance. No examples were given, but it's not hard to imagine personal goals related to health and fitness, family connections, learning a new language, learning to play an instrument, and, well, clients could use the Morningstar list to decide what goals the Summit-enhanced advisor relationship could help them achieve.

"You, the advisor, create your own app, and clients can keep their financial lives on it," Colley told the audience. "Summit will be different for every advisor who is using it, but what they have in common is that it will help them facilitate this abundance journey for their clients."

Behavioral Planning

Speaking of clearing a path to client abundance, I thought the Orion keynote offered some interesting insights into how to improve the effectiveness of your advice. Orion CEO Eric Clarke appeared onstage with Dr. Daniel Crosby—described as the firm's new 'chief behavioral officer.' Orion one-upped everybody by offering *two* announcements. The first addressed something Clarke has talked about for years: the need for advisors to gain better control of their client data, and have it stored in one place instead of scattered among the various programs in the tech stack. The new initiative, called Mind + Machine, will create an omnibus warehouse for client data, which would facilitate faster data access by leveraging Amazon Redshift as the underlying service provider.

The second announcement, the topic of this presentation, was the launch of a new initiative called ‘Protect - Live - Dream’ which is designed to bring behavioral finance insights and processes to the planning profession.

Crosby said that advisors of the future (as in, tomorrow) will need to connect with their clients more deeply. (That theme again.) His research shows that 91% of planning clients cited the desire *‘to have an advisor who gets me.’*

But the same research found that 64% of planning clients complained that they have no one to talk to about money. Not about portfolios or investments, you understand, but the much more personal issue of money itself. The most important connection, in many cases, seems to be broken.

Meanwhile, Crosby said, direct-to-consumer investment platforms are leveraging behavioral finance insights in a negative way, exploiting their customers’ worst impulses by gamifying investing, encouraging active trading, handing out incentives for self-churning, etc. The implication is that there are a lot of negative connections being formed in the marketplace at large, and that advisors need to become a countervailing force for the benefit of their clients.

So how do you leverage behavioral finance in a positive way, and build those deeper connections? Crosby’s first observation was about what does NOT work in improving client decision-making. The consensus, up to now, has been that advisors can help their clients make more rational decisions by providing them with more and better education. But financial education, Crosby said, tends to rest on the assumption that consumers are somehow ‘broken’ (‘irrational’ is the term I usually hear)—and he said that implying to prospects and clients that their brains are incapable of making good decisions is not a great way to appeal to them.

Education, he said, never actually touches the part of the brain that is making the actual decisions. “You cannot solve an emotional problem at the intellectual level,” Crosby told the audience. Everybody knows that we should make our decisions rationally, he said, but most of them are actually decided in the emotion

part of the brain. In passing, Crosby noted that people who suffer damage to the emotional parts of their brains become unable to make decisions effectively.

So what do you do? Crosby recommended a variety of framing techniques. For example, when talking about budgeting and saving for the future, instead of the usual question of: *can you save 20% of your income?, y*ou'll get a much more positive response if you ask: *Do you think you can live on 80% of your income?*

Crosby also recommended that advisors address their clients' tendency to overreact during market downturns by replacing a single generic (model) portfolio with a variety of different investment buckets for their clients, and have each of them personally labeled: "protect," "live," "dream," although they could be micro-labeled: "education for the kids," etc.

Crosby cited research that suggests that people who have invested in labeled buckets tend to make less impulsive investment decisions during periods of market volatility. He cited research where people were told to look at a picture of their kids when making financial decisions, and these investors tended to save twice as much as a control group. Look for much more to come from this initiative allowing advisors to leverage their clients instinctive impulses for their own benefit.

Platform evolution

There were, of course, other announcements—although some of them were no longer news by the time of the conference. This prominently included Orion's acquisition of the industry dominant Redtail CRM (huge splash), and Addepar's purchase of AdvisorPeak (smaller splash but still significant). I found it surprising that the other journalists in attendance didn't, in their writeups, follow up on the potential significance of these acquisitions.

I spoke with Redtail founder Brian McLaughlin about how he plans to spend his days lounging on the beach after the acquisition, and in fact he said that he's already plunged head-first into the challenge of evolving Orion's total platform from the inside. Orion has been steadily upgrading its portfolio management feature set, but the other components—financial planning (the former Advizr), portfolio risk management (Hidden Levers) and CRM (Redtail) were all purchased from the outside, and aren't adding features at nearly the pace of Orion's portfolio management core.

McLaughlin's superpower at Redtail has been to listen to the pain points of users and—in real time—add features and improvements that would address them. If he brings that same willingness to listen and programming energy to upgrading and integrating the disparate pieces on Orion's platform, the profession could see a much stronger solution set.

