Transcription results:

JOHN PELUSO	*[music]* Hi. I'm John Peluso. Typically, with the SIFMA Roundtables, we'd be sitting down together to have a conversation in person. But with the way of the world today, we have to be a little bit creative. So, I wanted to take this opportunity to share some of my thoughts about the future of the wealth management business. In a very real sense, I believe the future of wealth management and certainly the success of your business and mine boils down to one word, efficiency. Now, let me give you three reasons why I see efficiency as the most powerful shaper of the wealth management business over the next few years, and what that means for you and your firms. First, clients are driving the need for efficiency in ways that are apparent and in ways that, sometimes, are not. Let's take just one case, passive fund management. For many years, not many people paid attention to it. In fact, the whole concept of earning just the market rate of return, through a low-cost fund, seemed irrational to most advisors, broker-dealers, and certainly, to the active managers in the mutual fund business.
JOHN PELUSO	Slowly but surely, though, investor demand, first through index loans, and then through ETFs kept growing. And like a snowball rolling downhill passive management kept gathering assets, and now, is larger than active management. We've all seen how the movement to passive management put pressure on margins, and that translated into pressure to increase assets under management and to increase efficiency. Those pressures are the same when we look at investors who are self-directed and are more active traders. In that space, competition has driven commissions down to zero. Now, that's something that most of us who have been around a few years once would have thought was impossible, but it's here. And even though we all know that there was a cost attached to every trade, zero-commission trading has been made possible only because every industry participant has made investments in efficiency. That leads me to the second reason why I believe that efficiency could be the prime shaper of our business going forward. And that reason is technology. This push for efficiency is made possible by continuing innovation and technology. The number of new FinTech tools and applications keeps exploding, and they are adding efficiencies and removing frictions in countless ways.
JOHN PELUSO	Even better, these new tools are coming down in price and becoming available to all advisors and to all firms of all sizes, and the tools are now increasingly available on open architecture platforms so that firms can really create the customer experience they want for advisors and clients. The increasing digitization of the business creates a virtuous cycle of greater efficiency, leading to greater savings, greater investment in technology, and even more efficiency. When we think about technology, though, it's important to remember the objective we have in mind when we invest in these new tools, and that objective is the ability to better serve clients, and provide them with advice, which is my third reason for saying that efficiency could be the key driver of our business over the next few years. How does efficiency drive advice? First off, technology-driven efficiency does not mean apps will replace advisors. We've seen that with the arrival of robo advisors. A few years ago, we saw the volumes of press coverage about how robos would soon rule the advice world, but that never happened. Yes, robo advice is a great service for many investors, and for some, it's a standalone offering. But today, robos are often part of a continuum of advice services. In many cases, they have been incorporated into a full range of advice offerings.

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The simple fact is that people want and need professional financial advice from human financial advisors, and they are willing to pay for it. And that goes not just for boomers, but for clients and potential clients of all ages. One recent bit of research, I found fascinating was done by Michael Kitces. He found that while compression has been a continuing concern throughout the wealth management business, there is little evidence of fee compression in financial planning. In fact, his data shows that median financial planning fees in 2020 rose significantly compared to fees in 2018. Standalone fees rose by 12.4%. Retainer fees were 25% higher. And hourly rates also rose by 25%. At the same time, he found that median fees for asset management remained relatively steady. Also interesting in his finding, that advisors in the RIA business model are charging higher median fees than those in broker-dealers for work completed on a standalone or retainer basis. They are also charging more for a complete financial plan billed on an hourly basis. Finally, he found that financial advisors with a CFP designation generally charge higher fees than those who are not CFPs.

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All of this supports my view that clients and prospects clearly want advice, probably more than ever, and they want it in human and electronic terms, whenever they want it or need it in a variety of formats on a wide range of issues, not just investments, and they want it from a perspective that puts their interests first. For firm leaders like you, the challenge is being able to deliver the advice that clients and prospects want in a way that makes business sense. Doing that, above all else, requires efficiency because advisors must be freed from the operational tasks and countless points of friction that rob them of the time that they need to attract and retain clients. Fortunately, it's never been easier or more affordable to access the tools you need to meet the challenge, whether on your own or through business partners whose technology and tools you can leverage. I believe the future could be bright for the small firms that they keep their eye on efficiency. Thanks for sharing some of your time and attention with me. I look forward to the next time that we can talk and share ideas face to face. Take care. *[music]*

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Full Research SOURCE: https://www.kitces.com/blog/financial-advisor-average-fee-2020-aum-hourly-comprehensive-financial-plan-cost/