Transcription details:

Host:	Bill Coppel, First Clearing Chief Client Growth Officer
Guest:	Steve Gresham, Advisory Board Chair, Cogniscient Inc. – Part 1

Transcription results:

Intro	Welcome to The Next Frontier, where we examine what the role of the financial advisor will be in a world that's being disrupted by artificial intelligence and algorithms. Our mission is to spark new conversations that create stronger connections and build greater client confidence. Join us as we look at our industry and others through a new lens and explore the opportunities emerging at the intersection of high-tech and high-touch. It's time for a new conversation. Are you ready?
BILL COPPEL	Hi. This is Bill Coppel, and welcome to this episode of The Next Frontier. Over a number of our episodes, we've been talking about what financial advisors can do to redefine their value to better align with what clients say really matters. We see a unique opportunity for advisors to set themselves apart by more actively engaging with clients to help them prepare for the road ahead. Our guest today is Steve Gresham. With more than 35 years in the industry, Steve has been at the forefront of financial services transformation and innovation for decades. After heading the private client group at Fidelity Investments, he's continuing his focus on wealth management transformation in a variety of new ways. Steve chairs the advisory board for Cogniscient, a technology company whose mission is to help older adults and their families make the best possible health care and financial decisions. He's a prolific writer, and his work has been featured in Business Week, Fortune, Investment News, and the New York Times. He's also the author of five books about the wealth management industry, including The New Advisor for Life, which examines the qualities clients seek in a wealth advisor and how advisors can best articulate and deliver their unique value. Steve, welcome to The Next Frontier.
STEVE GRESHAM	Bill, thank you for having me.
BILL COPPEL	There's a lot going on out there, Steve, in terms of change. For example, demographics are shifting. We'll have five generations in the workforce, for example, by 2020. The digital tsunami is having a major impact on our industry and our lives. And the ever-changing, shifting regulatory environment is also contributing to a fair amount of flux. Things that we're experiencing in our industry that we probably have never experienced before. And as you've noted in your own work, the fact that baby boomer households are aging really means our business will be driven more and more by life events, and awkward moments and tough conversations. So let me start with an overarching basic question. It's kind of based around this theme of at the risk of essentially executing Einstein's theory of insanity, what's really next for advisors? More specific, what's the next opportunities for advisors to be better prepared to meet the ever-changing sentiments and expectations of their clients?
STEVE GRESHAM	Well, Bill that was a mouthful and I think that's of course by design, but I think that's probably the first issue, right? And so maybe let's dig into another Einstein theory which is of relativity. What's most important? What's most relevant to the clients today? All of those issues that you described are omnipresent. None of them is new. None of them should be a surprise really to anybody. I'm particularly intrigued when you bring up demographics because, of course, we're talking about a generation, the boomers, that really built the entire modern advice industry based on their needs as

they grew, and the economy grew, and they saved and invested, and they've been the driving force. So it should come as really no surprise that they have gotten older. Now, median age about 63. Almost 64. And thinking a lot about planning and thinking about those later years. So for those folks, it's like a 65-year-old overnight surprise for the rest of us. But the reason I say relativity is that, how do you sort from all of those phenomena and all those trends most of which have been evolving, how do you understand what's most important? And where I've arrived, after all these years, is that we need to have mostly a maniacal focus on the clients and where they are and what they need today. Understanding that it's possibly quite different, even with the same people we've been working with than they might have been asking for even just a few years ago.

BILL COPPEL Precisely. It's interesting. As you stated, this notion of relativity, I agree with you. As an industry, in some sense, as we've sort of seen the market perhaps move away from us and are we still operating in a capacity, in your opinion, that is meeting the needs of this evolving boomer generation as an example?

STEVE GRESHAM Well, it's really not politically correct to say, but I believe that the industry is beginning to feel much more deeply, much more hard, the reality of client experience from the perspective of client satisfaction. And the real question that people ask when they're 63, 64 years old, median age of the boomers, and then of course older, the real question they ask is, am I okay? And many of them have avoided asking themselves that question because along the way they've feared that perhaps they were not saving enough. They didn't have their expenses in line. They didn't have a good plan for what they would do when they were older. And all of those issues are coming together. And I think it's one great, big wakeup call to the clients which then forces them to look around and see who's working with them. And if they're not where they want to be, they might take on a lot of that responsibility themselves, but I suspect they more want to get after solving the problem. The number one reason that I have found in surveys at places I've worked over the years, the number one reason in research that we've seen that people actually get around to that planning process that they've been putting off for so long, number one reason they engage is that they simply realized they just finally have to do it. The number two driver is client events, as you pointed out earlier, and I think that is also a powerful motivation. And retirement can be one of those, but it's also probably linked to an aging parent or death of a friend or something. Something brings you to the table. But I think that's kind of the issue right now is how to get the advisors and the clients working together. Because they're simultaneously getting this wakeup call that they are not prepared for the next phase.