I also got a chance to compare notes with Damon Deru, the founder of AdvisorPeak, about his new role with Addepar. The 2022 T3 conference represented a coming-out party of sorts for the Addepar portfolio management solution. Addepar is no start-up; it is well-known in family office circles, serving 700 firms with $3.5 trillion in client assets. Because of the sophisticated nature of its core clientele, the firm comes to the advisor space with some interesting capabilities. It can handle reporting on alternative investments and even has its own alts marketplace of non-publicly-traded investments favored by family offices. Its API architecture can be used by larger advisory firms to build their own apps and customer experiences. And the firm has 300 built-in data feeds and a variety of data integrity and integration protocols.

Deru co-hosted a panel discussion that focused on customizing the asset management experience for clients. But in the hallway, our conversation focused on the fact that he now has far more resources at his disposal to add enhancements to the trading/rebalancing feature set.

There may be a bigger role in store. Deru is more familiar with the advisor marketplace than the people who run Addepar. The acquisition of one of the profession's most feature-rich trading/rebalancing/tax loss harvesting platforms means that Addepar now checks all the boxes that advisors require when they're looking for a portfolio management solution, and the company has a track record of working with some fairly demanding customers. As the firm expands its marketing to advisors, Deru could serve as a guide to that complicated community.

Haves and have-nots

Among the other announcements, in no particular order: MoneyGuidePro Elite now includes, as a module, the Wealth Studios estate planning tool that Envestnet purchased last year. Wealth Studios flowcharts a variety of estate planning strategies, with calculators that assess the estate and ordinary income tax ramifications of different recommendations. A new feature helps clients equalize their bequests when there are dissimilar assets to be handed down.

Brian Daley, VP of the Tamarac trading, rebalancing and portfolio management software, announced an upgrade of the Tamarac rebalancing capabilities and cash monitoring features. And you might call this a pre- announcement announcement: the next T3 conference will see the introduction of a new client portal that will incorporate portfolio data from Tamarac along with planning data from

MoneyGuide—and for larger firms, an open API system that will let them custom-design their own client portals.

Later in the conference, Panoramix announced the launch of Panoramix Pro, a billing and performance solution that puts it in what might be called the discount

portfolio management category—full-featured programs that are less expensive than the name brands, a category that already includes AssetBook and Advyzon. Panoramix is not a household name in the advisor space, but the Pro version offers a couple of features that advisors might find interesting. It gives advisors a toolset where they can manage which portfolios will be included in which models for GIPS compliant reporting.

The program also encroaches a bit on the planning software feature set with a goal-tracking widget. Advisors or clients can input their target income in retirement and their retirement age, and the widget shows how they're tracking toward that goal. If the market goes down, clients can click on a 'calculation' button and the system will optimize either an updated retirement date (if the client wants to hold income steady) or the projected income that the clients would be able retire with (if the client doesn't want to change the retirement age).

A new entrant to the advisor fintech world, Nitin Seth of the Incedo consulting firm, announced something called Lighthouse, which Seth described as a modern digital stack that could be compared to what Amazon and Facebook offer. Most of us had never heard of Incedo or Lighthouse until we saw its large booth near the entrance to the T3 exhibit hall, and I think the audience was disappointed that Seth decided to offer general advice about wealth management technology instead of showing us a Lighthouse product demo. (At what other conference would that be considered a disappointment?)

Seth continued the theme of tech-facilitated engagement by noting that, in the past couple of years, a number of self-service financial tools have increased their sophistication by orders of magnitude. He cited non-cash payments like the Apple wallet, investment platforms like Robinhood and e-commerce sites like Amazon.

In the wealth management space? Not so much. Seth cited his own research showing that just 62% of advisory firms offered their clients a portal for their data, only 30% were using digital onboarding technology (this is certainly a low estimate), and 4% have set up some kind of a digital self-serve option—which he didn't define, but might refer to the MoneyGuide Pro blocks and the Morningstar self-assessment tools.

"The proliferation of digital technology is creating a divide between the 'haves' and the 'have-nots,' Seth told the audience, implying that most of us tended to fall into the 'have-not' category, either due to inertia or the complexity of the products that we would need to access. "Wealth management firms are going to need to be tech firms in the future," he concluded.

Beyond the keynotes

If you looked beyond the keynote presentations, you could see some interesting (and potentially disruptive) technologies bubbling under the surface. The most obvious was Holistiplan, which did not have a keynote speaking slot despite being the dominant tax planning solution in the annual Software Survey. MaxMyInterest flew under the radar despite creating and defining an entirely new solution category—the company allows clients to sweep excess cash from their checking accounts into the highest-paying interest-bearing accounts at various online banking institutions, allowing them to receive multiple times higher returns on cash than they would receive in most custodial sweep accounts or brick-and-mortar banks.

I didn't see an Advyzon presentation, but the company's booth was buzzing with attention, perhaps because Advyzon consistently received the annual Software Survey's highest user ratings in the portfolio management and trading-rebalancing space, and was the highest-rated all-in-one platform as well. The most interesting difference between Advyzon and the multiple-capability platforms created by AdvisorEngine, Orion, Envestnet and Orion is that none of Advyzon's tech was built outside and purchased; everything was built in-house and integrated directly.

The kiosk-only section featured Econiq, which makes remote client meetings more engaging (that theme again), and allows advisory firms to build customizable templates, with graphics and checklists, for different types of meetings. The templates might include prospect Zoom calls, initial data gathering meetings, remote client review meetings and even regular internal staff meetings.

Andes Wealth Technologies has the most potential to disrupt the initial client assessment process, which is commonly known as risk tolerance assessment. I was surprised that Riskalyze didn't make a big splash at this year's T3 (it was a silver sponsor), but the company's 1-100 rating of a client's willingness to take risk looks a bit simplistic next to the multi-dimensional risk assessment offered by Andes—and, like the Morningstar Risk Ecosystem, Andes will assess portfolio risk that goes beyond the 1-100 spectrum.

Andes also makes it easy to compare the upside and downside odds of different model portfolios, and clients pick the one they prefer, making it the most defensible client assessment tool if an advisory firm is ever sued by an unhappy client during a market downturn. The program also functions as a teaching tool about the markets, addressing risk perception. And it will automatically generate an investment policy statement for clients based on their portfolio selection—something the marketplace hasn't had available to it since IPS AdvisorPro became exclusive to Fi360.

Is that all? There were a bunch of other interesting new twists and themes that emerged at the T3 conference. But let's consider them in a separate article.

Early Warning

Unlike every conference in the advisor space, the Insider's Forum conference (September 28-30 at the Grand America Hotel in Salt Lake City) has a target audience: successful advisors and thought leaders, the kind of people who will walk out of a session at a conference aimed at a lower common denominator, muttering *'I could have given that presentation better than that person.'* If they're right, they're perfect for the Insider's Forum, and you can imagine the quality of the hallway conversations among this group of advisors.

That's the first leg of the value proposition. The second is the curated exhibit hall, where you have to be invited to exhibit. That means the exhibit hall includes only firms that are new, interesting, fun to talk to, who have something to add to an advisory business—which enhances the experience of advisor attendees.

Of course, the third leg is the presentations—this year including panel discussions where advisor thought leaders look at current and future trends, plus a keynote presentation by Julie Littlechild on how advisor clients' issues and concerns are evolving through Covid and the downturn, plus a separate educational track for operations professionals. The conference also brings in all-star students at leading college planning programs, which can enhance recruiting opportunities. (http://www.insidersforum.com; *Inside Information* subscribers use coupon code INSIDER22).

Themes to Consider

Synopsis: A growing number of advisory firms are creating their own integrated tech stack. Firms are now able to delegate their digital marketing efforts. And smaller custodians are winning the service battle.

Takeaways: The cloud-native app ecosystem will democratize the ability to build a customized tech stack and unique client tech experience. Catchlight offers a new way to use 'big data,' and new standalone programs are upgrading key features of more general software solutions.

The tech-enhanced client connection/engagement theme at T3 (see previous article) represented an interesting departure from the productivity-related value proposition that we were all hearing from tech firms in the decades pre-Covid. But a couple of other thematic shifts were also visible in the T3 presentations and exhibit hall.

The most surprising was how a number of different speakers showed ways that advisory firms could build their own technology. Instead of adopting an off- the-shelf all-in-one solution, they would create their own customized tech out of best-of-breed components.

Why would they want to do that? The articulated goal was not only internal efficiency (everything connected and a unique, easy-to-use interface) but also to allow advisory firms to create their own branded client experience.

The most direct exposition of this theme, and one of the most interesting presentations at the conference, came from Oleg Tishkevich, founder/CEO of INVENT.US. Tishkevich's original vision at INVENT was to create a diversified network of programmers from around the world who would create cloud-native software solutions. Think: breaking down the functionality of any complex software program into a series of apps that each handle a specific part of the overall feature set, transforming the software into a distributed network of interconnected, cloud-native apps residing on servers all over the cloud.

The cloud-native concept has the potential to revolutionize software development, by making it possible for the development team to add new capabilities simply by linking a new app into the system—an interesting contrast to the way these things are done currently, where you save up a list of asked-for features until you have enough to make it worthwhile to rewrite the entire program from the ground up. Instead of versions 1.0, 1.5, 2.0 etc., cloud-native software programs would evolve smoothly, feature by feature, without ever requiring that total rewrite.

Perhaps just as importantly, cloud-native programs operate at much faster processing speeds, because the entire program doesn't have to get involved linearly to get something done. You can have different apps all working on different parts of the problem at the same time. And the data is exchanged from app to app at faster speeds.

INVENT also created cloud-native APIs that could pull data from anywhere, essentially allowing easier, faster, deeper data exchange between different software packages. The solutions sit on giant server farms, making them infinitely scalable.

This is all background to the main point of Tiskevich's presentation, which was to announce a cloud-native environment where advisory firms could drag and drop pre-created cloud-native functionality into their own customized tech ecosystems. All of the apps tie into a centralized client data repository, and the ecosystem includes API adaptors that connect with most of the traditional fintech solutions, all of them pulling client data from that centralized repository. In this aspect, it resembles Orion's new Mind + Machine initiative. (See previous article.)