BILL COPPEL It's interesting. I was recently reading an article that you wrote, where you touch on this issue of planning and what was interesting, again, based on the research that you've been involved in in the various places you've worked, two reasons you point out that represent sort of client disloyalty or leaving their advisor boil down to this notion of planning - I want to come back to that in a minute - and relationship. What I'm hearing you say is, we’re at this inflection point where clients are awakening to the fact that I may not have the right plan, and I'm talking about more of a life driven plan where you've got serious life events. We can talk about those in a little bit. But I may not have a life plan. I might have an investment, but I may not have a life plan. And I'm not tying my investment plan back to these events perhaps. Which leads to, why don't I? Which probably is a reflection on the quality of the relationship that they've got with their advisor. Share your thinking around that research that you found and how you see advisors kind of bridging that gap or stemming that loss, for example, of clients and their loyalty.

STEVE GRESHAM Sure. I think the big issue for advisors is that they have a tendency to view clients in a sort of frozen spot. A frozen moment in time. When they first engage with that client, the client told them all about what was important to them at the time and time goes by pretty quickly, especially if you have a lot of clients. And to maintain the level of interaction with clients necessary to stay fully in touch with where they are as their life changes that is probably the biggest challenge facing full-service advisors. People who are working a high-touch book of clients. Because the level of complexity associated with anybody's individual life, just think about your own life and in your career which is such an interesting one with so many different transitions, think about that times 100 households or 150 households, which I think is probably the reasonable max for any good advisor. So to be able to keep track of that complexity is nearly impossible, especially without good technology, CRM, and also ways to be able to help the clients raise their hand. I think the big issue for the advisor is that the client has changed in what they need and those two words that come out in research actually require a significant amount of further analysis because when clients leave, and the top two reasons have been for so many years the same two, I need more planning and I need more of a relationship, but you have to pull those apart because understanding what planning is and understanding what relationship means goes back to a point you just made which is that they're really tied together. And planning does not necessarily mean I need you to sit down with me and go through an exhaustive 400 page document and all of the beneficiaries and all of the other information that's in there. That's not really what they're talking about. It is for some people for sure, but for most people it is about planning for something that I'm not prepared for or planning for something that is really important to me. We've tried to have this dialogue in the advice industry for years about what's more important -- the performance or being able to achieve the objective? It is a very personal issue.

STEVE GRESHAM It's kind of like when the pilot says to somebody I'm flying with who is crazy that we haven't left the gate yet and the pilot says, "We pack into the schedule enough time so that what's really important is to arrive on time." And the passenger just won't let it go. And the pilot says to him sort of exasperated, "Which do you care more about, departing on time or arriving on time?" And this guy says, unbelievably, departing on time. Departing on time does not necessarily mean you're going to arrive on time. And the shift with some people that has to be made is, yeah, the performance may be whatever it is right now and maybe there's something better someplace else, but what's really the chance you're going to be able to take care of the thing you're most concerned about? So planning can be sometimes a very narrow issue because it also may be something that has popped up fairly recently. Again, with the boomers, the aging parents continue to be almost a constant - in my life, a daily - issue of concern for people that I know. And that's not a comprehensive plan. That's an acute resolution of something that is right in front of you at the moment. And then relationship, I think, turns out more often to be the issue of pro-activity. Do I know you well enough as an advisor so that I can help get in front of something that is going to take you down, challenge you, or something we just should have known about? And that's how a lot of advisors get skewered, by the way, is that when the client says, "My advisor should have known about that." And I guarantee you as sure as we're sitting here talking today that most of the really good advisors listening to this podcast, they will win big at the hands of advisors who have taken their eye off the ball and have not been proactive with the clients. I think that's the biggest vulnerability that advisors have going forward. Biggest vulnerability advisors have is to not be aware of something that is important to the clients, or that happens to the clients and one of the other advisors the clients know, they find out about it and they make the move.