A regrettably brief demo showed how an advisory firm could, among other things, leverage the integrated app environment to create custom alerts that relate to specific client data fields. The tech stack would automatically notify the advisor as to which clients haven't yet taken their RMDs, which clients are coming up on their Medicare decision, which clients have a refinancing opportunity—and of course developers and tech consultants can work with a larger advisory firm to create microapps that customize the client experience to their unique brand—what Tiskevich's co-presenter Tim Welsh called "tech personalization."

Tishkevich noted that this architecture also, for the first time, allows advisors to track the history of their data, when it was changed, and by who, for compliance and analytics purposes. It is not hard to imagine even mid-sized advisory firms signing onto this new platform, engaging in do-it-yourself drag-and- drop plugging of microapps together, connecting their existing software solutions, and suddenly the customized digital experience is available to all, instead of a handful of very large advisory firms.

Speaking of those very large advisory firms, Salesforce's most compelling marketing approach is to show the $1 billion+ firms how they can use Salesforce Financial Services Cloud to assemble their own customized tech ecosystem with Salesforce as the centerpiece. The Salesforce presenters at T3—Michelle Feinstein, VP of Global Wealth Management at Salesforce, Salesforce Manager of Global

Industries Marketing Cody McKinney and Industry Solutions Specialist Jodi Wagner—showed the audience how Salesforce can be used to create what they called an 'office management hub,' integrating the custodial, planning, portfolio management and risk tolerance software into a single unified user experience.

Later, Salesforce consultant Jon Chen showed the audience essentially the same thing, focusing on one aspect of the unified tech stack: building a customized, firm-branded client portal through Salesforce programming. If the advisory firm so-chooses, this portal would expand the normal 'portfolio data' client portal approach to pull in client goals from the CRM, planning data and daily-updated Monte Carlo odds of success from the planning software, portfolio data from the portfolio management software etc.

Chen also showed how clients can schedule conversations or meetings with their advisor through the portal, and use it as a communications link between advisors and clients. There was even a chat bot to answer FAQs.

Chen called this customized portal a 'wealth ecosystem,' connected to a customized advisor dashboard which lists the tasks assigned to clients and various staff members, plus overall firm data, plus messages and links related to the personal interests, hobbies, business relationships and club memberships of clients.

Standalone solutions

Another trend that became visible in the T3 exhibit hall is the sudden emergence of what might be called specialized solutions—where a new piece of software focuses on improving a single (often dysfunctional) aspect of more general programs or solutions in the advisor's tech stack.

Examples? The most hard-hitting presentation of the conference was delivered by Randy Cass. Cass runs Nest Wealth, a Canadian onboarding solution that has been newly-ported to the U.S. advisor marketplace. He didn't mince words when talking about advisors' continuing frustration with their existing onboarding tools. "Onboarding is typically the first touch a client will have with your technology suite," he said. "A clunky onboarding process is a very bad way to make a good first impression."

Cass acknowledged that advisors who have adopted digital onboarding (he implied that it wasn't the majority) are offering more convenient onboarding experiences than those who are still using paper and wet signatures. But he said that our current digital solutions all made the same mistake: they kept the process familiar enough not to confuse advisors, by closely mimicking the way those advisors are accustomed to doing things. That means they follow the same basic steps, in the same order, that the paper process did, only with PDF documents and DocuSign.

Cass spent years making the same mistake, honing an onboarding solution for large banking institutions in Canada. But along the way, he discovered several ways to leave the paper mindset behind and embrace the possibilities of remote onboarding. Nest Wealth makes it possible for different parties to work on the client paperwork simultaneously. The advisory staff can pull in data, hand it back and forth to clients, and together move through bottlenecks.

“The end result is to reduce drop-offs and accelerate the speed of completion,” Cass concluded. And, of course, make a good first tech impression with a new client.

Cass said that the onboarding process should ideally be a standalone, specialized piece of technology, not an afterthought feature in a program whose core functionality is something entirely different.

Another obvious example of this standalone function is Hubly, which replaces a CRM’s often-rudimentary workflow-building and task management capabilities with a more intuitive and flexible solution. Hubly sits on top of Redtail or Wealthbox (and soon Salesforce), and allows advisors to build workflows by pulling from the data that already resides in their CRM. The

program provides best-practice workflows out of the box that can be customized on the fly, and auto-organizes the various tasks needed to be handled when opening up client accounts, preparing for initial or annual client meetings, or handling client check requests. It automatically notifies the person responsible for the next workflow task once the current one is completed, and everybody can open up Hubly in the morning and see their task list for the day. (Ops managers can see what’s on *everybody’s* task lists, and track time to completion.)

I thought Hubly was the only standalone workflow solution in the advisor fintech space. But then I saw a presentation featuring a program called Benjamin. Matt Berquist, CEO of Intrepid Capital Management in Jacksonville Beach,

FL, created Benjamin for his own firm, after discovering (pre-Hubly) that there was no way to wrestle his CRM into providing the workflow tool his firm needed. Advisors pay an up-front fee for the Benjamin’s consultants to build flowcharts of their existing processes—and, since many advisory firms don’t actually *have* documented processes, this can take up to two days. Then the consultants will custom-configure Benjamin to automate the coordination of workflows (the firm refers to task sequences as ‘missions’), assign the tasks and track them—and the service includes setting up the integrations with Calendly, the custodian, DocuSign and other components of the tech stack.

One more example: FutureVault, a standalone digital client portal and document vault that goes beyond the usual performance tracking to serve as a communications hub between advisors and clients. It stores documents and provides document checklists so clients can store their entire financial life in one place. Any advisor who is dissatisfied with her current client portal (probably included in her planning or portfolio management system) can switch to a more comprehensive standalone solution.

Psychographic insight

In past T3 conferences, the constant refrain from the podium was the importance of ‘data,’ and how the future would be ‘data-driven.’ My complaint at the time was that none of these speakers were telling us what ‘data’ they were talking about, or how this ‘data’ would be used to enhance the client experience.

This year, for the first time, I was able to see how this nebulous thing called ‘big data’ might become useful in a practical way for financial planners, when I met with the Catchlight team at their booth and later caught their presentation. My sense is that, at least at first, ‘big data’s’ use case lies in more precise and targeted marketing activities.

Catchlight deserves a profile of its own; it was developed in Fidelity Labs as a way for advisors to learn more about their clients and prospects. Yelena Melamed, Catchlight’s Head of Product, explained three different interlocking features of the program.

1) Advisors can upload two pieces of information about their clients (names and email addresses, typically, but a phone number would also work) and Catchlight’s algorithms spread their tentacles out into the social media world and bring back any information it can find about them—which might include their hobbies, their interests, their professional connections, their approximate level of wealth.

2) Catchlight will also identify psychographic similarities among existing clients, to help advisors identify an incipient target market that might be lurking unseen in their client files. Equestrians, or stamp collectors, or people who love to travel on

cruises—it could, of course, be anything, but not infrequently an advisor might discover that some of her favorite clients happen to have things in common that are not obvious on the surface. That allows advisors to create more customized messages on their websites and also in their marketing outreach initiatives.

3) Finally, Catchlight will do the same background and data search on any prospects you might have in the funnel—the dozens, hundreds or thousands of people who have given you their names and email addresses in return for content. The program will look for similarities between any or all of them and your existing clients, and also give you more insight into the various people who happen to be kicking your tires. The analogy that came to mind is that it's like having Facebook technicians working for you—except, of course, the universe of data that Catchlight is searching is broader than any one platform. Finally, a way to turn 'big data' into something useful has arrived.

Marketing Delegation

But what do you do with that interesting data you've collected about prospects and potential clients? There were several marketing-related sessions at T3, which provided a lot of good information about how to do a better job of catching attention through your marketing efforts.

Or, in some cases, without you having to expend any effort at all. Advisors have been asking tech firms to provide better marketing solutions. But this year's tech survey showed that, in aggregate, the digital marketing solutions had lost overall market share over the past 12 months, and their user ratings were sliding (albeit incrementally) as well.

The question was: who would step up to the challenge?

The answer came in a presentation by FMG.

Most advisory firms know FMG Suite as perhaps the best collection of pre- written articles explaining every conceivable financial planning topic, which can be pulled out, customized and sent to clients. The firm purchased the Twenty Over Ten marketing organization and, last September (this would have been a cool announcement for T3's original time slot) recruited Susan Theder from her position as Chief Marketing Officer at the Advisor Group to a newly installed position as FMG's Chief Marketing and Experience Officer.

Theder was joined onstage by Dave Christensen, FMG's Chief Product Officer.

Announcements? There were two. First, the firm has rebranded, dropping the 'suite' from the name, so we should now refer to it as simply FMG.

Second, Theder and Twenty Over Ten's Samantha Russell took note of the unmet demand for a 'do it for me' marketing solution. They've created a two-tier outsource model, where (tier one) Theder and Russell supervise the creation of messages and other content via a content calendar, and (tier two) a team of marketing consultants work directly with each advisory firm to make the content their own, develop landing pages and social media messages linking to the, analyze the prospect interactions with the messages (open rates and click-throughs), and refine the messaging accordingly. The service also includes updated website design and technology, including 'inline editing' where the advisory team can edit webpage content without any coding required.

The heart of the FMG presentation was to show the audience how a few small adjustments to your marketing outreach can make a big difference in prospect engagement. Theder showed a series of lame subject lines ("click here to see my blog post"), and more attractive ones ("Seven tips to reduce taxes in retirement"), and noted that the click-through rates doubled or tripled with such simple changes in wording. She told the audience that too many advisors try to over-educate, pulling their clients deep into the weeds of technical strategies, when in actual fact, clients just want to know that their advisor is on top of things and has their back.

The most effective content about planning issues will summarize the information and express the advisor's opinion about it. "If they really want the details, provide them with a link," Theder advised the group.