BILL COPPEL	So let's dig into this awareness issue you're mentioning, Steve, because I think that most of the things you're talking about, [crosstalk] inevitable things that occur as we age. We all know what they are, yet we don't talk about them. This goes back to this notion of being aware which, in my mind, starts to question the mindset than an advisor should try to adapt or acquire if you will, to open up their eyes to the inevitable things that are likely to occur and begin those conversations. How close are we at changing that mindset?
STEVE GRESHAM	Oh, since I'm already heading down the path of political incorrectness let me double down on that.
STEVE GRESHAM	The observation that I have, and I say this somewhat reluctantly, but I say it confidently, is that the role of empathy in being an advisor and frankly, even in being to a salesperson of any kind, the role of empathy will continue to grow in importance. It's already there. But the challenge with empathy, which is to truly understand what's going on with a client and truly being able to put yourself in the client's shoes and understand what they're concerned about and how they feel, you can't overdo empathy. But empathy is probably the biggest difference between the most successful advisors and everyone else. Because if you are naturally attuned to the needs of the person that you're talking to you cannot help but then reflect those concerns back. Have significant empathy for the people. It's a little bit like the Discover Card commercial where the person who's dialing out from whatever place they're in. They're calling in to the Discover Card Center and then what Discover does in that commercial is to put a person that seems almost identical to the person calling in. And that's what they're trying to share with you is that we do understand where you're coming from. Writ large that's actually the opportunity for the advisors. It does say you have to be disciplined as an advisor to work with people who truly understand what you can do for them and not waste your time with people who don't. And that allows your empathy to run wild and push through that relationship because it's the connectivity. A guy that we both know very well who's such a terrific advocate for being able to deliver your unique value, Leo Pusateri, who I've known for almost 30 years, and Leo says doing business is first a meeting of the hearts and then a meeting of the minds. So you've got to have that connectivity. So it may not be terribly politically correct, but the bottom line is you're either empathetic and consultative and you really like people, or you don't.
BILL COPPEL	You made a statement about empathy and I really like it. For a moment, I'm going to say it's probably the best definition I've heard, which is this notion of walking in your clients' shoes. I believe that's what you said, Steve. So think about this for a moment. You mentioned that the median age of our client base, boomers, for example, is 63, 64. What's the median age of financial advisors today?
STEVE GRESHAM	Well, it depends on where you look because, again, not terribly politically correct. I am forced to subset the advisors that I think are really good advisors and I'm just not interested in the 300,000 plus number that I hear all the time about registered advisors and series seven license holders. That doesn't mean advisor to me. So, unfortunately, that then skews the number a bit higher. So in that subset of people that I think really are strong, empathetic advisors who can work with clients well and deserve the fees and commissions they get -- that group, the median age is unfortunately somewhere between 50 and 55.
BILL COPPEL	And when you get into that age group and I might even say it even can skew a bit higher, it's interesting that they're very close in age often to their clients. And when we talk about mindset and empathy, it's interesting to me, and I think your observation is spot-on, that often we find advisors themselves facing many of the

same life milestones that you talk about, life changes, that come with aging. And perhaps if they simply transition themselves from being a financial professional and becoming a client, would that help bridge that gap between where they are and the empathy that they probably need to acquire?

STEVE GRESHAM: I think that's possible, however, if we just stay with the numbers and I'll slide gladly toward your number for financial advisors. There is a world of difference, as you and I both know, between a 55-year-old advisor, and just a 55-year-old person, and a 64-year-old person. There is a dramatic difference in life circumstances on average that's taking place. Now, if it so happens that you as a 55-year-old advisor happened to have some of those things happen to you a little bit earlier than that's fine, but the headset of a 64, 65-year-old is quite different than that of a 55-year-old. So there's still a leap that has to take place. So I think you're absolutely right, of course, if there is a bit of a peerage going on. And I think that's true. Where that's also true a lot is in the wirehouse world where people have kind of grown up together and they work with a friend. That sort of thing. But I hate to say it, and you've seen it, I hate to say that those kind of friendship, peerage kind of relationships are often the first victims when somebody gets more serious about planning. And how many times Bill, have you heard, and I know that I've heard from an advisor, "I can't believe I lost this person - this guy, this woman. I've know them forever." And how many times have we heard even talking to a friend of ours who says, "Oh, yeah. I work with two or three people and the first one was this guy I went to college with." And you could just tell by the way they say it that they did it as a favor and they haven't maintained the relationship and they certainly haven't added to it, but it's just something that happened. I think there's a lot of that that goes on.

BILL COPPEL: Oh, I agree 100%. I think that that probably is the majority of the construct of many relationships that are out there where the advisor thinks or believes they've got a client for life and when you talk to the client, they don't think the advisor has any idea of what they're going through. And I think you're spot on. This goes back to this concept of empathy, this idea of empathy, and the lack of it. I mean, it's kind of in short supply in our business and maybe that's because we were never paid to be empathetic.

STEVE GRESHAM: There's a common ground there which is -- what is it I'm getting for what I paid? And there is an awful lot of disruptive advertising and business plan activity that's taking place today where it kind of goes I think in two different directions, even kind of polar opposites. One is to drive the cost all the way down. So, in other words, we're not really sure if we're getting the right thing or achieving the objective but I'm sure as hell not going to pay for it. So that's one mindset. That one's not going away. But the other one at the other end is the one that actually impacts financial advisors more. Because if you really want to try to fight in a price war that's a race to the bottom. God bless you. Go for it. But for the full-service advisor, the person who really wants to connect with clients, you've got to go to people who actually value what you do. Sounds simple. In practice, doesn't happen as often as we think. So, for those people, it's galvanizing the value of what you do. I know that that's a horribly trite phrase, but that does mean that you have to explain to the people exactly what objectives you're going to work on, work on those things together, and that's really the only way you can prove what your value would be. I hope that makes sense.