The audience was told to replace "I" statements in messages and on the website with statements that look at the same issue from the prospect's perspective. Where possible, make the first sentence of a blog post an intriguing question and the second sentence a benefit to the client. It's all right to summarize third party articles, but make sure to offer a comment or opinion on them. And at the end of the shared post, open up a conversation with something like "This was cool. What else should I be learning about?"

Theder said that advisors should not shy away from posting personal pictures or sharing events from their personal life, since these tend to generate some of the highest open rates. They can also raise their profile on social media search algorithms by sharing images and infographics on the social media sites themselves. LinkedIn and Facebook want you to put your information on their platform rather than inviting people to go to your website.

Finally, make connections on social media by liking and sharing the posts of other people, and engaging and commenting on them. “For every one thing you post, make five comments,” Theder told the group.

The FMG announcement of a ‘do it for me’ marketing service can be seen (if you’re into war-like analogies) as a shot across the bow of Snappy Kraken, which offered its own T3 presentation. Snappy Kraken creates (and allows some customization of) content, and posts on social media as a way to get people to go to your landing page. Once you have their contact information, the prospects ‘in the top of the funnel’ are nurtured through a different email content campaign, and the company will auto-assess each prospect’s level of interaction (open rates, click-throughs) in order to determine how far they are in the journey toward that first meeting with an advisor.

But, like the FMG presentation, Snappy Kraken’s VP of Enterprise Development, Diana Cabrices, skipped the product demo and instead offered a few tips and pointers on how to be more effective in your marketing efforts. Her theme was ‘blending out,’ which, she said, is the opposite of ‘blending in’ with the crowd of other advisors.

‘Blending in’ means using copy-cat canned content and posts that appeal to the intellectual part of the brain. Why is this not effective? Cabrices said that the frontal cortex (she called it the ‘new brain’) is not wired to notice you or your content, much less act on it. Better to aim for what she called the ‘middle’ (or emotional) brain, but better still to find a way to cut past all the higher cognitive functions and get the attention of the ‘old’ (reptilian) brain that sits on the top of the spinal cord.

The old brain, she said, is constantly watching out for novelty in its environment, ever-alert to potential danger. It is instinctive, impulsive and loves stimuli.

How do you bypass all that circuitry to connect with your audience’s old brains? The first key, Cabrices said, is simplicity—you want a compelling image accompanied by a few words. A happy couple is a good image, and instead of saying *“We create portfolios that hold up well in down as well as up markets”* (which is boring even to the new brain), you would say something more direct, like *"You earn it, we protect it."* Instead of: *"We help you prepare for a comfortable, happy retirement,"* show an image and simply say: *"Retire well."*

Cabrices offered some other contrasts. "Flexible solutions" is better phrased as "right fit." "Investment objectives" should be replaced by "your goals." "Analyze market indicators" can be said more simply as: "research." "Fiduciary focus" becomes "Your needs first." "Comprehensive solutions" becomes "All-in- one."

Another way to get the attention of the old (lizard) brain is contrast. Cabrices showed us the familiar TMobile image, with two cellphone coverage maps, one with spotty coverage across the U.S. landscape, the other with the entire country (with a few small exceptions) covered in red.

Third: storytelling. "Where do you come from, and why do you care about what you do?" Cabrices asked. "Tell people how you're different, and they'll remember you." She also recommended telling client stories (names redacted), about how they achieved happy outcomes.

Finally: ego appeal. Cabrices showed a Porsche advertisement whose headline was *"Don't just keep up with the Joneses. Pass them."*

Another advertisement from The Economist, appealing to the nerdy but extremely well-informed reader that is its target market, said: *"When somebody mentions 'Jordan,' you think of a Middle Eastern country with a 3.3% growth rate."* [In other words, not Michael Jordan.]

At the end, Cabrices offered a checklist that advisors could take back to see if their messaging is appealing to the new, middle or old brain.

1) Can we make this simpler?
2) Can we highlight a contrast?
3) Does this have ego appeal?
4) Does this have 'I' rather than 'you' statements?

From data to intelligence

Despite a movement from back-office to front-office value propositions (see previous article), there were still a few T3 presentations that focused entirely on the traditional value proposition of office efficiency. In Laserfiche's presentation—hosted by Linda Ding, Senior Director of Strategic Marketing, and Tim Welsh, of

Nexus Strategy—the company announced a new feature called The Solution Marketplace.

With this new feature set, Laserfiche—traditionally a document management solution—is encroaching into the CRM feature set. The Solution Marketplace pulls together 120 different 'best practice' workflows from advisory firms around

the country, leveraging the fact that many of the more complex ones—including account opening and the presentation of financial plans or performance reports—are fundamentally centered around the creation and delivery of various types of documents. Ding and Welsh showed how Laserfiche not only organizes and stores documents, but also provides organized storage and retrieval of the phone calls, tweets, messages and meeting notes into and from client records—which is also a traditionally CRM-related function.

Laserfiche is the only industry-specific document management solution that has embraced the challenge posed by more generic off-the-shelf document organizers like Box, Google Drive and Citrix Sharefile. The challenge can be explicitly stated as: *What features can we include that make our solution more powerful for advisory firms than the generic competition?* In addition to the workflows and broader filing organization, Laserfiche uses machine learning to automatically categorize client PDF documents as they're received, and turn them into what Welsh called "intelligence."

That means that the program will pull data from the PDFs directly into client records and also place the PDF into multiple appropriate files that can be pulled and aggregated any way the advisor needs them to be. It also pulls data from the PDF files and populates client record fields, which can then be used to sort and organize. "Advisors have all the data at their fingertips," said Ding. "It makes the client service processes much more efficient."

Promises vs. delivery

While the largest custodians offered general thoughts and observations about the fintech marketplace (see previous article), the smaller custodians focused their presentations directly on advisory firm bread-and-butter issues. In the annual tech survey, several of the smaller competitors earned higher user ratings than their big competitors—and if there is a trend there, it is that they are winning the service battle.

In one presentation, TradePMR COO Scott Victoria hosted a panel discussion that highlighted the personal service you should expect (and might not receive) from your custodial platform. The panelists included Marc Horner, of Fairhaven Wealth Management in Wheaton, IL, who told the audience that when his firm contemplated leaving a brokerage platform, he and his team did a survey of the custodial landscape. In all, they looked at 20 different custodial firms, and conducted four in-person interviews. “TradePMR was the only firm that didn’t only bring its sales team,” he said.

Moreover, his experience was that custodial sales professionals tend to be comfortable making promises that exaggerate what their platforms will actually

deliver on. “Nobody on the sales side,” he said drily, “is going to tell you that you’re going to experience 20-minute hold times.” Later, when he asked for tech help from several custodians the firm clears through, only TradePMR was willing to help Fairhaven create a client mobile app that integrates with client data.

David Horlacher, who practices in Seattle, told the audience that his firm is multi-custodial, but then added that he is getting better service from TradePMR than he is from Schwab, TD and Pershing. (He cited ‘long hold times’ as a particular irritant.)

The sales team issue came up again when Horlacher said that he was repeatedly assured by the larger custodial sales reps that if/when he signed on, their firms would do anything he needed. But, he said, “whenever we wanted to add a service to our model, Schwab, TD and Pershing couldn’t ever give us a decision on whether they could do that,” he said. “We call TradePMR, and the response is: *show us what you want, and let us take a look at it—and we’ll see if you can do it, and add it to a service that we can offer to others.*”

Another panelist, Oasis Group CEO John O’Connell, a tech consultant for advisors, said that one of his pet peeves with the larger custodians is that, when their sales team is talking with a prospective advisory firm, they refuse to provide references. “Before you make a switch, you want to talk with a couple of firms that are just like you,” he said, “in order to get an accurate picture of what you can expect. But no matter how many times you ask, the bigger custodians won’t give you anybody to contact.”

Most advisors don’t think of SEI as a custodian, but with the acquisition of Oranj last March, and a lot of upgrading of Oranj’s capabilities, plus leveraging a custodial platform that has traditionally served the nation's largest banks, SEI may now have the most full-featured custodial software on the market.

SEI's Managing Director of Advisor Technology Jeffrey Benfield and Managing Director of Advisor Solutions Heather Hovis made the semi-required T3 announcement when they told the audience that the platform now includes a new personalized client portal—an upgrade of one of Oranj's core functionalities. The customizable portal stores client documents, provides reporting directly from SEI's in-house CRM and portfolio management system, and facilitates advisor-client messaging and digital collaboration.

Benfield also showed a new proposal builder for advisors and a streamlined account opening workflow which is automatically prepopulated with client data.

The Thrivent Advisor Network is not a custodian or a broker-dealer, but it offers some of the same functionality—centralized resources that advisors can tap into at scale, including the ability to leverage the firm's tech expertise. Thrivent's

presentation was delivered by Enterprise Architect Jeff Haines, who elicited a few winces from the crowd when he noted that many advisor owners are the weakest link in their firm's tech stack.

Meaning? The usual issues are resistance to change (younger advisors are clamoring for more updated technology and see features that need to be added, but are told to 'wait' indefinitely) and the typically older founders really don't know how to evaluate the complex new and disruptive offerings that are emerging in the fintech space.

Haines also focused on some myths that many tech decision-makers believe to be true, perhaps because they actually WERE true at some point in the past.

These included:

1) the biggest value gained from an investment in tech is greater efficiency. (The T3 theme of tech-enhanced client connection and engagement may be a new paradigm that advisors ignore at the risk of being left behind.)

2) To operate more efficiently, implement a good automation solution. (Advisory firms are notorious about having inefficient workflows, and automating a crappy workflow is not a road to greater efficiency.)

3) Once you clear the implementation hurdle, you'll feel immediate improvements in your operations. (Many tech solutions are actually less efficient, at least at first, than the old way of doing things, because they require more steps in order to build in more effectiveness, more useable data, and ultimately more effective operations.)

4) Issuing an RFP is the best way to thoroughly vet various tech options. (Haines was talking his own book here; Thrivent offers customized tech consulting which allows its member firms to find much better solutions than would be possible from a check-the-box approach.)