BILL COPPEL: No, absolutely. From where I sit and the observations and experiences I've had would suggest to me that a lot of us in this business continue to focus primarily relative to the definition of our value as our ability to manage money. I often ask folks, "Hey. If you're charging 120 basis points -- or whatever the number is -- typically around 1% or so if you were to sort of dissect that fee -- tell me what percentage of it really pays for asset management?" And oh, by the way, you can get pretty good asset management today anywhere from 7 to 20 basis points, just to let you know. What is that balance between the asset management and let's call it the relationship aspect of the deal you have with your family that you serve the client you serve? And I get a lot of blank stares. I want to put you a little bit on the spot, Steve, because I think the point you're making is absolutely spot on but let's take a minute and I'd ask you to kind of frame for me and our listeners what that blueprint should begin to look like as advisors transition their value to be more weighted on the issues we're talking about here related to life planning and aging and so forth?

STEVE GRESHAM

It's interesting. I was talking to a company yesterday, and they were talking about their plans how they distribute. It was an investment management company. And one of the discussions that we had was about how they will be weighting their distribution effort in the future. And they're looking at financial advisors and they're sort of challenged with what they call their old advisor wholesaling model because the number one question they've learned to ask -- their field wholesalers have learned to ask of advisors is, do you plan to be in the industry in three or five years? Because there are so many people, going back to your point about the age, who are kind of on the back nine and really not interested in taking on any new business. I've actually heard several advisors say, "You know what? I don't want to market. I don't want to sell. I only want to work with the people I have, and I'm going to run that as long as I can." So I want to put that out there because that's a really, really significant place to be because if you are in that spot chances are the clients know it, the people you work with know it, and it's beginning to affect your relationship with people and you have to be very conscious of the fact that if you really have the interest and the energy to go forward for another 5 to 10 years or longer then you do need to re-orient what you do. So a really good advisor to people, now that I've eliminated all the short-termers, a really good advisor to clients going forward for the next 10 years plus will make most of their money first and foremost by the people who really control the assets and are paying the fees and commissions into the industry. There's an Investment News article that's current right now on the site that quotes my friend Chip Roame's, Tiburon Strategic Advisors, about the importance of the baby boom generation. And as we look forward over the next 20 years, the boomers are still driving the profit train for the advice industry to the tune of more than 80% of the actual profitability of advice and wealth management, again for the next 20 years. So that's the clientele.

STEVE GRESHAM

Now, you back up and say, "Do I want to work with millennials and all that?" Well, millennials happen to be the descendants of the baby boomers, so I don't think you lose them, but keep your eye on the ball for what those people are going to need that are really paying, and are willing to pay, and historically have been willing to pay if you can help them. And then so now we decide we're working primarily for the boomer generation. What kind of a practice are you going to run that is focused on people whose median age today is 63 or 64 and many of whom of course are older? Half of them are older. And what's that going to look like when your practice is dominated by people who are not any more necessarily in their 50s or 60s but now in their 70s or 80s? And I don't think we're talking about asset management anymore. I think what we're talking about when we look then at asset management is that we're looking for a way to monetize the relationship. Back to a point you made earlier, that's kind of the shift that has taken place already, but I don't think that the focus on asset management becomes one of, what kind of investment products can I place with you? I think it is a much more open conversation, a more candid conversation with the client about these are the services that my practice provides. These are the services that our clients value the most and that's frankly, why they pay for us and why they work with us compared to somebody else. So we're backing into a value proposition that is much more bold around the services that you can help them with that you provide. And a really good survey I saw the other day, and I apologize I can't remember exactly who created it but it said that good advisors moving forward into the future the best opportunity they have to expand their practices and continue to grow -- the number one answer from those top advisors was they will be adding an incremental service, something they don't necessarily do today. And the one that of course is screaming out there is to integrate health care and longevity planning because most people don't do that. So we can come back to that, but I think the shorter answer to your question is and the point that you pose is that we're not going to be talking about investment advisors in the future. We're going to be talking about people who resolve planning issues for you and allow you to achieve the objectives that you have. And anybody who thinks that that is taken for granted at the client level and that they presume that because you're managing their money, I think in the future is going to be totally dead wrong.

BILL COPPEL

Thanks for joining me for part one of my conversation with Steve Gresham. I hope you'll join us for part two where we'll explore some of the incremental services advisors are adopting that seem to be resonating with clients. [music]

Outro

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