5) Cybersecurity is a problem for fintech vendors but not for me. (Even if you ignore the SEC cybersecurity requirements (you don't, do you?) the threats of someone accessing client data and committing identity theft or issuing a check request that winds up in Nigeria or the Cayman Islands is growing.)

6) Once you have your tech stack in place, you can turn your attention to other operational aspects of the business. (This may be the biggest issue; many advisory firm owners are simply not paying enough attention to the evolving fintech landscape.)

I'm going to guess that few if any T3 attendees came away with every insight the conference had to offer; after all, everybody pursues their own agenda and comes to the conference looking for a solution to their own pain points. But if you were willing to give the sessions and the exhibit hall your full attention, you

could see that the fintech landscape has done a lot of pivoting while we were all locked away from the conference scene.

Meanwhile, the annual tech survey was introduced on the conference's first day, providing the attendees with a guide that made some sense out of the myriad of offerings being displayed in the exhibit hall. Advisory and ops professionals who couldn't get to the meeting might use the survey, plus these articles, as a way to navigate some interesting new fintech realities in the advisor space.

Parting Thoughts

Custodial Dynamics

I'm writing a new version of the Custodial Alternatives white paper, which profiles some less-well-known options that advisory firms caught up in the Schwabitrade acquisition, or firms that are suffering long hold times, could consider. In that context, I'm also thinking about how digital onboarding is becoming more seamless and, if Nest Wealth is a harbinger of things to come (see previous article), much more convenient for advisors and clients to navigate.

The key takeaway is that changing custodians, and repapering clients, is becoming less painful—and easier to contemplate. Following this logic a bit further, we might see custodial relationships become less sticky, which would require custodians to become more competitive if they want to retain their advisory firm relationships.

Where does that lead us? The key differentiator is service. It becomes clear from our annual software survey that the smaller custodians are getting better user ratings than their larger competition—which I think means they're providing better and more responsive service. I've reported elsewhere that advisors are routinely experiencing half-hour (sometimes longer) hold times when they call their service teams at Schwab and TD Ameritrade. That isn't a problem with some of the less-well-known competitors.

Dig a bit deeper, and you are beginning to see another irritant for many advisory firms: the disparate pricing between larger and smaller firms is becoming more visible. Fidelity has been telling smaller advisory firms that they will need to include Fidelity products in their client portfolios or, alternatively, pay a monthly fee for access to its custodial platform. Larger firms, meanwhile, tend to be more profitable relationships, and are certainly more efficient than the same assets scattered among 20 or 30 state-registered firms. These larger firms have the leverage to demand pricing and services that the smaller firms will never see.

Dig just a bit deeper, and it's not hard to imagine that, at some point in this easy-repaper, increasingly visible disparate fee marketplace, smaller firms will move away from the largest custodians, and the custodians will not be unhappy to lose these less profitable relationships.

But what would be the long-term implication of this potential resettling of custodial market share? It's not easy to predict the future, but my instincts tell me that the smaller firms are more likely to adapt to the rapidly changing dynamics of the marketplace than their larger brethren. An advisory firm with hundreds or thousands of offices begins to look, to me, like a wirehouse organization, with standardized, rigidly controlled service models across all offices. A firm like that can only adapt to change with great difficulty. The typical analogy is turning around a battleship

What changes would prove difficult? One obvious change would be a shift—which I think is already underway—away from the AUM revenue model. Another would be an increasing tendency to work with a focused, target clientele—what some would call a niche, what I would prefer to call a specialty. The smaller firms will focus, while the larger firms will become the equivalent of general practitioners.

My guess is that, just like the wirehouses, these larger firms would eventually be staffed with younger advisors who, as they gain more skill, expertise and experience, would find it more profitable to develop a specific client expertise and go out on their own.

The center of gravity, in terms of skill, expertise and experience, would shift to the smaller firms competing with the larger ones, and eventually these larger firms could experience a long leak of market share comparable to what the wirehouses are experiencing today. I might argue that the wirehouses are better at promoting fictional views of independence, and have benefited from a different regulatory structure and difficult repapering options—which means the leaking from larger to smaller RIA firms could be faster (or more efficient) in the future than it is today. And it's helpful to remember how many once-robust wirehouse firms are no longer with us. Would the same happen, perhaps more catastrophically, with the giant advisory firms?

This possible (plausible?) future rests on a fairly long chain of assumptions, but if we suppose for a moment that something like this occurs, we could see a gradual normalization, where the largest custodians become smaller and tied to a diminishing customer base, while today's smaller custodians become larger and start to force some competitive changes. The closed custodian software environment becomes more open, the pricing disparities become normalized, custodians will have to provide larger and better service teams, and none of them will have the luxury of feeling comfortable with their advisor relationships.

The Schwabitrade consolidation has been described as a reduction in the competitiveness of the advisor custodial marketplace. But it's equally possible that it will bring about more competition, by driving more advisors to seek out better (or at least more personalized) alternatives. We may be in the early stages of a much more democratized—and some would say better—custodial landscape.